FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Temenos Group Full Year 2008 Results Conference Call. My name is Sarah and I will be your coordinator for today's conference. For the duration of the call you will be in listen-only. However at the end of the call you will have the opportunity to ask questions.

(Operator Instructions)

I'm now handing the call over to Ben Robinson, IR Manager, to begin.

Ben Robinson - *Temenos Group - IR*

Thank you, Sarah. Hi, everyone, and thank you for joining us this afternoon to discuss Temenos' full year 2008 results. With me on the call are Andreas Andreades, CEO, David Arnott, CFO, and Max Chuard, head of Corporate Finance and Investor Relations.

We decided to make a couple of changes to today's presentation. First of all, as you will all note, that we suddenly changed the time of the presentation and hold it after the market closed so that our US investors could join us.

Second, we decided to change the order a bit. So we lead with a strategy and business update, followed by an update to the financials, and then we get back to Andreas for outlook and concluding remarks. We hope this is an improvement and we're happy to receive any feedback. After the prepared statements, we will open the call up for Q-and-A.

Just before we get started, I'd just like to remind you all of the disclaimer statement on slide three of the presentation. Various factors may cause actual results to differ materially from company estimates and, indeed, may cause company estimate to change. Therefore, undue reliance should not be placed on the forward-looking statements made during the call, which reflect the company's opinions only as of today. I'll now hand it over to Andreas for the business update.

Andreas Andreades - *Temenos Group - CEO*

Thank you, Ben. Good evening, to all. Thanks for joining us today to discuss our 2008 results. I'd like to start on slide five by giving you some highlights for the year. 2008 was a busy year in every respect. Not only did we grow sales by 23% to more than $400 million and operating profits by 2% to $64 million, but we also added 48 new customers and we integrated three acquisitions.

We strengthened the management team by adding seven key new executives. And again in 2008, as in the prior year, we spent 20% of our revenues in R&D, in cost terms, and the strength of the product was recognized by several independent bodies, such as the recent accolade by the Forrester Group. We had a record number of go-live events, more than 20% over last year, and we also have our first success in the United States with Metavante.

I'd like now to turn my attention to a review of Q4 over on slide six. Clearly, Q4 proved to be a difficult quarter. After three outstanding quarters in the year and six quarters since the commencement of the credit crisis, some prospective customers delayed contract signature.

In the face of what was significant uncertainty about 2009, some CEOs in our target market chose not to commit to large CapEx programs. We saw more than 10 deals slip out of the quarter, even though we see a slow, but steady conversion of this delayed pipeline. The overall economic uncertainty is still impacting our sales cycle.

Over on slide seven, we give some metrics on licenses. As you can see, license revenue was broadly flat year-on-year, a 1% increase on the reported numbers, a 1% decline after adjustment for products and acquisitions.

The number of deals was also similar to the year before 48 against 49 in 2007. What this number does not show, however, is how we were able to absorb the change in the mix of deals without seeing light of decline.

We were able to upset the pressure of revenue from finding smaller clients. You might recall that we have already said from the first quarter of the year that tier one clients were largely absent from the market and from our pipeline, and indeed, our only tier one deal in the year was with JPMorgan in Q1 of 2008. And thereby by increasing pricing and selling more modules, we offset the deal size pressure.

So taking the year as a whole, pricing was up by 20%, meaning that even in Q4 we were able to sustain the higher price point. Over on slide eight, we give you some more granularity of the sales contributions from (inaudible).

We sold 35 ARC licenses in '08, which is higher than the year before. This growth in licenses reflects a higher number of deals from the existing customer base, where the number of deals was up by almost 90%.

We continued to gain customers from competitors, regarding the Misys replacement program specifically. We are pleased to announce that in line with my predictions at the start of the year, the value of the deals signed continues to rise as we sign bigger multi-site customers (inaudible).

We have now converted 21 Misys customers (inaudible) and the pipeline still looks strong into 2009. In terms of regional performance, we had a good year in the Americas, where we are making excellent progress, especially in Central and South America. This is on slide nine. Europe and the Middle East trend well in terms of (inaudible) with only Asia reporting a decline based on a number of one-offs in the comparative period.

Now, I'd like to comment on the progress we are making in the United States, where we had our first successes with both TCB and T24. Clearly, the larger US banks are more affected by the credit crisis and, therefore, this market is slower in terms of decisions, but we see good activity in smaller institutions.

Over on slide 11, I want to talk briefly on the progress we have made integrating financial objects (inaudible). We've now substantially completed these with great success. All employees of this business have now been onboarded and they are now part of the Temenos team. In terms of financials, we have also made excellent progress. In fact, the level of synergies that we've extracted from the two businesses together is significantly ahead of our initial forecast.

Instead of taking out $3.1 million of cost, which is what we have communicated, we've actually [$7 million] of cost synergies. This impact also explains how we've been able to reduce costs by $33 million for 2009 from the $20 million, which was our prior communication, but we'll comment more on that later.

Now, in November, we acquired Lydian Associates. This is a company that has an exciting and highly complementary business intelligence software that we have used to greatly improve our offering in this area.

The Lydian product allows our clients to use a prepackaged range of analytical tools to data mine and analyze information to improve performance. It allows for daily automatic extraction of customer divisional product profitability, reporting out of the box.

