

## FOR IMMEDIATE RELEASE

### TEMENOS CONTINUES STRONG PERFORMANCE IN SECOND QUARTER WITH T24 ILF SIGNINGS AHEAD OF TARGET

*Geneva, Switzerland, Wednesday 3<sup>rd</sup> August 2005, TEMENOS Group AG (SWX: TEMN), a provider of integrated core banking software, today announced its second quarter and half year 2005 financial results.*

- Strong start to year has continued - excellent sales performance across the Group:
  - T24 ILF signings ahead of target at US\$29 million, up 22% on 2004
  - Major TCB deal with Global Tier 1 Bank in final contract stage
- Business model on target:
  - Like for like T24 licensing up 16%
  - Maintenance up 24%
  - Services up 8%
  - Costs 2.5% below year ago (like for like: 3.5% when adjusted for currency impact)
- Strengthening markets demonstrated by level of pipeline and subsequent to quarter end conversions

Andreas Andreades, Chief Executive of TEMENOS, stated:

“The strong start to the year has continued, with an excellent sales performance across the Group. The level of T24 ILF signings is significantly ahead of last year and we are now in the final contract stage of signing a major deal with a Global Tier 1 Bank.

“Our business model is on target for the year with the T24 Licensing, Maintenance and Services aspects of our operations all making significant gains, while costs have continued to be effectively managed. The strengthening of the international market for banking software is now being clearly demonstrated by our growing pipeline and conversion of new business opportunities. We have already exceeded our T24 running rate target for the full year. During the quarter this has included deals such as the signing of a major Tier 1 Japanese domestic lending bank. Our target markets of retail and universal banking reached 83% of the signings mix during the quarter, with private banking and wholesale banking making up the balance, while new business represented 96% of total signings.

“Looking ahead, we expect to see robust growth in core spending for Retail and Universal banks on a global basis, with core system replacements now representing a top priority for CIOs of major financial institutions. This includes Tier 1 Western European banks, which are beginning to seriously evaluate their core system replacement requirements. TEMENOS is in place to take advantage of these increasing opportunities.

“The current consolidation phase, with major software companies investing in our sector, will provide significant opportunities for leading international players such as TEMENOS. We welcome the consolidation and look forward to playing a proactive part in the further development of our sector going forward.

“T24 is the established market leader, with an excellent pipeline in place, while the TCB market place is shared by a very small number of competitors. Despite TCB volatility, our TCB pipeline and T24’s performance allow us to be on track to deliver on our guidance of ILF signings of US\$ 70-75 million and again reconfirm realistic EPS growth of 20%-25% for 2005 and acceleration in 2006.”

### **Operational Review**

Like for like revenues in H1 2005 (revenues adjusted for the legacy of percentage completion deals and foreign exchange) were US\$ 72.1 million compared to US\$ 74.6 million in the same period, down 3.4%. Reported total revenues for H1 2005 were at US\$ 72.1 million compared to US\$ 78.0 million in the same period last year, down 7.6%. The drivers for the change in revenues are explained below:

T24 license revenues, adjusted for license revenues relating to contracts signed in prior periods and deferred into 2004 under ‘percentage completion’ accounting, increased by 16% to US\$ 19.6 million in the first half 2005. Including the comparison of a large Corebanking deal signed in 2004, as well as license revenues relating to contracts signed in prior periods under ‘percentage completion’, reported licensing revenues for H1 2005 decreased by 36.8% compared to US\$ 33.7 million in the same period last year. We are now largely unbundling licensing revenues from services, which has resulted in licensing revenues more closely correlating to Initial Licence Fees (“ILF”) signings.

Maintenance revenues increased to US\$ 11.4 million in Q2 2005, up 20.8% on the comparable period last year. Maintenance revenue growth is assisted by the fact that we now have a standard maintenance rate of 21% applied to ILF signings. New licences contributing to maintenance revenues in the quarter amounted to US\$ 59 million, which is our 12 months run rate. In the absence of a material attrition rate our maintenance revenues grow as our cumulative client base grows.

Service revenues increased by 11.7% in Q2 2005 compared to the same period last year. Services capacity created in 2004 through our strategic partnership program now enables our services organisation to grow slower than our licensing business. We continue to maintain our full year services at a total revenue range of between 30-35% of total revenue.

The value of ILF for new T24 contracts signed during the first half of 2005 amounted to US\$ 29 million, an increase of 22.3% compared to the same period last year. The 12 month T24 ILF signings run rate has now reached US\$ 56 million compared to US\$ 47 million for the same period last year, an increase of 19%. During the first half we have made excellent progress on TCB deals and a major TCB deal with a Global Tier 1 Bank is in final contract stage. We therefore reconfirm our target of two to four TCB deals for the year 2005. We have seen our strong pipeline develop in the EMEA and APAC regions, and we expect at least 50% of our TCB deals to come from the EMEA region. More than 80% of signings in the first half were with retail and universal banks compared to 78% for the same period last year, which is in line with TEMENOS' retail strategy.

