

TEMENOS

Interim Report 2004



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TEMENOS GROUP AG

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

consolidated income statement

for the period ended 30 June 2004

	Six months to 30 June 2004 unaudited	Six months to 30 June 2003 unaudited
Revenues		
Software licensing	32 666	27 739
Maintenance	18 300	15 184
Services	26 001	26 527
<i>Total revenues</i>	<u>76 967</u>	<u>69 450</u>
Operating costs and expenses		
Cost of licences	2 861	3 470
Services	23 459	23 596
Software development and maintenance	15 859	15 644
Sales and marketing	13 431	11 094
General and administrative	13 351	11 714
Amortisation of goodwill	884	853
<i>Total operating costs and expenses</i>	<u>69 845</u>	<u>66 371</u>
Other operating income	1 020	–
Operating profit	<u>8 142</u>	<u>3 079</u>
Other income (expenses)		
Interest expense	(168)	(294)
Interest income	140	116
Income from financial instruments	(20)	120
Financial instrument related expenses	(254)	(183)
Foreign exchange gain (loss) – net	(190)	660
<i>Total other income (expenses)</i>	<u>(492)</u>	<u>419</u>
Profit before taxation	<u>7 650</u>	<u>3 498</u>
Taxation	(1 135)	(565)
Profit for the period, after taxation	<u>6 515</u>	<u>2 933</u>
Minority interest	663	12
Profit for the period	<u>7 178</u>	<u>2 945</u>
Earnings per Share (in US \$):		
<i>basic</i>	0.13	0.06
<i>diluted</i>	0.12	0.05

TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars

consolidated balance sheet

as at 30 June 2004

	30 June 2004 unaudited	31 December 2003 audited
Assets		
Current assets		
Cash and cash equivalents	25 255	31 736
Accounts receivable	36 646	39 669
Accrued revenues	36 712	30 990
Prepayments and other assets	5 838	5 819
<i>Total current assets</i>	<u>104 451</u>	<u>108 214</u>
Non-current assets		
Tangible fixed assets	8 320	9 189
Intangible assets	11 117	12 830
Capitalised development costs	9 286	8 639
Guarantees and restricted bank deposits	274	11 403
Deferred tax asset	1 980	1 515
<i>Total non-current assets</i>	<u>30 977</u>	<u>43 576</u>
<i>Total assets</i>	<u>135 428</u>	<u>151 790</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	13 820	16 937
Accrued expenses	13 451	14 539
Deferred revenues	27 929	35 897
Bank loans	–	15 000
Income taxes payable	4 214	3 066
<i>Total current liabilities</i>	<u>59 414</u>	<u>85 439</u>
Non-current liabilities		
Long term liabilities under finance leases	228	156
<i>Total liabilities</i>	<u>59 642</u>	<u>85 595</u>
Minority interest	<u>2 836</u>	<u>38</u>
Shareholders' equity		
Share capital	157 200	155 560
Treasury shares	(256)	(33)
Share premium	(69 783)	(69 121)
Fair value and other reserves	2 721	3 861
Retained earnings	(16 932)	(24 110)
<i>Total shareholders' equity</i>	<u>72 950</u>	<u>66 157</u>
<i>Total equity and liabilities</i>	<u>135 428</u>	<u>151 790</u>