The product has already been integrated with T24 and we are already selling actively at good pricing terms. The acquisition has also opened to us the opportunity to sell our products to the Lydian customer base, which consists of approximately 45 Misys Equation and Midas users.

We believe that the Lydian product, the Lydian-derived product, if you like, which we call Temenos Insight, is truly a very exciting new driver for the business. It's a proven tool for CEOs. It delivers clear and immediate value and its potential is obvious to any prospective [buyer] after a very brief demonstration. So we believe it could be as significant a driver as regards to our business.

With regard to new acquisitions, our policy will be pragmatic in 2009, balancing the need to protect capital, on the one hand, with the opportunity to make effective strategic transactions that can be easily absorbed and deliver quick shareholder value.

Now, I'd like to look at our services business, where, in 2008, we took 44 new T24 clients live with our product. This represents an increase of more than 20% from '07 levels and shows how we've been able to use the various services initiatives to help scale the business and improve margins. At the peak in 2008, we were handling more than 150 concurrent projects, yet we still managed to improve services margins by 220 basis points.

Now, before I pass it on to David to give you an update on the financials, I'd like to talk about our partner program, which we officially launched last month. The objective is to establish a scalable growth model for Temenos on the services side, as well as creating an indirect sales channels for our products.

The market is more mature and promises very large services revenue. As market leader and with a product that is fully packaged and has a defined delivery methodology, we're attracting a lot of interest from the major SIs.

Since launching the program, we've already begun discussions with a number of system integrators and we aim to have at least two top tier partnerships in place and operating by the end of this year. So with that, I'd like to pass it on to David to take you through the financials.

David Arnott - *Temenos Group - CFO*

Thank you, Andreas. If you turn to slide 18 of the presentation, I'd like to start with a quick look at our full year financial highlights. License revenue finished 1% up on 2007, with a strong first nine months, offset by the lower fourth quarter. Total revenues increased 23% on the back of strong maintenance and services growth. EBIT for the year was $64 million, 2% up on 2007, as we absorbed all the costs of restructuring our acquisitions, plus our own cost reduction exercise during the year.

All our acquisitions are now fully integrated and our restructuring exercises are now complete, allowing us to benefit going forward from a lower cost base and locked-in maintenance revenue growth. Adjusted EPS reached $1.13, a 10% increase, reflecting the increased operating profit, good tax structure, and upsizing FOREX.

We did demonstrate good management of the P&L both in the quarter and the year, with good cost control, improved services margin, and good below-the-line management, which overall delivered EPS growth, even in a very challenging environment.

The next slide shows our fourth quarter financial highlights. License revenue declined by 27% in the quarter to $50 million, driven by a shortfall in signings in the last weeks of the quarter. Total revenue declined by 2% for the quarter, reflecting the licensing shortfall, which was almost entirely mitigated by increases in maintenance and service revenue. EBIT for the quarter was $36.1 million compared to $43.7 million in Q4 of last year, a 17% decrease, as our cost-saving initiatives came too late to offset the decline in license revenues.

In this figure, we've absorbed the full impact of our restructuring exercise, as well as the impact of a licensing shortfall of $18 million and held the reduction in EBIT to $7.6 million, due to the underlying growth in maintenance and improved services margin and the impact of lower variable costs.

Going forward, this lower maintenance, coupled with the full benefit of a lower cost base, leaves us very well positioned for 2009. Adjusted EPS was $0.73 in the quarter, an increase of 11% from Q4 2007, with foreign exchange gains contributing positively to both quarters, and I'll go over this in a few slides' time.

Slide 20 shows the full P&L down to operating profit and in addition to the points I've already made, there's just a few things I'd like to highlight. Firstly, the strength of the maintenance base, which grew 31% in the year and continues to grow into 2009, based on the locked-in growth from what we've already signed in 2008.

Secondly, you can see that our service revenue growth is starting to slow and is back to 36% of total revenues, following a period of very strong growth on the back of 2007. The revenue mix will continue to improve toward product revenues in 2009, driving further margin improvements, as services is a lower margin business.

We achieved our targeted services margin in 2008 by 10%. In the fourth quarter, costs were only up 6% on the fourth quarter of 2007, despite the acquisition of three business and absorbing the full impact of our restructuring plan.

Following the three acquisitions we've done in the quarter and the movement in the dollar, it's actually quite difficult to compare reported Q4 with prior Q4. So I'll use the following slides to discuss the underlying performance in cost of revenue.

We achieved a 30% operating margin in the quarter and 16% for the full year. We generated $43.8 million of operating cash flow in the quarter, down 14% from a very strong comparative and 13% down on a full-year basis.

We didn't see any delays in payments from customers or unwillingness to pay invoices and, importantly, our cash flow growth is in line with our profit growth, with both profits and cash adversely impacted by deals not closed in the quarter.

Slide 21 shows our fourth quarter revenues, adjusted for both acquisitions and the impact of FOREX. We have all the numbers on this slide, but just to note that the trends, on a reported basis, are the same as on an underlying basis, i.e., declining quarterly licensing, which is 2% down for the full year, and increases in both services and maintenance.