Total expenses in the first half 2005 fell 2.5% to US\$ 69.5 million, compared to US\$ 71.3 million for H1 2004. At constant currency rates, total expenses in H1 2005 fell by 3.5% compared to the same period last year. At constant currency rates, cash costs for H1 2005 were flat compared to the same period last year. Capitalised development costs were US\$ 3.8 million for H1 2005, compared to US\$ 1.9 million for the same period last year. Due to our significant investment in both T24 and TCB, a portion of our development effort is capitalised where the compulsory criteria are met. Expenses include US\$ 1.6 million related to stock option costs under IFRS2. Comparative figures have been restated accordingly. Within the individual cost lines, transfer of personnel (notably from development into services) took place at the start of 2005 to provide additional capacity, and this has resulted in changes in the allocation of our costs between cost centres, but no increase in total costs or total headcount.

On a like for like basis, earnings before interest and taxes (EBIT) for the first half were US\$ 2.6 million compared to US\$ 2.6 million for the same period last year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for Q2 2005 were US\$ 5.3 million compared to US\$ 6.3 million for the same period last year. Net profit for the quarter was US\$ 1.6 million, compared to US\$ 2.3 million for the same period last year.

Operating cash inflows were US\$ 2.4 million in Q2 2005. This compares to cash inflows of US\$ 0.3 million in Q1 2004, bringing total net cash at the end of June 2005 to US\$ 17.3 million compared to US\$ 19.3 million as of March 31st 2005. Operating cash flows continue to be seasonal.

Working capital has remained constant during the second quarter of 2005 as a result of absorbing seasonal decreases in deferred maintenance revenues. Our business model is characterised by long working capital cycles for individual clients, but very limited bad debt exposure.

Accounts receivable as at June 30, 2005 were US\$ 56.7 million, an increase of 55% compared to the same date last year. This increase reflects the growth of our business over the intervening period, as well as our ability to invoice the vast majority of licensing from the day of signing, as payment terms are now linked to calendar dates.

Over the past two years we have been increasingly successful in removing licence inflows based on achievement of operational milestones in favour of calendar date triggers. This significantly improves our cashflow visibility and has resulted in a dramatic reduction of accrued revenues, which are down from US\$ 36.7 million at the 30 of June 2004 to US\$ 23.0 million at the end of June 2005, a decrease of 37%.

Deferred revenues as at June 30th, 2005 were US\$ 26.5 million compared to US\$ 29.0 million as at 31<sup>st</sup> March 2005 and US\$ 34.6 million as at December 31 2004, reflecting the seasonality in our maintenance revenue stream, which results in maximum deferred revenues on December 31.

## **Business Outlook**

We continue to see robust growth in core spending for retail and universal banks on a global basis. Core system replacement represents today either the top or the number 2 priority for CIOs of large institutions driven by inadequacy of current systems to provide a platform for growth. The ability to retain customers, introduce new innovative products and cross sell effectively is core to the banking sector's strategy today. We have started to see and are engaged with Tier 1 Western European Banks to evaluate core system replacements. Temenos has the technology, systems and relationships in place to service this significant market opportunity. In particular, our T24 product is the established market leader and has an excellent pipeline in place that is ahead of our full year targets for the year. Our TCB business is also making excellent progress, with a strong pipeline developing in both the EMEA and APAC regions. We will always be focused on maximising profitability and delivering value to shareholders and again reconfirm realistic Earnings Per Share ("EPS") growth at between 20%-25% compared to 2004. This improved performance will be driven by excellent cost control, growth in maintenance and service revenues, a strong pipeline and a like for like growth in licensing in the range of 10%-15%. Our assumptions are based on ILF signings of between US\$ 70-75 million, and a tax rate of 16%.

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**About TEMENOS**

Founded in 1993, TEMENOS Group AG is a provider of integrated modular core banking systems to over 400 financial institutions worldwide. TEMENOS software provides banks with a single, real-time view of the client across the enterprise, enabling banks to maximize returns while streamlining costs. Whether providing 24/7 functionality to the wholesale, retail and private banking sectors, partnering with central banks on core system replacement, or working with the World Bank on solutions for the emerging markets, TEMENOS knows banking. The company has a transparent approach to its operations and brings to bear its experience, expertise, commitment and professionalism on every project.