TEMENOS GROUP AG
The amounts are expressed in thousands of US dollars

consolidated statement of cash flows

for the period ended 30 June 2004

	Six months to 30 June 2004 unaudited	Six months to 30 June 2003 unaudited
Cash flows from operating activities		
Profit before taxation	7 650	3 498
Adjustments:		
Depreciation and amortisation	6 815	7 707
Losses on disposal of assets	43	74
Cost of employee share option scheme	106	–
Financial instrument related expenses	254	183
Interest expense – net	28	178
Expense (income) from financial instruments	20	(120)
Decrease (increase) in receivables, accrued revenues and prepayments	4 770	(24 230)
(Decrease) increase in accounts payable and accrued expenses	(10 482)	4 186
(Decrease) increase in deferred revenues	(10 229)	14 129
<i>Cash generated from (used in) operations</i>	(1 025)	5 605
Income taxes paid	(23)	(672)
<i>Net cash generated from (used in) operating activities</i>	(1 048)	4 933
Cash flows from investing activities		
Purchase of tangible fixed assets	(835)	(266)
Disposal of tangible fixed assets	154	273
Purchase of intangible assets	(97)	(306)
Disposal of intangible assets	433	–
Capitalised development costs	(1 884)	(1 277)
Acquisitions	–	(2 050)
Allocation of cash to minority interest	1 844	–
Interest received	130	116
<i>Net cash used in investing activities</i>	(255)	(3 510)
Cash flows from financing activities		
Proceeds of issuance of shares, net of related expenses	685	15
Repayment of bank loans	(15 000)	–
Restricted cash deposited with a banking institution	10 000	–
Interest payments	(159)	(239)
Proceeds from financial instruments	(20)	409
Payment of financial instrument related expenses	(250)	(198)
Payment of finance lease liabilities	(43)	(62)
<i>Net cash used in financing activities</i>	(4 787)	(75)
Effect of exchange rate changes	(391)	350
(Decrease) increase in cash and cash equivalents in the period	(6 481)	1 698
Cash and cash equivalents at the beginning of the period	31 736	23 993
Cash and cash equivalents at the end of the period	25 255	25 691

TEMENOS GROUP AG
The amounts are expressed in thousands of US dollars

consolidated statement of

changes in shareholders' equity

for the period ended 30 June 2004

	Share capital	Treasury shares	Share premium	Fair value and other reserves	Retained earnings	Total
Balance at 30 June 2003	154 190	(4 582)	(63 557)	2 943	(32 052)	56 942
Profit for the period	–	–	–	–	7 942	7 942
Cost of employee share option scheme	–	–	(203)	–	–	(203)
Exercise of share options	1 337	4 549	(5 220)	–	–	666
Shares issued in relation to acquisitions	33	–	(28)	–	–	5
Share issuance costs	–	–	(113)	–	–	(113)
Cumulative translation adjustment	–	–	–	21	–	21
Net fair value gain on cash flow hedge, net of tax	–	–	–	897	–	897
Balance at 31 December 2003	155 560	(33)	(69 121)	3 861	(24 110)	66 157
Profit for the period	–	–	–	–	7 178	7 178
Cost of employee share option scheme	–	–	106	–	–	106
Issuance of treasury shares	256	(256)	–	–	–	–
Exercise of share options	1 215	–	(531)	–	–	684
Shares issued in relation to acquisitions	169	33	(176)	–	–	26
Share issuance costs	–	–	(61)	–	–	(61)
Cumulative translation adjustment	–	–	–	(812)	–	(812)
Net fair value gain on cash flow hedge, net of tax	–	–	–	(328)	–	(328)
Balance at 30 June 2004	157 200	(256)	(69 783)	2 721	(16 932)	72 950

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 ended 31 December 2003.

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. Acquisitions and disposals

During the period the Group established a company in Mexico (Fomento Empresarial de Servicios Informaticos S.A. de C.V.) in which it holds 51% of the share capital. The company's net assets, following capital contributions from the shareholders, were US\$ 2,000,000. The Group's consideration in respect of the shares acquired was contributed by way of a software licence for "TEMENOS T24". Negative goodwill arising on the acquisition, of US\$ 1,020,000, has been recognised in the income statement for the period under the line "other operating income".

Since 1 January 2004 the Group has accounted for its 51% interest in TEMENOS Eastern Europe Limited as a fully consolidated subsidiary. Prior to 1 January 2004 this company was accounted for as a joint venture and its results were proportionally consolidated in the financial statements.

3. Bank loans

On 23 February 2004, the group renegotiated existing financing facilities to replace short term debt instruments with medium term working capital facilities.

The remaining instalments due in April 2004 under the previous facility for US\$ 5m were repaid on 30 January 2004 and 13 February 2004 and replaced with the following bilateral revolving credit facility:

Facilities available for general working capital needs:

Tranche A: US\$ 10 million repayable in full on 28 February 2007, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +2.75%.

Tranche B: US\$ 5 million repayable in full on 28 February 2006, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +3.75%.

Tranche C: US\$ 5 million repayable in full on 28 February 2005, bearing interest at LIBOR/EURIBOR (depending on drawing currency) +5.5%.

Commitment fees are due at 50% of the margin on Tranches A and B. There are no commitment fees on Tranche C.

