

# TEMENOS

Interim Report 2006



TEMENOS™



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# TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars  
unaudited

consolidated income statement  
for the period ended 30 June 2006

	Six months to 30 June 2006	Six months to 30 June 2005
<b>Revenues</b>		
Software licensing	40,258	21,279
Maintenance	25,727	22,678
Services	26,652	28,153
<i>Total revenues</i>	<u>92,637</u>	<u>72,110</u>
<b>Operating costs and expenses</b>		
Cost of sales	5,952	2,130
Services	31,004	28,256
Software development and maintenance	16,693	12,272
Sales and marketing	17,631	13,672
General and administrative	15,383	13,210
<i>Total operating costs and expenses</i>	<u>86,663</u>	<u>69,540</u>
<b>Operating profit</b>	<u>5,974</u>	<u>2,570</u>
<b>Other income (expenses)</b>		
Interest expense	(1,605)	(404)
Interest income	1,563	145
Gains from financial instruments	3,957	-
Financial instrument related expenses	(157)	(93)
Foreign exchange gains (losses) - net	919	(537)
<i>Total other income (expenses)</i>	<u>4,677</u>	<u>(889)</u>
<b>Profit before taxation</b>	<b>10,651</b>	<b>1,681</b>
Taxation	<u>(1,393)</u>	<u>(269)</u>
<b>Net profit for the period</b>	<u><b>9,258</b></u>	<u><b>1,412</b></u>
Attributable to:		
Equity holders of the parent	9,389	1,620
Minority interest	(131)	(208)
<b>Earnings per share for profit attributable to the equity holders of the Group (in US\$):</b>		
<i>basic</i>	<b>0.16</b>	<b>0.03</b>
<i>diluted</i>	<b>0.16</b>	<b>0.03</b>

# TEMENOS GROUP AG

The amounts are expressed in thousands of US dollars  
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consolidated balance sheet  
as at 30 June 2006

	30 June 2006	31 December 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	107,319	15,584
Trade and other receivables	117,049	107,730
Prepayments and other assets	8,283	4,492
<i>Total current assets</i>	<u>232,651</u>	<u>127,806</u>
<b>Non-current assets</b>		
Tangible fixed assets	11,129	9,402
Intangible assets	46,166	36,937
Trade and other receivables	6,907	3,565
Guarantees and restricted bank deposits	1,301	1,160
Deferred tax asset	2,552	2,500
<i>Total non-current assets</i>	<u>68,055</u>	<u>53,564</u>
<i>Total assets</i>	<u>300,706</u>	<u>181,370</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade and other payables	44,584	37,542
Deferred revenues	30,641	33,596
Income taxes payable	3,263	3,357
<i>Total current liabilities</i>	<u>78,488</u>	<u>74,495</u>
<b>Non-current liabilities</b>		
Long-term payables	107,872	5,568
Liabilities under finance leases	532	280
<i>Total liabilities</i>	<u>186,892</u>	<u>80,343</u>
<b>Shareholders' equity</b>		
Share capital	166,952	159,009
Treasury shares	(6,693)	(196)
Share premium and capital reserves	(57,286)	(63,973)
Fair value and other reserves	(5,553)	(963)
Retained earnings	16,142	6,753
	<u>113,562</u>	<u>100,630</u>
Minority interest	252	397
<i>Total equity</i>	<u>113,814</u>	<u>101,027</u>
<i>Total liabilities and equity</i>	<u>300,706</u>	<u>181,370</u>

# TEMENOS GROUP AG

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## consolidated cash flow statement for the period ended 30 June 2006

	Six months to 30 June 2006	Six months to 30 June 2005
<b>Cash flows from operating activities</b>		
Profit before taxation	10,651	1,681
Adjustments:		
Depreciation and amortisation	4,723	6,740
(Gains) losses on disposal of assets	(75)	57
Cost of employee share option scheme	2,500	1,608
Financial instrument related expenses	157	93
Interest expense - net	42	260
Gain from financial instruments	(3,957)	-
<i>Changes in net working capital</i>		
Trade and other receivables and prepayments	(14,548)	(4,582)
Trade and other payables	7,575	(2,060)
Deferred revenues	(3,078)	(8,302)
<i>Cash generated from (used in) operations</i>	3,990	(4,505)
Income taxes paid	(781)	(384)
<i>Net cash generated from (used in) operating activities</i>	3,209	(4,889)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(2,372)	(1,514)
Disposal of property, plant and equipment	89	29
Purchase of intangible assets	(567)	(1,328)
Capitalised development costs	(6,810)	(3,764)
Disposal of available-for-sale investment	300	900
Acquisitions	(246)	(1,250)
Interest received	1,378	145
<i>Net cash used in investing activities</i>	(8,228)	(6,782)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares, net of related expenses	3,422	35
Proceeds from issuance of convertible bond, net of related expenses	99,968	-
Acquisition of treasury shares	(6,816)	(485)
Interest payments	(113)	(173)
Payment of financial instrument related expenses	(142)	(461)
Payment of finance lease liabilities	(176)	(60)
<i>Net cash generated from (used in) financing activities</i>	96,143	(1,144)
Effect of exchange rate changes	611	(661)
<b>Increase (decrease) in cash and cash equivalents in the period</b>	91,735	(13,476)
<b>Cash and cash equivalents at the beginning of the period</b>	15,584	30,788
<b>Cash and cash equivalents at the end of the period</b>	107,319	17,312