Let's move to the below line items on slide 22. Adjusted EPS is up 11% in the quarter and 10% up in the year. There's really three drivers for this. First, refinancing costs, which you can see have increased now, was drawn down on debt to finance our acquisitions.

Our acquisitions are strongly accreted when all revenues and costs are taken into account, but, clearly, if you just look across the interest expense line alone, there's an increase in financing costs.

Next, there's FOREX. The dollar strengthened in the quarter against most other currencies, which is excellent news for us, as we are long dollar. So we have more costs in Europe and Asia and non-dollar currencies that are not fully covered by our dollar inflows. The majority of our 2009 hedging instruments are cash flow hedges and will form part of our 2009 cost base, which Andreas will talk about in a second.

$10 million of the $11 million exchange gain we realized in the quarter resulted from locking in the lower dollar cost of our financial objects debt. At the time of the acquisition, we drew down debt in pounds and in the 10 weeks after this, the pound dropped 25%. We took advantage of this by swapping the pound debt into dollars, reducing the dollar cost of our acquisition of financial objects by 25%. The exchange gain made on the swap will be paid out in cash on March 10.

The majority of the financial objects profit on the existing business is in pounds and forms part of our net (inaudible) short position, so we have a natural hedge. Any upside from cross-selling T24 (inaudible) dollars, being that we're protected from any further movement of the dollar versus the pound and we've been able to reduce our purchase price by 25%, while protecting the acquisition business case.

We've now fully hedged the remainder of our 2009 exposure and have not yet hedged 2010 at all to allow us to benefit from any continued strengthening of the dollar. If the dollar reverses, of course, we'll lock in our remaining exposure. Just to be clear, on the $10 million related to financial objects, this represents an additional cash inflow in the first quarter of 2009.

The last item I briefly wanted to mention is tax, where, once again, we'll have a small positive tax charge, resulting from better withholding tax recovery in the quarter. There's a slight detailing of our tax structure in the appendices.

On the next slide, I've shown some metrics around our cash and debt. Our debt comprises $128 million of convertible bonds, with a coupon of 1.5%, which matures in 2013, by which time we expect it to convert into equity. We've drawn down $56.8 million of debt for our acquisitions, which is in line with -- which is with a consortium of seven banks and has fixed rate payment schedules up to 2012.

So in total, this gives us $186 million of debt, although internally, we consider the bond differently based on the low coupon and no repayments until 2013, by which time we fully expect it to convert into equity. We've got $66 million of cash on our balance sheet and a further $163 million in facilities in place which we can draw down on up to 2010 and repay up until the end of 2012.

This gives available funding of $229 million at the start of the year, which will increase as we generate significant free cash flow during the coming year. Slide 24 shows the movement in our trade receivables, both on a reported basis and adjusted for the impact of acquisitions.

Our receivables have grown by 25%, in line with revenues, which grew by 23%, and there's no underlying deterioration of DSOs, which I'll cover on the next slide. Our payables grew by 12%, so less than expenses, meaning we didn't achieve this cash flow through squeezing supplies.

Slide 25 shows that our DSOs in the quarter dropped to 168 days, in line with our trend, but falling short of our target of 157 to 162 days. We didn't see any impact at all of banks delaying payments, as some others in the sector have been saying. On the contrary, through simple good execution of chasing invoices for payment, we had an excellent cash flow quarter, except for the impact of upfront cash from deals not signed in the quarter, which would have contributed to the difference to get within our target range.

The trend in DSOs remain downwards, in line with our outlook statement, based on shorter projects and better payment terms. And just to illustrate this, on average, deals signed in 2008 had 55% cash up front and a further 30% on fixed dates in the future, which will drive further DSO reduction going forward.

My final slide shows the four quarters of 2008, both the revenues and costs. Putting the quarters side-by-side like this, you can see that we continue to grow revenues strongly, albeit not quite as much as we would have liked in the fourth quarter, but still a strong growth in difficult market conditions.

The point of this slide is really to show you that our cost base is firmly under control and we were able to keep fourth quarter costs flat, despite absorbing three acquisitions and the restructuring exercise, which increases fourth quarter costs, because you accrue no (inaudible) in 2009 and it would not normally have gone past the cost base. With this restructuring behind us, we've set the foundations for strong cash and margins in 2009. So with that, that ends the financial part of the presentation. I'd like to hand you back to Andreas to discuss the outlook and some closing remarks.

Andreas Andreades - *Temenos Group - CEO*

Thank you, David. I'd like now to go over slide 28. Clearly, revenue visibility continues to be limited, given the overall macros and the uncertainty around those. We still do not know really quite how much or for how long our sales cycle will be elongated. We will, therefore, not be providing a revenue outlook for 2009.

However, for the first time in our brief history, Temenos has reached a size where it can manage costs to manage margins, and we've already taken quick and decisive action to protect shareholder value in 2009.

And as a result of the actions we've taken, we believe we can achieve an operating margin of between 19% and 21%, which translates to an EBITDA of between 27% to 29%. This compares to 16% and 22%, respectively, for 2008.

I can confirm that we've made $53 million cost cuts net of new investment. These were achieved through cost synergies and acquisitions, streamlining of processes, and assuring of capacity, both on the services side and on the development side, as communicated earlier in Q3 of last year.

