

# TEMENOS

Interim Report 2007



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 2007

	Six months to 30 June 2007	Six months to 30 June 2006
<b>Revenues</b>		
Software licensing	52'504	40'258
Maintenance	35'309	25'727
Services	45'942	26'652
<i>Total revenues</i>	<u>133'755</u>	<u>92'637</u>
<b>Operating costs and expenses</b>		
Services	45'129	31'004
Software development and maintenance	25'081	16'693
Sales and marketing	29'938	23'583
General and administrative	21'065	15'383
<i>Total operating costs and expenses</i>	<u>121'213</u>	<u>86'663</u>
<b>Operating profit</b>	<u>12'542</u>	<u>5'974</u>
<b>Other income (expenses)</b>		
Interest expense - net	(1'073)	(42)
Financial instrument related expenses	(244)	(157)
(Loss)/gain from financial instruments	(370)	3'957
Foreign exchange (losses) /gains - net	(327)	919
<i>Total other (expenses) income</i>	<u>(2'014)</u>	<u>4'677</u>
<b>Profit before taxation</b>	<u>10'528</u>	10'651
Taxation (note 11)	-	(1'393)
<b>Net income for the period</b>	<u>10'528</u>	<u>9'258</u>
Attributable to:		
Equity holders of the parent	10'570	9'389
Minority interest	(42)	(131)
<i>Earnings per share for profit attributable to the equity holders of the Group (in US\$): (note7)</i>		
<i>basic</i>	<b>0.18</b>	0.16
<i>diluted</i>	<b>0.17</b>	0.16

**TEMENOS GROUP AG**

The amounts are expressed in thousands of US dollars

## consolidated balance sheet

as at 30 June 2007

	30 June 2007	31 December 2006
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	68'520	111'368
Trade and other receivables	149'055	138'740
Prepayments and other assets	10'005	12'606
<i>Total current assets</i>	<u>227'580</u>	<u>262'714</u>
<i>Non-current assets</i>		
Property, plant and equipment	12'562	10'873
Intangible assets (note 8)	86'496	53'722
Trade and other receivables	20'945	19'323
Deferred tax asset	16'020	5'534
<i>Total non-current assets</i>	<u>136'023</u>	<u>89'452</u>
<i>Total assets</i>	<u><u>363'603</u></u>	<u><u>352'166</u></u>
<b>Liabilities and shareholders' equity</b>		
<i>Current liabilities</i>		
Trade and other payables	64'240	55'503
Deferred revenues	45'770	44'973
Income taxes payable	13'422	5'727
Borrowings (note 10)	404	1'220
<i>Total current liabilities</i>	<u>123'836</u>	<u>107'423</u>
<i>Non-current liabilities</i>		
Borrowings (note 10)	104'393	103'674
Deferred tax liabilities	4'074	1'258
Other long-term payables	4'092	3'668
<i>Total liabilities</i>	<u>236'395</u>	<u>216'023</u>
<i>Shareholders' equity</i>		
Share capital (note 4)	170'867	168'828
Treasury shares (note 4)	(1'217)	(2'974)
Share premium and capital reserves	(92'735)	(66'521)
Fair value and other reserves	(1'764)	(4'719)
Retained earnings	51'768	41'198
	<u>126'919</u>	<u>135'812</u>
Minority interest	289	331
<i>Total equity</i>	<u>127'208</u>	<u>136'143</u>
<i>Total liabilities and equity</i>	<u><u>363'603</u></u>	<u><u>352'166</u></u>

**TEMENOS GROUP AG**

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consolidated statement of cash flows  
 for the period ended 30 June 2007