# TEMENOS GROUP AG

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consolidated statement of changes  
in shareholders' equity  
for the period ended 30 June 2006

	Share capital	Treasury shares	Share premium and capital reserves	Fair value and other reserves	Retained earnings	Minority interest	Total
<b>Balance at 31 December 2004</b>	<b>157,454</b>	<b>(124)</b>	<b>(67,357)</b>	<b>4,991</b>	<b>(11,504)</b>	<b>723</b>	<b>84,183</b>
Cumulative translation adjustment	-	-	-	(2,219)	-	24	(2,195)
Cash flow hedges, net of tax	-	-	-	(4,022)	-	-	(4,022)
Net income (expense) recognised directly in equity	-	-	-	(6,241)	-	24	(6,217)
Profit for the period	-	-	-	-	1,620	(208)	1,412
Total recognised income	-	-	-	(6,241)	1,620	(184)	(4,805)
Cost of employee share option scheme	-	-	1,608	-	-	-	1,608
Exercise of share options	424	-	(393)	-	-	-	31
Share issuance costs	-	-	(24)	-	-	-	(24)
Acquisition of treasury shares	-	(485)	-	-	-	-	(485)
	424	(485)	1,191	(6,241)	1,620	(184)	(3,675)
<b>Balance at 30 June 2005</b>	<b>157,878</b>	<b>(609)</b>	<b>(66,166)</b>	<b>(1,250)</b>	<b>(9,884)</b>	<b>539</b>	<b>80,508</b>
Cumulative translation adjustment	-	-	-	(183)	-	(1)	(184)
Cash flow hedges, net of tax	-	-	-	470	-	-	470
Net income (expense) recognised directly in equity	-	-	-	287	-	(1)	286
Profit for the period	-	-	-	-	16,637	(141)	16,496
Total recognised income	-	-	-	287	16,637	(142)	16,782
Cost of employee share option scheme	-	-	2,235	-	-	-	2,235
Exercise of share options	1,131	-	(28)	-	-	-	1,103
Shares issued in relation to acquisitions	-	16	(14)	-	-	-	2
Share issuance costs	-	-	-	-	-	-	-
Acquisition of treasury shares	-	397	-	-	-	-	397
	1,131	413	2,193	287	16,637	(142)	20,519
<b>Balance at 31 December 2005</b>	<b>159,009</b>	<b>(196)</b>	<b>(63,973)</b>	<b>(963)</b>	<b>6,753</b>	<b>397</b>	<b>101,027</b>
Cumulative translation adjustment	-	-	-	(6,113)	-	(14)	(6,127)
Cash flow hedges, net of tax	-	-	-	1,523	-	-	1,523
Net income (expense) recognised directly in equity	-	-	-	(4,590)	-	(14)	(4,604)
Profit for the period	-	-	-	-	9,389	(131)	9,258
Total recognised income	-	-	-	(4,590)	9,389	(145)	4,654
Cost of employee share option scheme	-	-	2,500	-	-	-	2,500
Exercise of share options	6,214	319	(2,913)	-	-	-	3,620
Shares issued in relation to acquisitions	1,729	-	3,060	-	-	-	4,789
Share issuance costs	-	-	(148)	-	-	-	(148)
Convertible bond - equity component	-	-	4,188	-	-	-	4,188
Acquisition of treasury shares	-	(6,816)	-	-	-	-	(6,816)
	7,943	(6,497)	6,687	(4,590)	9,389	(145)	12,787
<b>Balance at 30 June 2006</b>	<b>166,952</b>	<b>(6,693)</b>	<b>(57,286)</b>	<b>(5,553)</b>	<b>16,142</b>	<b>252</b>	<b>113,814</b>

**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 2005.

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

**2. Convertible bond**

On 21 March 2006 the Group issued a convertible bond with a nominal value of CHF 132.25 million and a coupon rate of 1.50%. The bonds mature seven years from the issue date at a redemption value of CHF 152.83 million or can be converted into shares at the holder's option at a conversion price of CHF 18.06 per share.