These added to about $26 million of reduction coming about through currency movements and this leads to a cost run rate of $310 million for 2009. There is a detailed reconciliation in the appendix to the presentation, which I don't intend to go through at this point. You might want to use this slide for your models.

Over on slide 29, I want to set the stage for cash flow conversion, which we expect to be at least 75% of EBITDA. We are very confident about this outlook, given that the level of cash flow savings is clearly higher than the stated cost savings, but also because slower growth means that we invest less in working capital.

Furthermore, as we enter 2009, we've increased locked-in maintenance revenues of $118 million. The revenue mix will likely move in favor of maintenance and be more than 50% of total revenues for 2009. Just for reference, maintenance represents our highest margin business, with minimal working capital requirements.

Finally, a couple of thoughts and, notwithstanding the difficulty we had in Q4, I wanted to set on slide 30 our track record for the past four years. While this is not new for anyone, I wanted to briefly say that we have managed to grow profitability and margins, even at times when growth was not forthcoming.

We've got a continued record of growth for both the top line and profits, which we believe we can defend in what are clearly more challenging market conditions. From the management perspective, we are all extremely focused to develop our business and deliver shareholder value over the months to come.

I believe that is quite a disappointing finish to '08. We remain in an excellent position in our market. We've got Lydian products. They are fully packaged, into which we invest significant R&D money and which is recycled to our clients through an annual release.

We are the market leader. We have got a win rate of about 80%. Being a market leader means we can recruit the best people in the industry. We can manage our pricing. But we are also able to attract strong partners.

Both clients and prospective clients are clearly going through a challenging time, but this is a structural growth market, with banks having a clear need for technology to reduce costs, manage risks, improve efficiency, and generate revenue growth through better customer service and cost saving.

The shift from in-house software to third-party will continue and is underpinned by these drivers. Once banks sufficiently stabilize their businesses, we believe that our market will grow strongly again. So with that, I'd like to open the call to Q-and-A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We have a question from the line of Raimo Lenschow from Merrill Lynch. Go ahead, please.

Raimo Lenschow - *Merrill Lynch - Analyst*

Thank you. Thanks for taking my question. It's probably more than one, I'm afraid. First of all, on the cash in Q4, first of all, let me try to understand that any (inaudible) the company signs deals in the fourth quarter, but they all go into receivables and hence don't really have a cash impact, while you guys argue that because of the license shortfall, you had a cash shortfall. I just struggle to understand that.

Also, on the cash side, can you talk about the deferred revenue in the fourth quarter, because that didn't seem to kind of go up, although all the maintenance payments should come in? Then on the cost run rate, in the appendix, you have a $12 million savings on variable costs. I believe that should probably be sales commission and bonuses.

But should we not just assume that on a lower run rate, the guys get the bonus next year and hence we shouldn't really use those $12 million into the cost base going forward? And then lastly, services costs were down in Q4 from the normal $36 million, $37 million run rate. What was the reason and can you help us understand the services revenue in 2009? Is that kind of, like everyone else, a good first half and a weaker second half? Thank you.

David Arnott - *Temenos Group - CFO*

Okay, Raimo, I think we wrote those down. We were scribbling as fast as we could. Let me take them in the order that you raised them. So cash in the first quarter, we do get, up front, on signing, on average, 55%. I don't know how it works for other people, but that really is cash up front.

The sales process ends in a formal ceremony. The payment is due. We present an invoice and we genuinely do collect cash within -- it's transferred that day or during the meeting and it tends to come in with 24, worst case, 48 hours.

Occasionally, we have an unusual tax certificate to get. But had we signed those deals in the week up to Christmas and the week between Christmas and New Year, where typically the software would be a large portion, we would genuinely have gotten that cash and that's the same with cash on any quarter.

So if you do the math, you should find that our revenue miss multiplied by about 60%, plus a little bit of cash we weren't able to get on signings, we did get at the end of the quarter, does justify your cash miss.

Secondly, on deferred, between the third and the fourth quarter, you've got three things in deferred. Obviously, the majority is your deferred maintenance. You've also got certain deferred services and deferred license. What I think you're trying to get at is the underlying deferred maintenance. Deferred maintenance has grown strongly in the quarter, which basically comes from sending our invoices.

It's a double-edge. You credit deferred and you debit your receivables. So that's (inaudible). What you're seeing offsetting that is some movements on services deferred, as we've recognized that on projects people have paid in advance and a smaller amount of licensing DSOs.

But on an underlying basis, I can confirm that the maintenance deferred does continue to rise in line with the revenue growth. Then the next point was on variable costs. You're right, that does represent sales commissions and bonuses for 2008, which are the result of -- which are decreased in Q4 2008 as a result of lower signings. I wasn't quite sure on -- could you repeat the bit of your question about the impact on 2009?

Raimo Lenschow - *Merrill Lynch - Analyst*

You've used the $12 million to kind of come up with the '09 run rate, but the $12 million, in theory, I mean, you can't just go two years and don't pay your guys. So we shouldn't really use the $12 million to bring the run rate down.

David Arnott - *Temenos Group - CFO*

Okay, correct. That is a lower 2008 than 2009. So in the cost guidance Andreas just talked about, we have paid a bonus and sales commission consistent with the revenue. So there is an increase within that cost base with that.