	Six months to 30 June 2007	Six months to 30 June 2006
<b>Cash generated from operations</b>	<b>20'493</b>	3'990
Income taxes paid	(1'430)	(781)
<i>Net cash generated from operating activities</i>	<u>19'063</u>	<u>3'209</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment, net of sales	(2'359)	(2'283)
Purchase of intangible assets, net of sales	(2'441)	(567)
Capitalised development costs (note 8)	(6'790)	(6'810)
Acquisitions of subsidiaries, net of cash acquired (note 3)	(20'029)	(246)
Disposal of available-for-sale investment	-	300
Settlement of financial instruments	1'662	-
Interest received	1'437	1'378
<i>Net cash used in investing activities</i>	<u>(28'520)</u>	<u>(8'228)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares, net of related expenses	209	3'422
Proceeds from issuance of convertible bond, net of related expenses	-	99'968
Acquisition of treasury shares	(32'001)	(6'816)
Interest payments	(1'766)	(113)
Cash outflows from other financing activities	(248)	(318)
<i>Net cash (used in) generated from financing activities</i>	<u>(33'806)</u>	<u>96'143</u>
Effect of exchange rate changes	415	611
<b>(Decrease) increase in cash and cash equivalents in the period</b>	<b>(42'848)</b>	91'735
<b>Cash and cash equivalents at the beginning of the period</b>	<u>111'368</u>	<u>15'584</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><u>68'520</u></u>	<u><u>107'319</u></u>

**TEMENOS GROUP AG**

The amounts are expressed in thousands of US dollars  
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consolidated statement of changes in shareholders' equity  
for the period ended 30 June 2007

	Share capital	Treasury shares	Share premium	Fair value and other reserves	Retained earnings	Minority interest	Total
<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>
Cumulative translation adjustment	-	-	-	(2)	-	12	10
Cash flow hedges, net of tax	-	-	-	836	-	-	836
Net income (expense) recognised directly in equity	-	-	-	834	-	12	846
Profit for the period	-	-	-	-	25'056	67	25'123
Total recognised income	-	-	-	834	25'056	79	25'969
Cost of employee share option scheme	-	-	2'632	-	-	-	2'632
Exercise of share options	1'876	10'537	(11'842)	-	-	-	571
Shares issued in relation to acquisitions	-	16	(16)	-	-	-	-
Share issuance costs	-	-	(10)	-	-	-	(10)
Convertible bond - equity component	-	-	1	-	-	-	1
Acquisition of treasury shares	-	(6'834)	-	-	-	-	(6'834)
	1'876	3'719	(9'235)	834	25'056	79	22'329
<b>Balance at 31 December 2006</b>	<b>168'828</b>	<b>(2'974)</b>	<b>(66'521)</b>	<b>(4'719)</b>	<b>41'198</b>	<b>331</b>	<b>136'143</b>
Cumulative translation adjustment	-	-	-	3'375	-	-	3'375
Cash flow hedges, net of tax	-	-	-	(420)	-	-	(420)
Net income (expense) recognised directly in equity	-	-	-	2'955	-	-	2'955
Profit for the period	-	-	-	-	10'570	(42)	10'528
Total recognised income	-	-	-	2'955	10'570	(42)	13'483
Cost of share option	-	-	9'565	-	-	-	9'565
Exercise of share options	2'039	33'758	(35'672)	-	-	-	125
Share issuance costs	-	-	(107)	-	-	-	(107)
Acquisition of treasury shares	-	(32'001)	-	-	-	-	(32'001)
	2'039	1'757	(26'214)	2'955	10'570	(42)	(8'935)
<b>Balance at 30 June 2007</b>	<b>170'867</b>	<b>(1'217)</b>	<b>(92'735)</b>	<b>(1'764)</b>	<b>51'768</b>	<b>289</b>	<b>127'208</b>

**1 Basis of preparation**

This condensed interim financial information for the half year ended 30 June 2007 has been prepared in accordance with IAS 34 (Interim financial reporting). The consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

**2 Accounting policies**

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 2006.

**3 Business combinations**

On 12 March 2007 the Group acquired 100% of the business and assets of ACTIS.BSP Germany GmbH, a leading Germany-based provider of corebanking and securities solutions for a total net cash outflow of EUR 15.16 million (USD\$ 19.726 million).