The fair values of the liability component and the equity conversion component were determined at the issuance of the bond.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent loan. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

The convertible bond recognised in the balance sheet is calculated as follows:

	2006
Nominal value of convertible bond issued on 21 March 2006, net of transaction costs	98,876
Equity component	<u>(4,188)</u>
Liability component on initial recognition at 21 March 2006	94,688
Foreign exchange movement	6,214
Interest expense	<u>1,284</u>
Liability component at 30 June 2006	<u>102,186</u>

Interest expense on the bond is calculated using the effective interest method by applying the effective interest rate of 4.56% to the liability component.

**3. Business combinations**

On 13 January 2006 the Group acquired the business and assets of TLC Consulting Limited, a company specialising in risk management solutions. The initial consideration of £2.624 million is satisfied by the issue of shares in Temenos Group AG. Any further payments will be dependent and based on the future performance of the business during the course of the next two years. The acquired business did not have a significant impact on the revenues or profits of the group for the period.

As part of the assets of TLC Consulting Limited, TEMENOS acquired the rights to the Barracuda intellectual property.

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notes to the consolidated  
interim financial statements  
30 June 2006

Details of net assets acquired and goodwill are as follows:

Purchase consideration	
- Cash paid	175
- Fair value of shares issued (note 4)	4,788
- Direct costs relating to the acquisition	<u>51</u>
Total purchase consideration	5,014
Fair value of net assets acquired	<u>(1,200)</u>
Goodwill	<u>3,814</u>

The goodwill is attributable to the significant opportunities that exist within the risk management segment.

The fair value of the shares issued was based on the published share price. Deferred consideration, dependent upon future sales of the risk management software acquired, has not been accounted for. To the extent that additional payments are made in the future these will be treated as an increase in goodwill.

The assets and liabilities arising from the transaction are as follows:

Intangible assets acquired	<u>1,200</u>
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## 4. Share capital

As at 30 June 2006, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 56,722,030 common shares of a nominal value of CHF 5 each.

	Nominal value (in thousands)		
	number	in CHF	in US\$
Issued, as at 31 December 2005	55,350,192	276,751	159,009
Shares issued for acquisitions	441,084	2,205	1,729
Shares issued on exercise of employee share options	<u>1,597,272</u>	<u>7,986</u>	<u>6,214</u>
Issued, as at 30 June 2006	<u>57,388,548</u>	<u>286,942</u>	<u>166,952</u>

As at 30 June 2006 the number of treasury shares held by the Group amounted to 666,518. Treasury shares include shares held for resale and other shares allotted to members of the TEMENOS Employee Share Option Scheme or other option holders 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 23 May 2008)	26,510,243
conditional shares that may be issued on the exercise of employee share options	10,712,165
conditional shares that may be issued in conjunction with financial instruments (out of which 9,000,000 are listed for the Convertible bond)	13,930,680

### 5. Employee share options scheme

The Group operates a share options scheme and share appreciation rights scheme for certain of its employees.

The cumulative options granted under this plan as at 30 June 2006, net of cancellations, were 15,588,657 (as at 31 December 2005: 14,918,915) with option prices ranging from US\$ 0.005 to US\$ 15.00 per share. The vesting period ranges from zero to five years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 30 June 2006 amounted to 5,038,347 (as at 31 December 2005: 3,290,563).

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 2005	11,628,353
Options granted during the period	743,582
Options cancelled during the period	(73,840)
Options exercised during the period	<u>(1,747,784)</u>
Options outstanding as at 30 June 2006	<u>10,550,311</u>

The options on shares granted in the period to 30 June 2006 have a vesting period of 0 to 5 years and a weighted average exercise price of USD 8.41.

### 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

<b>Six months ended 30 June 2006</b>	Software		
	licensing	Services	Total
Segment revenues	<u>65,985</u>	<u>26,652</u>	<u>92,637</u>
Segment operating result	43,340	(4,352)	38,988
Unallocated operating costs			<u>(33,014)</u>
Operating profit			<u>5,974</u>
<b>Six months ended 30 June 2005</b>	Software		
	licensing	Services	Total
Segment revenues	<u>43,957</u>	<u>28,153</u>	<u>72,110</u>
Segment operating result	29,555	(103)	29,452
Unallocated operating costs			<u>(26,882)</u>
Operating profit			<u>2,570</u>

### 7. Earnings per share

The basic earnings per share are calculated by dividing the net income attributable to the equity holders of 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. The Group has two categories of dilutive potential ordinary shares: convertible debt and share options. Conversion of the convertible debt would be anti-dilutive and has therefore been excluded from these calculations.





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