Raimo Lenschow - *Merrill Lynch - Analyst*

All right. It's already -- okay.

Operator

The next question comes from the line of Josep Bori from Deutsche Bank. Go ahead, please.

Josep Bori - *Deutsche Bank - Analyst*

Good evening. Thanks for taking my call. Two of my questions have already been asked, but let me ask one more here. In terms of more than 10 deals that slipped out of Q4, can you add some comments in terms of what's happening with those deals now, any of them have come back? Is there an expectation that they will fall into the full year, et cetera?

And then the other question is, again, kind of on the maintenance business, the services business. What is your expectation for 2009 in terms of cancellation rates and do you expect these to grow or stay flat? Any color you can provide on that front would be very helpful. Thank you.

Andreas Andreades - *Temenos Group - CEO*

I'll take the first question. What we said in our prepared remarks is that we are seeing a slow and steady conversion of the delayed signings from Q4. So we certainly do expect to see a lot, if not the vast majority of those conclude during 2009.

Your second question related to projects, if I understood correctly, and what we can say is that our projects are progressing well, including our key projects, the tier one projects. Clearly, in an environment where clients are going through strategic changes, there are changes in scope with respect to projects, but that is almost normal business.

And what I can confirm is that our relationship, the client relationship with those organizations continues and is very strong. So notwithstanding changes in scope, our projects continue. We've not seen any terminations in that respect.

Josep Bori - *Deutsche Bank - Analyst*

Okay. Thank you very much.

David Arnott - *Temenos Group - CFO*

I believe we missed one of Raimo's questions and I wanted to clarify the variable costs. On the variable costs, in the cost run rate that Andreas has just given for 2009, to clarify, there is a bonus accrual. But just to be clear, this would be known cash in 2009 and is also dependent on the revenue that is consistent with that cost base. I hope that is clear, Raimo. On services, I believe your question was why is the services cost base down in the fourth quarter. Raimo, could you clarify?

Operator

Raimo, your line is now open.

Raimo Lenschow - *Merrill Lynch - Analyst*

Sorry. Yes, that was the question, why services cost is down from the normal run rate and what's the revenue outlook. Is that kind of good first half, bad second half, or what's the story there? Thanks.

David Arnott - *Temenos Group - CFO*

Okay. Services costs do come down in the fourth quarter largely as a result of taking out externals from the cost base towards the end of the fourth quarter. And in terms of 2009, we haven't specifically guided on the revenue split between license, maintenance and services, although, clearly, we are saying that services as a percentage of total revenues does continue to come down.

We were at 35% of total revenues, in total, in 2008 and that will continue to come down and continue to come down as a percentage. There's about 12-month lag between license revenue, between signing, if you like, and when we recognize the service as revenue. So consistent with the lower signings, you would expect to see a decline in the services revenue in 2009.

Raimo Lenschow - *Merrill Lynch - Analyst*

Perfect. Thank you.

David Arnott - *Temenos Group - CFO*

And that's baked into our numbers.

Raimo Lenschow - *Merrill Lynch - Analyst*

Thank you.

Operator

The next question comes from the line of Rajesh Bala from Credit Suisse. Go ahead, please.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Thanks for taking my question, to begin with. On the services revenue, you always maintain that the services revenue number was constrained more by headcount and (inaudible) rather than by demand.

Now, you're now saying that the proportion of overall revenue will decline year-on-year in a year in which license earnings are forecast to drop sharply. I just don't get the math. Would 2009 not be the year where services revenue as a proportion of overall revenue should actually peak rather than go down year-on-year?

Andreas Andreades - *Temenos Group - CEO*

No. I think what you are missing is the fact that in 2008, we did not have many tier one deals. Tier one deals have typically more services content than the rest of the market.

So as we've been completing our tier one deals and as the mix in the licensing revenue in 2008 went toward smaller deals, those smaller deals are getting done, the client is live, and we move on to the next one, you are going to see actually the services mix in 2009 actually go down.

We don't have a problem with that, because what works for us is services as a margin business. We don't run services, if you like, to maximize our revenue. We are a software company with stated percentage targets for the services mix in total revenues and for us, the objective of the services business is to leverage licensing and new accounts.

You also need to bear in mind that we achieve growth initially for us, for both margin improvement, but also revenue in the long-term, is other partners and we've already announced that we intend to work more with partners.

We intend to have established relationships by the second half of the year. So you are going to start seeing Temenos focus on a smaller, if you like, part of the services pie than the whole, but that is a strategy which we believe that will deliver significant benefits in the long term.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Thank you. Just a follow-up question, if I might. Is there also a smaller element of price deflation due to off-shoring in services? And if that is indeed the case, should we expect services market, standalone, to go up sharply year-on-year from '08 to '09?

Andreas Andreades - *Temenos Group - CEO*

Clearly, we intend to deliver more percent of our projects using an offshore base and we believe that that is clearly a higher margin business than the onshore business. So we should be seeing an improvement in margins in 2009.

Rajesh Balasubramanian - *Credit Suisse - Analyst*

Thank you.

Operator

The next question comes from the line of Rajeev Bahl from Piper Jaffray. Go ahead, please.