Headquartered in Geneva, Switzerland, the company has 34 offices in 29 countries and is listed on the main segment of the SWX Swiss Exchange (TEMN). [www.temenos.com](http://www.temenos.com)

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*Any statements in this press release about future expectations, plans and prospects for the company and statements containing the words "believes", "anticipates", "plans", "expects", "will" and similar expressions, constitute forward-looking statements. Actual results may differ materially from those indicated by these forward-looking statements as a result of various factors. In particular, the forward-looking financial information provided by the company in this press release represents the company's estimates as today's date. We anticipate that subsequent events and developments will cause the company's estimates to change. However, while the company may elect to update this forward-looking financial information at some point in the future, the company specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing the company's estimates of its future financial performance as of any date subsequent to today's date.*

**TEMENOS GROUP AG**
**consolidated income statements**

All amounts are expressed in thousands of US dollars

except earnings per share

	Three months to 30 June 2005	Three months to 30 June 2004 restated	Six months to 30 June 2005	Six months to 30 June 2004 restated
	unaudited	unaudited	unaudited	unaudited
<b>Revenues</b>				
Software licensing	11'713	15'228	21'279	32'666
Maintenance	11'369	9'413	22'678	18'300
Services	14'099	12'623	28'153	26'001
<b>Total revenues</b>	<b>37'181</b>	<b>37'264</b>	<b>72'110</b>	<b>76'967</b>
<b>Operating expenses</b>				
Cost of sales	1'766	966	2'130	2'861
Services	14'127	11'755	28'256	23'459
Software development and maintenance	5'717	7'497	12'272	15'859
Sales and marketing	6'612	6'833	13'672	13'431
General and administrative	6'866	7'022	13'210	14'769
Amortisation of goodwill	-	442	-	884
<b>Total operating expenses</b>	<b>35'088</b>	<b>34'515</b>	<b>69'540</b>	<b>71'263</b>
Other operating income	-	-	-	1'020
<b>Operating profit</b>	<b>2'093</b>	<b>2'749</b>	<b>2'570</b>	<b>6'724</b>
<b>Other income (expenses)</b>				
Interest expense - net	(151)	(34)	(259)	(28)
Loss from financial instruments	-	-	-	(20)
Financial instrument related expenses	(79)	(75)	(93)	(254)
Foreign exchange losses - net	(128)	(129)	(537)	(190)
<b>Total other expenses</b>	<b>(358)</b>	<b>(238)</b>	<b>(889)</b>	<b>(492)</b>
<b>Profit before taxation</b>	<b>1'735</b>	<b>2'511</b>	<b>1'681</b>	<b>6'232</b>
Taxation	(278)	(610)	(269)	(1'135)
<b>Profit for the period after taxation</b>	<b>1'457</b>	<b>1'901</b>	<b>1'412</b>	<b>5'097</b>
Minority interest	154	434	208	663
<b>Net profit for the period</b>	<b>1'611</b>	<b>2'335</b>	<b>1'620</b>	<b>5'760</b>
<b>Earnings per share (in US \$):</b>				
<i>basic</i>	0.03	0.04	0.03	0.11
<i>diluted</i>	0.03	0.04	0.03	0.10

Note:

The operating expenses for 2004 have been increased by US\$ 709 thousand per quarter in respect of the requirements of International Financial Reporting Standard 2 (Share Based Payment) which is effective for accounting periods after 1 January 2005.