Facility available for issuing guarantees (e.g. performance bonds, rent deposits)

Tranche D: US\$ 5 million repayable in full on 28 February 2007. No commitment fees are due on this facility. Instead, industry standard guarantee setup fees are applied to any usage of this facility.

The security given to the lender for the above facilities is a pledge over the intellectual property rights in the software owned by the Group, including the benefit of present and future royalties arising from these property rights. Under the arrangements entered into, the Group is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants, which are based on conservative projections of the Group's results.

4. Share capital

As at 30 June 2004, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 54,891,675 common shares of a nominal value of CHF 5 each.

	number	Nominal value value in CHF	(in thousands) in US\$
Issued, as at 31 December 2003	54 472 469	272 362	155 560
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA	51 723	259	202
Shares issued on exercise of employee share options	301 070	1 505	1 183
Treasury shares issued	66 413	332	256
Issued, as at 30 June 2004	<u>54 891 675</u>	<u>274 458</u>	<u>157 201</u>

As at 30 June 2004 the number of treasury shares held by the Group amounted to 66,413. Treasury shares are allotted to holders of options or members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options.

TEMENOS Group AG also has authorised and conditional capital, comprising:

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2006)	26 951 327
conditional shares that may be issued on the exercise of employee share options	12 767 954
conditional shares that may be issued in conjunction with financial instruments	13 930 680

5. Employee share options scheme

In 1997, a share option scheme was introduced under which the Board of Directors of TEMENOS Holdings NV was empowered to grant share options to employees of the company (and/or its subsidiary companies) in relation to a maximum of 10,000,000 common shares. Following the corporate restructuring of the Group during the year ended 31 December 2001, this authorisation was retained by TEMENOS Holdings NV under an arrangement whereby the share options granted are converted into TEMENOS Group AG shares on exercise. TEMENOS Group AG has been empowered to issue a corresponding number of its own shares for this purpose.

The cumulative options granted under this plan as at 30 June 2004, net of cancellations, were 9,750,858 (as at 31 December 2003: 8,313,344) with option prices ranging from US\$ 0.005 to US\$ 15.00 per share. The vesting period ranges from 1 to 5 years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 30 June 2004 amounted to 2,832,046 (as at 31 December 2003: 2,522,700). The cost of the scheme is charged to operations over the vesting period of the option. US\$ 106 thousand was charged to operations in respect of the period under review.

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

	number
Options outstanding as at 31 December 2003	5 790 645
Options granted during the period	1 500 000
Options cancelled during the period	(62 498)
Options exercised during the period	<u>(309 346)</u>
Options outstanding as at 30 June 2004	<u>6 918 801</u>

The options on shares granted in the period to 30 June 2004 have a vesting period of 1 or 2 years and an exercise price of CHF 8.6.

6. Segmental analysis

The Group is organised into two main business segments and these are the primary basis of segment reporting: Software licensing – comprising of licensing, development and maintenance of the Group’s software. Services – comprising of consultancy services related to implementation of the Group’s software.

Six months ended 30 June 2004	Software licensing	Services	Total
Segment revenues	<u>50 966</u>	<u>26 001</u>	<u>76 967</u>
Segment operating result	33 266	2 542	35 808
Unallocated operating costs			<u>(27 666)</u>
Operating profit			<u>8 142</u>

Six months ended 30 June 2003	Software licensing	Services	Total
Segment revenues	<u>42 923</u>	<u>26 527</u>	<u>69 450</u>
Segment operating result	23 809	2 931	26 740
Unallocated operating costs			<u>(23 661)</u>
Operating profit			<u>3 079</u>

7. Employees by location

	30 June 2004	30 June 2003
Europe	501	475
Asia	557	552
Americas	62	43
Middle East, Gulf and Africa	<u>100</u>	<u>38</u>
	<u>1 220</u>	<u>1 108</u>

8. 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, excluding Treasury shares.

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

9. Related party transactions

Since December 2003, TEMENOS Headquarters SA has leased an office building that is owned by one of the directors and major shareholders of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 540 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

Since December 1999, TEMENOS Suisse SA has leased an office building that is owned by a company which is managed and controlled by two of the major shareholders and directors of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 360 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

There were no other large or significant transactions with related parties during the period to 30 June 2004 and all transactions with related parties were carried out at arm’s length rates. There were no amounts due to or from related parties at 30 June 2004.