Rajeev Bahl - *Piper Jaffray - Analyst*

Thanks. A couple of quick questions. First of all, just to make sure I'm thinking about the guidance correctly, if I was to take your $310 million guidance on the cost base and translate through your target of roughly a 20% margin, that would point me to around $385 million in terms of revenue. Is that kind of where you're trying to get to? And then, secondly, in terms of the cost base, allowing for the cost reductions you've already put through, what further downside headroom do you have to cut costs further?

Andreas Andreades - *Temenos Group - CEO*

Your ability to divide numbers is remarkable, actually. Yes, I mean, we gave a cost number and we gave a target margin. So there's not more than that. Now, in terms of the cost base, we have within the $310 million approximately about $40 million in variable costs, which some of it flexes directly with profit in a very numerical fashion and some of it flexes directly with licensing revenues. So there's a good chance there, which is almost like self-insulating against variations on the top line.

Rajeev Bahl - *Piper Jaffray - Analyst*

And in terms of customer behavior since the year end, I appreciate it's only been a few weeks, but have you seen any change in terms of sales cycles or anything like that since the end of December or is it very much as it was in those last two weeks?

Andreas Andreades - *Temenos Group - CEO*

I think it's far too early to start commenting on customer behavior into 2009. What we've clearly said is that the uncertainties that existed, if you like, in the markets around the macros in December exist today, as well. So we are ourselves uncertain as to how long the sales cycle will be prolonged for. So we cannot report a change in behavior at this point in time.

Rajeev Bahl - *Piper Jaffray - Analyst*

Okay, that's great. Thank you.

Operator

(Operator Instructions). The next question comes from the line of Michael Studer from Bellevue. Go ahead, please.

Michael Studer - *Bank am Bellevue - Analyst*

Yes, hello. Thanks for taking my question. I just want to go on with this implied guidance of $380 million to $385 million for '09. So this would imply about a 5% decrease year-over-year.

It's actually about the run rate that we've seen in Q4. So is this what you see in Q1 already and is this how you come up with your implied guidance for the full year '09, about the run rate that we've seen in Q4? Can you give there some flavor? That would be the first question.

And the second one is maintenance. I've always taken, actually, the software lasting from the quarter before and added this increase on the maintenance. I thought this was a mechanic that worked quite well in the recent quarters. But right now, I just see that maintenance is a bit weaker than this. So has something changed in the mechanics that I don't really get? So can you give me there some flavor maybe?

And the last one, again, on the services, it looks like services is doing quite well. I mean, you've done very well, also, on the margins. So do you see any price pressure there or are you afraid of that or you see quite a good run rate going forward in '09? It would be great if you can answer that. Thanks.

Andreas Andreades - *Temenos Group - CEO*

Just to be very clear, we are not giving either an implied or an explicit revenue guidance. So what we have said is that we are going into 2009 with a lower cost base of $310 million.

That cost base includes variable costs and what we've said is that we are of a size that we can manage our cost base in a way that we can deliver on our outlook of margin, which is the only outlook statement we are making. Now, as I said when I answered the previous question, it's far too early to talk about January or February assumptions and whether those reflect the quarter or the year.

So as I said, there is continued uncertainty and because there is uncertainty, our outlook statement has been formulated on the basis that you have just seen. So that's for the first question. Now, David will take the other two.

David Arnott - *Temenos Group - CFO*

Okay. The question on maintenance, there's a couple of things, you're right. Directionally, maintenance should grow by the percentage of T24 revenues. What you can't see in total revenue, you have TTB revenue, which doesn't carry maintenance, and, also, the equation doesn't work and the TTB revenue isn't linear.

Secondly, there are small accounting quotes by maintenance that don't grow linearly every quarter, and, thirdly, you've got foreign exchange, with a stronger dollar, which will weaken our maintenance revenue.

If you back those three out and look at like-for-like maintenance, the trend is very, very clear and very linear. The underlying trend in the fourth quarter is consistent with that. Your question on price pressure, could you repeat that? Was that about services price pressure or licensing price pressure?

Michael Studer - *Bank am Bellevue - Analyst*

Exactly, services, if you see there is any price pressure or if you're afraid of that or not.

Andreas Andreades - *Temenos Group - CEO*

No. We've not seen price pressure on services and, generally, pricing is less of a concern, I have to say, with managed pricing during 2008.

We've not seen price pressure either in licensing or services. And as a whole, there are two reasons for that. One is a question of delivered value, but secondly and probably more importantly, that the total costs of the projects are usually much more than what Temenos actually takes.

So the scope for, if you like, major changes in the economics for exacting price pressure on us is much smaller than it is, let's say, for a big services integrator that would take maybe 80% of the costs in a big project, and that's why we see less of it.

Michael Studer - *Bank am Bellevue - Analyst*

Thank you.

Operator

The next question comes from the line of Hoi Lam from Citigroup. Go ahead, please.

Hoi Lam - *Citigroup - Analyst*

Thank you for taking my question. I have three questions. The first one is around your exposure to emerging Europe in recent days, where we are seeing perhaps some pressure on their financial system. So I would be interested to hear what you see there in terms of demand.

My second question is, if I work backwards again on your guidance on margin, then I get to a license, perhaps, decline of around 20% and that tends to be towards the lower end of what software providers or software vendors have guided to in recent days. I wonder if there are certain reasons beyond accessions, because I've adjusted for that, that might give you that kind of a more positive outlook.