**TEMENOS GROUP AG**
**consolidated balance sheets**
*All amounts are expressed in thousands of US dollars*

	30 June 2005	31 March 2005	31 December 2004	30 June 2004
	unaudited	unaudited	restated audited	restated unaudited
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	17'312	19'264	30'788	25'255
Accounts receivable	56'732	62'373	52'252	36'646
Available-for-sale investment	-	-	2'100	-
Accrued revenues	23'035	19'714	22'614	36'712
Prepayments and other assets	5'360	6'733	6'751	5'838
<i>Total current assets</i>	<u>102'439</u>	<u>108'084</u>	<u>114'505</u>	<u>104'451</u>
<b>Non-current assets</b>				
Tangible fixed assets	9'235	9'652	10'394	8'320
Intangible assets	17'425	19'039	20'651	11'117
Capitalised development costs	14'428	13'149	12'482	9'286
Long-term receivables	1'112	2'347	2'637	-
Guarantees and restricted bank deposits	1'124	1'189	1'207	274
Deferred tax asset	1'938	2'023	2'174	1'980
<i>Total non-current assets</i>	<u>45'262</u>	<u>47'399</u>	<u>49'545</u>	<u>30'977</u>
<i>Total assets</i>	<u>147'701</u>	<u>155'483</u>	<u>164'050</u>	<u>135'428</u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
Accounts payable	17'509	16'933	18'449	13'820
Accrued expenses	12'812	15'637	15'897	13'451
Deferred revenues	26'517	28'978	34'626	27'929
Income taxes payable	1'670	2'040	2'397	4'214
<i>Total current liabilities</i>	<u>58'508</u>	<u>63'588</u>	<u>71'369</u>	<u>59'414</u>
<b>Non-current liabilities</b>				
Long-term payables	8'431	8'353	8'274	-
Liabilities under finance leases	254	215	224	228
<i>Total liabilities</i>	<u>67'193</u>	<u>72'156</u>	<u>79'867</u>	<u>59'642</u>
<b>Minority interest</b>	<u>539</u>	<u>667</u>	<u>723</u>	<u>2'836</u>
<b>Shareholders' equity</b>				
Share capital	157'878	157'870	157'454	157'200
Treasury shares	(609)	(374)	(124)	(256)
Share premium	(65'723)	(66'518)	(66'914)	(67'994)
Fair value and other reserves	(1'250)	3'620	4'991	2'721
Retained earnings	(10'327)	(11'938)	(11'947)	(18'721)
<i>Total shareholders' equity</i>	<u>79'969</u>	<u>82'660</u>	<u>83'460</u>	<u>72'950</u>
<i>Total equity and liabilities</i>	<u>147'701</u>	<u>155'483</u>	<u>164'050</u>	<u>135'428</u>

*All amounts are expressed in thousands of US dollars*

	<b>Three months to 30 June 2005</b>	Three months to 30 June 2004	<b>Six months to 30 June 2005</b>	Six months to 30 June 2004
	<b>unaudited</b>	restated unaudited	<b>unaudited</b>	restated unaudited
Profit before taxation	1'735	2'511	1'681	6'232
Adjustments:				
Depreciation and amortisation	3'223	3'535	6'740	6'815
Losses on disposal of assets	62	45	57	43
Cost of employee share option scheme	805	732	1'608	1'524
Interest expense - net	152	34	260	28
(Income) expense from financial instruments	-	-	-	20
Financial instrument related expenses	79	75	93	254
<u>Changes in working capital:</u>				
Decrease (increase) in receivables, accrued revenues and prepayment	841	(1'814)	(4'582)	4770
Decrease in accounts payables and accrued expenses	(900)	(1'466)	(2'060)	(10'482)
Decrease in deferred revenues	(2'930)	(3'251)	(8'302)	(10'229)
<i>Cash generated from (used in) operations</i>	<b>3'067</b>	401	<b>(4'505)</b>	(1'025)
Income taxes paid	(262)	(97)	(384)	(23)
<i>Net cash generated from (used in) operating activities</i>	<b>2'805</b>	304	<b>(4'889)</b>	(1'048)
 <b><i>Cash flows from investing activities</i></b>				
Purchase of tangible fixed assets	(672)	(500)	(1'514)	(835)
Disposal of tangible fixed assets	26	139	29	154
Purchase of intangible assets	(679)	(97)	(1'328)	(97)
Disposal of intangible assets	-	216	-	433
Capitalised development costs	(2'138)	(1'207)	(3'764)	(1'884)
Disposal of available-for-sale investment	600	-	900	-
Acquisitions from prior periods	(1'250)	-	(1'250)	-
Impact of full consolidation of entity previously under proportionate consolidation	-	-	-	864
Contribution of cash to minority interest	-	-	-	980
Interest received	58	50	145	130
<i>Net cash used in investing activities</i>	<b>(4'055)</b>	(1'399)	<b>(6'782)</b>	(255)
 <b><i>Cash flows from financing activities</i></b>				
Proceeds from issuance of shares, net of related expenses	24	671	35	685
Acquisition of treasury shares	(485)	-	(485)	-
Repayment of short-term borrowings	-	-	-	(15'000)
Restricted cash deposited with a banking institution	-	-	-	10'000
Interest payments	(70)	(77)	(173)	(159)
Settlement of financial instruments	-	-	-	(20)
Payment of financial instrument related expenses	(25)	(94)	(461)	(250)
Payment of finance lease liabilities	(28)	(27)	(60)	(43)
<i>Net cash generated from (used in) financing activities</i>	<b>(584)</b>	473	<b>(1'144)</b>	(4'787)
 <b><i>Effect of exchange rate changes</i></b>	<b>(118)</b>	(357)	(661)	(391)
<b>Decrease in cash and cash equivalents in the period</b>	<b>(1'952)</b>	(979)	<b>(13'476)</b>	(6'481)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>19'264</b>	26'234	<b>30'788</b>	31'736
<b>Cash and cash equivalents at the end of the period</b>	<b>17'312</b>	25'255	<b>17'312</b>	25'255