

# TEMENOS

---

Interim Report 2003



TEMENOS™  
[www.temenos.com](http://www.temenos.com)

Designed and Produced by NMI



TEMENOS™

## Contents

CONSOLIDATED STATEMENT OF EARNINGS	3
CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS	8

## TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars  
except earnings per share

## consolidated statement of earnings

	Six months to 30 June 2003 unaudited	Six months 30 June 2002 unaudited
<b>Revenues</b>		
Software licensing		
Initial licenses	25 048	23 801
Development licenses	2 691	2 100
<i>Total software licensing</i>	<u>27 739</u>	<u>25 901</u>
Maintenance	15 184	13 442
Services	26 527	27 382
<i>Total revenues</i>	<u>69 450</u>	<u>66 725</u>
<b>Operating costs and expenses</b>		
Cost of licenses	3 470	1 885
Services	23 596	25 116
Software development and maintenance	15 644	13 424
Sales and marketing	11 094	15 149
General and administrative	11 714	10 022
Amortisation of goodwill	853	393
<i>Total operating costs and expenses</i>	<u>66 371</u>	<u>65 989</u>
<b>Operating profit</b>	<u>3 079</u>	<u>736</u>
<b>Other income (expenses)</b>		
Interest expense	(58)	(36)
Financial instrument related expenses	(183)	(262)
Foreign exchange gain – net	660	2 269
Other non-operating expense	–	(27)
Equity accounted investments	–	(180)
<i>Total other income (expenses)</i>	<u>419</u>	<u>1 764</u>
<b>Profit before taxation</b>	<u>3 498</u>	<u>2 500</u>
Taxation	(565)	(404)
<b>Net profit for the period, after taxation</b>	<u>2 933</u>	<u>2 096</u>
Minority share of subsidiary	12	(1 574)
<b>Net profit for the period attributable to the Group</b>	<u>2 945</u>	<u>522</u>
<b>Earnings per Share (in US \$):</b>		
<i>basic</i>	0.05	0.01
<i>diluted</i>	0.05	0.01

## TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

## consolidated balance sheet

	30 June 2003 unaudited	31 December 2002 audited
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	25 691	23 993
Accounts receivable	37 868	20 474
Accrued revenues	27 338	20 315
Deferred expenses	6 086	4 649
<i>Total current assets</i>	<u>96 983</u>	<u>69 431</u>
<b>Non-current assets</b>		
Tangible fixed assets – net	10 080	11 473
Intangible fixed assets – net	16 006	21 122
Capitalised development costs	7 852	8 248
Guarantees and escrowed bank deposits	11 605	12 111
Deferred tax asset	586	–
<i>Total assets</i>	<u>143 112</u>	<u>122 385</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	15 495	17 574
Accrued expenses	11 933	7 188
Short term portion of loan	10 000	5 000
Income taxes payable	2 018	2 507
<i>Total current liabilities</i>	<u>39 446</u>	<u>32 269</u>
<b>Deferred revenues</b>	36 464	22 208
<b>Non-current liabilities</b>		
Long term loan	10 000	15 000
Long term liabilities under finance leases	272	180
<i>Total liabilities</i>	<u>86 182</u>	<u>69 657</u>
<b>Shareholders' equity</b>		
Share capital	154 190	154 190
Treasury shares	(4 582)	(5 486)
Share premium	(63 557)	(62 829)
Retained earnings and reserves	(29 109)	(33 147)
<i>Total shareholders' equity</i>	<u>56 942</u>	<u>52 728</u>
<b>Minority interest</b>	(12)	–
<i>Total equity and liabilities</i>	<u>143 112</u>	<u>122 385</u>

## TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

## consolidated statement of cash flows

	Six months to 30 June 2003 unaudited	Six months to 30 June 2002 unaudited
Profit before taxation	3 498	2 500
Adjustments:		
Depreciation and amortization	7 707	4 934
Profits on disposal of assets	74	–
Equity accounted investments	–	180
Financial instrument related expenses	183	262
Interest expense	58	36
Movement in receivables	(23 829)	(8 809)
Movement in payables	18 323	1 187
<i>Net cash from operating activities</i>	<u>6 014</u>	<u>290</u>
Income taxes paid	(672)	(626)
<i>Net cash before investing activities</i>	<u>5 342</u>	<u>(336)</u>
<b>Cash flows from investing activities</b>		
Acquisition of tangible fixed assets	(266)	(1 990)
Proceeds from sale of tangible fixed assets	273	–
Acquisition of intangible fixed assets	(306)	(545)
Capitalised development costs	(1 277)	(3 600)
Net cash effect of acquisitions	(2 050)	(5 337)
<i>Net cash used in investing activities</i>	<u>(3 626)</u>	<u>(11 472)</u>
<b>Cash flows from financing activities</b>		
Interest payments, net of receipts	(123)	(36)
Proceeds of issuance of shares, net of related expenses	15	6
Payment of financial instrument related expenses	(198)	–
Payment of finance lease liabilities	(62)	(82)
<i>Net cash used in financing activities</i>	<u>(368)</u>	<u>(112)</u>
<b>Overall effect of exchange rate changes</b>	350	544
<b>Net increase (decrease) in cash and cash equivalents in the period</b>	<u>1 698</u>	<u>(11 376)</u>
<b>Cash and cash equivalents at the beginning of the period</b>	<u>23 993</u>	<u>65 259</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>25 691</u>	<u>53 883</u>

	Share capital	Treasury shares	Share premium	Warranted share subscription reserve	Employee share options reserve	Discount on shares issued to employees	Goodwill acknowledged on restructuring	Total share premium	Currency translation adjustment	Retained earnings	Total retained earnings	Total
<b>Balance at 30 June 2002</b>	<u>153 490</u>	<u>(6 391)</u>	<u>–</u>	<u>1 173</u>	<u>2 045</u>	<u>–</u>	<u>(64 934)</u>	<u>(61 716)</u>	<u>(857)</u>	<u>15 012</u>	<u>14 155</u>	<u>99 538</u>
Net profit for the period attributable to the Group	–	–	–	–	–	–	–	–	–	(50 009)	(50 009)	(50 009)
Cumulative translation adjustment	–	–	–	–	–	–	–	–	2 707	–	2 707	2 707
Employee share options granted, net of cancellations	–	–	–	–	200	–	–	200	–	–	–	200
Shares issued to satisfy employee share options	–	905	(13)	–	–	(880)	–	(893)	–	–	–	12
Shares issued in relation to acquisitions	700	–	323	(743)	–	–	–	(420)	–	–	–	280
Transfer of share premium to goodwill acknowledged on restructuring	–	–	(310)	–	–	–	310	–	–	–	–	–
<b>Balance at 31 December 2002</b>	<u>154 190</u>	<u>(5 486)</u>	<u>–</u>	<u>430</u>	<u>2 245</u>	<u>(880)</u>	<u>(64 624)</u>	<u>(62 829)</u>	<u>1 850</u>	<u>(34 997)</u>	<u>(33 147)</u>	<u>52 728</u>
Net profit for the period attributable to the Group	–	–	–	–	–	–	–	–	–	2 945	2 945	2,945
Cumulative translation adjustment	–	–	–	–	–	–	–	–	593	–	593	593
Employee share options granted, net of cancellations	–	–	–	–	124	–	–	124	–	–	–	124
Shares issued to satisfy employee share options	–	904	–	–	–	(852)	–	(852)	–	–	–	52
Movement in fair value of hedging instruments	–	–	–	–	–	–	–	–	–	500	500	500
<b>Balance at 30 June 2003</b>	<u>154 190</u>	<u>(4 582)</u>	<u>–</u>	<u>430</u>	<u>2 369</u>	<u>(1 732)</u>	<u>(64 624)</u>	<u>(63 557)</u>	<u>2 443</u>	<u>(31 552)</u>	<u>(29 109)</u>	<u>56 942</u>

# TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

## 1. Accounting policies

These consolidated interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting*. The accounting policies used in the preparation of these interim financial statements are consistent with those used in the annual consolidated financial statements for the year December 31, 2002.