And then finally, just on '09 cash and what we should expect in terms of improvement, because the business is obviously slowing down slightly. What kind of cash improvement and cash conversion improvement should we expect in the business? Thank you very much.

David Arnott - *Temenos Group - CFO*

Okay. Hoi, let me take those. Emerging Europe, I guess this is based on what we've been reading the last couple of days. From a balance sheet point of view and from a 2009 existing products point of view, we have less than 2% of our revenues for the year from existing clients coming from emerging Europe, more percentage, projects progressing well, and we have a very broad-based geographical spread which doesn't expose us to any one area or the others.

From a pipeline point of view, on a portfolio basis, we do have deals in those territories, not a significant percentage, and it would be in line with what we've seen in the past, which isn't a sizeable percentage coming from that business. So nothing that would in any way make us concerned about our numbers at all.

Secondly, on guidance for licensing, we've noted we've not guided on total revenue, but we've definitely not guided on the split between license, maintenance and service. So I won't comment on your specific point on the implied amount of 20% decline in license. Don't read across from the maps that you're doing that we are any more nervous than we've said on the call.

We are simply, at this stage, reiterating that it's important to guide on cost and margin, which we can control in the short term. In terms of cash for 2009, Andreas, I think, mentioned 75% operating cash flow conversion. There are strong drivers behind that.

First of all, cost base is reduced, in P&L terms, by $33 million and as we've both mentioned now, within that, the cash cost decrease is even more significant by the time you take out the variable.

Secondly, in a slower market, you get a better revenue mix. And thirdly, our DSOs are coming down as we get more upfront cash in the lower tier one mix. So there are some very, very strong drivers which are behind our 75% EBITDA conversion guidance and we're, obviously, more than comfortable with that.

Hoi Lam - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

The next question comes from the line of Thomas Schneckenburger from UBS. Go ahead, please.

Thomas Schneckenburger - *UBS - Analyst*

Good afternoon, gentlemen. I have three questions. The first one is on Lydian. You seem very excited about this new opportunity. Could you please quantify about the size of this business or how many million could we expect, therefore, and your confidence around this level you provide?

The second one is on the acquisitions. You seem, also, quite confident on the financial objects and once you guided an EPS accretion of $0.08 for '09 and the same for informal. Now, you didn't speak on informal on the assets you acquired there.

But overall, I think the expected EPS accretion was $0.16. Could you please spend a word on informal and the overall target for these two acquisitions? And finally, the partner program and the corresponding mechanics to your P&L, what will change and how much of it will we see already in '09, in your expectations? Thank you.

Andreas Andreades - *Temenos Group - CEO*

Let me take the Lydian one first. We are clearly very excited by the product. We've launched our (inaudible) in January of this year at the (inaudible). This organization is very excited. It enhances our data mining and data warehouse capabilities significantly. It already runs in something like 45 banks. So it's a real product that has real references and we believe that it can grow fast.

Just to give you some metrics, when we launched ARC, in the first year that we started, we had ARC being about 5% of total licensing and, clearly, Lydian has the capacity to achieve the same kind of numbers. The second one, I believe your second question referred to the accretion from the acquisitions.

As I said earlier in my prepared remarks, we've actually delivered higher cost synergies on both financial objects and informal, and I'd like to remind you that we've justified both transactions on the basis of synergies, cost synergies.

We did not assume at the time revenue synergies. We should, secondly, start being able to generate revenue synergies. But clearly, that was not part of the model and that should be outside one-off costs. Now, I will pass on to David to take the third question.

David Arnott - *Temenos Group - CFO*

So just very specifically on that, Andreas, you're saying the two lots of $0.08 are included in our numbers. The third question, I believe, was on the partner. I've forgotten when we expect the initial -- what impact we expect on 2009 from that. I think there was a slide in the presentation which talked about partners, which talked about engaging partners this year. Is there anything more specific you want to add on that? Any impact from that?

It's likely to not have a significant financial effect on 2009 beyond what's in our numbers and I don't think there's much really else, unless you have something specific that we can talk about separately. We launched it a month ago and the rest is in the slide.

Thomas Schneckenburger - *UBS - Analyst*

Okay. But it would be, more or less, similar mechanics to Metavante or to the agreement you did in Australia, if I'm right, or will it be a completely different mechanic?

Andreas Andreades - *Temenos Group - CEO*

No, it is something entirely different. What we are talking about here is our capacity to grow through partnerships with large system integrators, technology partners, and be able to scale our software model with an ecosystem of partners. So that should be impacting sales, as well as services in the long term.

Thomas Schneckenburger - *UBS - Analyst*

And if I might, if you'll address concerns which are rumored in the market about your capability to give proper service to like a tier one bank, there's always this phantom of Deutche Bank there to address these issues. Do you have more service capacities, as well?

Andreas Andreades - *Temenos Group - CEO*

The partner program is not intended to be restricted to a single segment of the market. Clearly, the larger projects, the more scope there is for working with partners. As I said, all our projects are going well. So I'm not sure what you're referring to, to be honest. Anyway, I'm not going to comment on it.

But from our perspective, we've been able to scale the services business in a significant way. We run 150 projects, large, small, larger and smaller. So we feel very good about where we are. Clearly, as software models from this size onwards is small, easily scalable around partners, then both revenues and margins should gain out of that.