As part of the assets of ACTIS.BSP Germany GmbH, TEMENOS acquired the intellectual property rights to the products of ACTIS.BSP Germany GmbH: Paba Q, BSP trade and Pro-DB.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	US\$
-Cash paid	24'294
-Cash and cash equivalent in subsidiary acquired	(4'972)
- Direct costs relating to the acquisition	404
Net cash outflow arising on acquisition	19'726
- Deferred direct costs relating to the acquisition	157
-Cash and cash equivalent in subsidiary acquired	4'972
- Liability assumed	10'958
Total purchase consideration	35'813
Fair value of net assets acquired	14'751
Goodwill	21'062

The goodwill is attributable to the significant opportunities that exist within the German market

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

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
Net assets acquired:	US\$	US\$	US\$
Property, plant and equipment	386	-	386
Fair value of the acquired software	-	3'652	3'652
Fair value of the outsourcing business	-	2'346	2'346
Deferred tax asset	-	9'750	9'750
Trade receivables	4'510	-	4'510
Prepayments	808	-	808
Accrued revenues	518	-	518
Cash and cash equivalents	4'972	-	4'972
Trade and other payables	-5'326	-	-5'326
Deferred income	-6'006	-	-6'006
Tax payable and contingent tax liability	190	-9'247	-9'057
Deferred tax liability	0	-2'760	-2'760
FMS (previous shareholder) loan	10'958	-	10'958
Net assets acquired	11'010	3'741	14'751
Goodwill arising on acquisition			21'062
Total consideration			35'813

The result contributed by the acquiree in the period between the date of acquisition and the balance sheet date is not significant.

If the acquisition had been completed on 1 January 2007, the contribution by the acquiree to the consolidated revenue and consolidated profit would not have been significant.

**4 Share capital**

As at 30 June 2007, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 58,341,421 common shares of a nominal value of CHF 5 each.

	Nominal value (in thousands)	
	number in CHF	in US\$
Issued, as at 31 December 2006	57'841'421	168'828
Shares issued on exercise of employee share options	500'000	2'039
Issued, as at 30 June 2007	<u>58'341'421</u>	<u>170'867</u>

As at 30 June 2007 the number of treasury shares held by the Group amounted to 50,993. 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	9'759'292
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 Issue of share options**

In connection with a joint development and distribution contract signed in February 2007 the Group has granted 2.5 million options to Metavante Corporation with an exercise price of CHF 19.90. These options will become exercisable from 31 December 2012 subject to achievement of revenue targets.

The options are accounted for under IFRS 2 and the cost of the options expected to vest will be recorded over the period from 2007 to 2012.

**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 2007	Software	Services	Total
	licensing		
Segment revenues	<u>87'812</u>	<u>45'943</u>	<u>133'755</u>
Segment operating result	56'608	814	57'422
Unallocated operating costs			<u>(44'880)</u>
Operating profit			<u><u>12'542</u></u>
Six months ended 30 June 2006	Software	Services	Total
	licensing		
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><u>5'974</u></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 the calculations as reported in the profit and loss statement



**8 Intangible assets****Six months ended 30 June 2006**

<b>Opening net book amount at 1 January 2006</b>	36'937
Additions	630
Acquisition of subsidiary	5'014
Capitalised development costs	6'810
Depreciation, impairment and other movements	(3'225)
<b>Closing net book amount 30 June 2006</b>	<u>46'166</u>

**Six months ended 30 June 2007**

<b>Opening net book amount at 1 January 2007</b>	53'722
Additions	3'313
Acquisition of subsidiary (note 3)	27'060
Disposal	(25)
Capitalised development costs	6'790
Depreciation, impairment and other movements	(4'364)
<b>Closing net book amount 30 June 2007</b>	<u>86'496</u>

**10 Borrowings**

	<b>2007</b>	<b>2006</b>
Non-current	104'393	102'186
Current	404	-
	<u>104'797</u>	<u>102'186</u>

Movements in borrowings is analysed as follows:

**Six months ended 30 June 2007**

Opening balance as at 1 January 2007	104'894
Interest expenses	2'311
Interest paid	(1'641)
Foreign exchange movement	(767)
	<u>104'797</u>

**Six months ended 30 June 2006**

Opening balance as at 1 January 2006	-
Convertible bonds liability component	94'688
Interest expenses	1'284
Foreign exchange movement	6'214
	<u>102'186</u>

**11 Income taxes**

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



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