Costs that occur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

## 2. Segmental analysis

As global sales are managed at a group level the Directors believe that the analysis of revenues and profit by region of origin of the resources utilised, is practically unfeasible and would not provide the reader with any meaningful information. Accordingly, an analysis of revenues, by the region of the destination of the product or service supplied is set out below (in thousands of dollars):

### Six months ended June 30, 2003

	Software licensing	Maintenance	Services	Total
Europe	18 708	10 424	19 320	48 452
Asia	2 915	1 212	3 358	7 485
Americas	1 235	1 452	1 185	3 872
Middle East, Gulf and Africa	4 881	2 096	2 664	9 641
	<u>27 739</u>	<u>15 184</u>	<u>26 527</u>	<u>69 450</u>

### Six months ended June 30, 2002

	Software licensing	Maintenance	Services	Total
Europe	13 223	8 523	21 591	43 337
Asia	6 194	849	1 105	8 148
Americas	3 483	1 641	2 742	7 866
Middle East, Gulf and Africa	3 001	2 429	1 944	7 374
	<u>25 901</u>	<u>13 442</u>	<u>27 382</u>	<u>66 725</u>

## 3. Earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the Group by the weighted average number of issued and outstanding shares in that period.

The diluted earnings per share is the basic earnings per share adjusted for dilutive potential ordinary shares.

## 4. Share Capital

There were no changes in the number of issued and outstanding shares in the six month period under review.

Issued and outstanding as at December 31, 2002 and June 30, 2003	Shares <u>54 133 217</u>
--	-----------------------------

As at June 30, 2003, TEMENOS Group AG had a share capital of US\$ 154.2 million (CHF 270.7 million) of which 52,706,417 are fully paid, voting, registered, common shares of a nominal value of CHF 5 each. In addition, 1,426,800 voting and registered common shares are held as Treasury stock by the Company.

The Board of Directors of TEMENOS Group AG is empowered to issue 10 million shares ranking pari passu with the existing shares of the Company, for the purposes of satisfying employee-related rights to purchase shares under the TEMENOS ESOS. In June 2002, 2 million such shares were issued, out of which 573,200 shares have been allotted as at June 30, 2003.

In addition TEMENOS Group AG has authorised and "conditional" or "contingent" capital which may be issued by resolution of the Board of Directors of the Company comprising of 9,577,739 shares that may be issued in the context of acquisitions (this power of the Board expires on 27 June 2005) and 13,680 shares that may be issued in conjunction with financial instruments that may be issued by the Group.

### Employee share options scheme

The TEMENOS Group operates a worldwide employee share options scheme (ESOS) under which certain employees of any of the entities forming part of the Group are given the option to purchase shares of TEMENOS Holdings NV, which are automatically converted into shares of TEMENOS Group AG on the basis of an exchange ratio of 1:1. These options are exercisable not earlier than three years and not later than ten years after the grant date, at an exercise price which is specified, in US dollars or Swiss Francs, at the time of granting the options.

The Board of Directors is empowered to grant options to employees of the Company or any group company for up to a maximum of 10 million shares. As at June 30, 2003 the options granted under the scheme, which were outstanding, covered a total of 6,769,942 shares.

The changes in the number of issued and outstanding options on shares, in the six-month period under review, are summarised below:

Granted and outstanding as at December 31, 2002	Share options 4 957 001
Options granted in the six-month period to June 30, 2003	2 153 800
Options exercised or cancelled	<u>(340 859)</u>
Issued and outstanding as at June 30, 2003	<u>6 769 942</u>

The terms under which the options outstanding, as at 31 December 2002, have been granted and their status as at that date are fully described in note 13 to the audited consolidated financial statements as of December 31, 2002.

The options on shares granted in the six-months to June 30, 2003 have a vesting period of 3 years and an exercise price ranging between CHF 1.3 and CHF 1.8 per share.

## TEMENOS GROUP AG

All amounts are expressed in thousands of US dollars

---

### 5. Related party transactions

There were no large or significant transactions with related parties during the period to 30 June 2003 and all transactions with related parties were carried out at arm's length rates. There were no amounts due from related parties at 30 June 2003.

The Global Technology Group of South Africa ceased to be a related party on 1 February 2003 when all cross-directorships were removed.

### 6. Employees by location

Employees by location:	30 June 2003	30 June 2002
Europe	475	657
Asia	552	474
Americas	43	81
Middle East, Gulf and Africa	38	33
	<u>1 108</u>	<u>1 245</u>