Thomas Schneckenburger - *UBS - Analyst*

Thank you.

Operator

Thank you, ladies and gentlemen. (Operator Instructions). We have a question from the line of Raimo Lenschow from Merrill Lynch. Please go ahead. Raimo, your line is live. Would you like to ask a question?

Raimo Lenschow - *Merrill Lynch - Analyst*

Sorry for coming back again. Two things. First, Andreas, could you please talk a little bit about the more medium term outlook in terms of, obviously, the banks and the board members and management members that you talk to, they, at the moment, are a bit scared to do projects.

What do you see in terms of the outlook for one, two years out in terms of how the banking industry is going to change? What is the increase in regulation doing? What is the deleveraging of the balance sheet of a bank going to do about the way of them doing business and, also, their motivation to change their cost structure that is really blown up at the moment?

And then secondly, another question for Andreas is if you do a 75% EBITDA conversion, and that's in David's KPIs for this year, I think I would be very disappointed, given that the license revenue was always the biggest drag on working capital and, hence, the low growth here. I think 75% seems very conservative, and maybe you could comment there. Thanks.

Andreas Andreades - *Temenos Group - CEO*

Okay. The medium term and banks, clearly, banks are going through quite difficult and challenging times. They've got balance sheets that clearly need to be deleveraged much further. The balance sheets will come down in size, in general. You will see the bigger banks become a little bit smaller and you are going to see the smaller banks become a little bit bigger.

What banks are totally preoccupied now is with stabilizing their financials. Medium term, they've got two or three concerns. Regulation is one. I believe we are going to go through a period of intense regulation and I believe regulation will take a different form than it has taken until now.

It will become much more, if you like, holistic in its approach than a self-regulation environment. I believe the regulators will require almost real-time information. The regulator will require understanding of enterprise-wise risk and enterprise-wide exposure as opposed to a very fragmented siloed divisional country-by-country almost approach that global banks have taken until now.

What banks are also judged by is, with the state of their balance sheets today, the ability of new entrants into the market and there is a lot of activity behind the scenes from potentially new players that will come in with much stronger balance sheets and ability to deploy covenants and invest in technology and invest in infrastructure that will improve both customer service, but also delivery in an efficient way.

The third side of that that is preoccupied in (inaudible) is clearly one of cost. They appreciate that in the medium term, margins are going to be lower. We are going to go back into, for the next few years, to a more classic way of doing banking.

But maybe banks will be less, if you like, exciting businesses in that respect. But I think banks will have to discover a simpler way to make money and one which is done off of a much smaller spread between interest received and interest paid on the funding side.

So these three things are quite intense and we believe that it's going to be around these three things that you are going to see growth in the next few years from a structural, if you like, cost system replacement perspective.

Now, I'll take the second question, as well, regarding cash flow and EBITDA conversion for 2009. If there are anymore burning questions, it will be a pleasure to go through it and Ben and Max and David can walk you through the numbers.

Clearly, we stick by our outlook of 75% EBITDA conversion for the year, but let me say that we're very concerned to deliver that because of the level of cash flow savings and because of the revenue mix in maintenance revenues going out for 2009.

Raimo Lenschow - *Merrill Lynch - Analyst*

Thank you.

Operator

The final question comes from the line of Roger Steiner from Kepler. Please go ahead.

Roger Steiner - *Kepler - Analyst*

Good evening. Three small add-ons from my side, the first one on the cost base. I just wonder if you look at the cost base on a quarterly level in 2009. Should we assume that the 77.5 is already there sort of in Q1 and the variability on the quarter level just depends on the licenses and the profitability in the quarter or is there sort of a nominal decline throughout the year on a cost base?

Second, on [ARC], I wonder whether you could provide any more details on changes in the average license fee that you have seen in 2008 versus the last year. And lastly, Middle East was quite an important market the last two years for you and I just wonder whether you could provide more details on how you see that market. Especially, Dubai seems to be completely shot down at the moment.

David Arnott - *Temenos Group - CFO*

Okay, Roger, let me make a start. The costs have left the business. We have completed our restructuring exercise. We're clearly not commenting on quarterly cost base, but it's not that we're halfway through our cost restructuring and the costs need to come down to the balance of year. Other than lumpy variable costs, a few other marketing costs that might hit, the cost base will be largely linear across the year. I can help with modeling questions offline, if you like.

Secondly, on pricing, basically flat, no big trend either way. Pricing has held up for the deals in 2008, including into the fourth quarter. So probably, in summary, I would say flat. Thirdly, on the Middle East, I think there's a slight (inaudible) geographical split.

Andreas Andreades - *Temenos Group - CEO*

Let me take it from here. The Middle East has roughly (inaudible) in terms of value for 2008 compared to 2007. So we did see a slowdown compared to the quite significant growth that we had in '07 and in '06.

Operator

Thank you. That's the end of the Q-and-A. I will now hand it back over to Ben Robinson to wrap up today's call.

Ben Robinson - *Temenos Group - IR*

I'd just like to thank everyone for joining the call and we look forward to updating you on Q1 numbers in April. Thanks very much.

Operator

Thank you for attending today's conference. You may now replace your handsets.
