



**TEMENOS**  
the banking software company

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# DIGITAL TO THE CORE

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o Temenos AG  
Interim Report 2018

# WELCOME TO TEMENOS

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### OUR VISION

To provide financial institutions, of any size, anywhere in the world, the software to thrive in the digital banking age

We do this by building, delivering and supporting the world's best packaged, upgradeable and open banking software

41

of the top 50 banks in the world run Temenos

500m

end customers rely on Temenos software

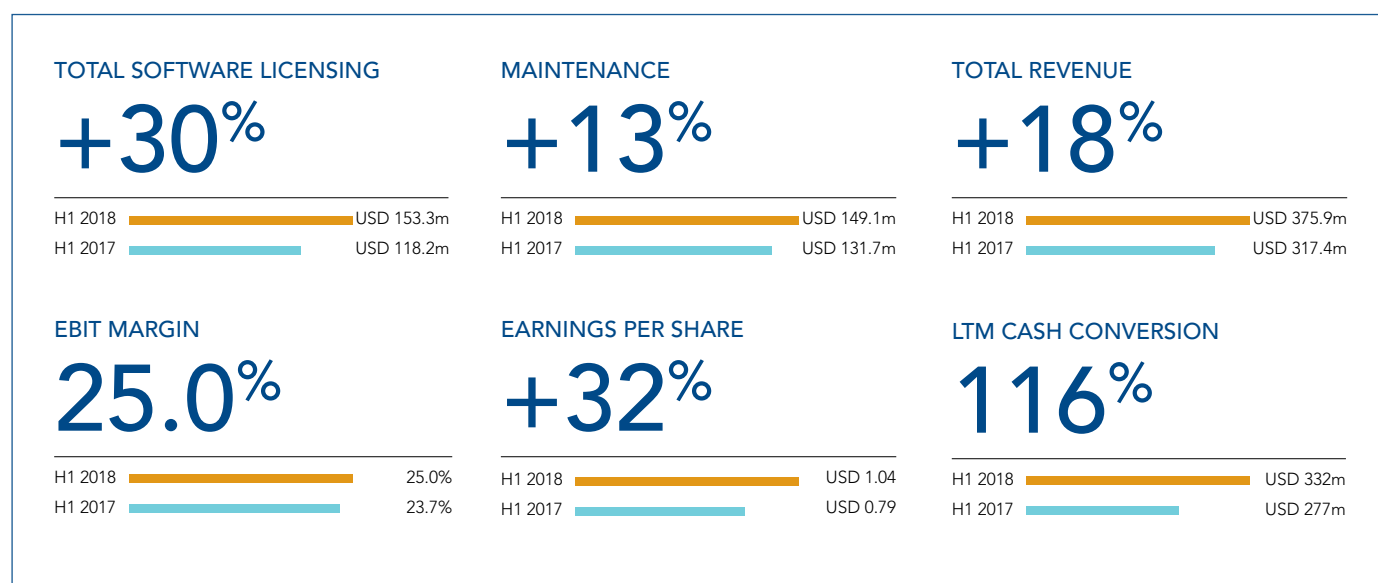
150+

countries with Temenos clients

3,000+

financial institutions use Temenos software

## HIGHLIGHTS OF H1 2018



### H1 2018 non-IFRS (IAS 18) financial highlights

- > Total software licensing growth of 30%.
- > Maintenance growth of 13%.
- > Total Group revenue growth of 18%.
- > EBIT margin of 25.0%, up 1.3 percentage points.
- > EPS of USD 1.04, up 32%.
- > Cash flow of USD 113 million, up 40%.
- > LTM cash conversion of 116%, with DSOs down to 114 days.
- > Dividend of CHF 0.65 per share, totalling USD 46 million, paid to shareholders.

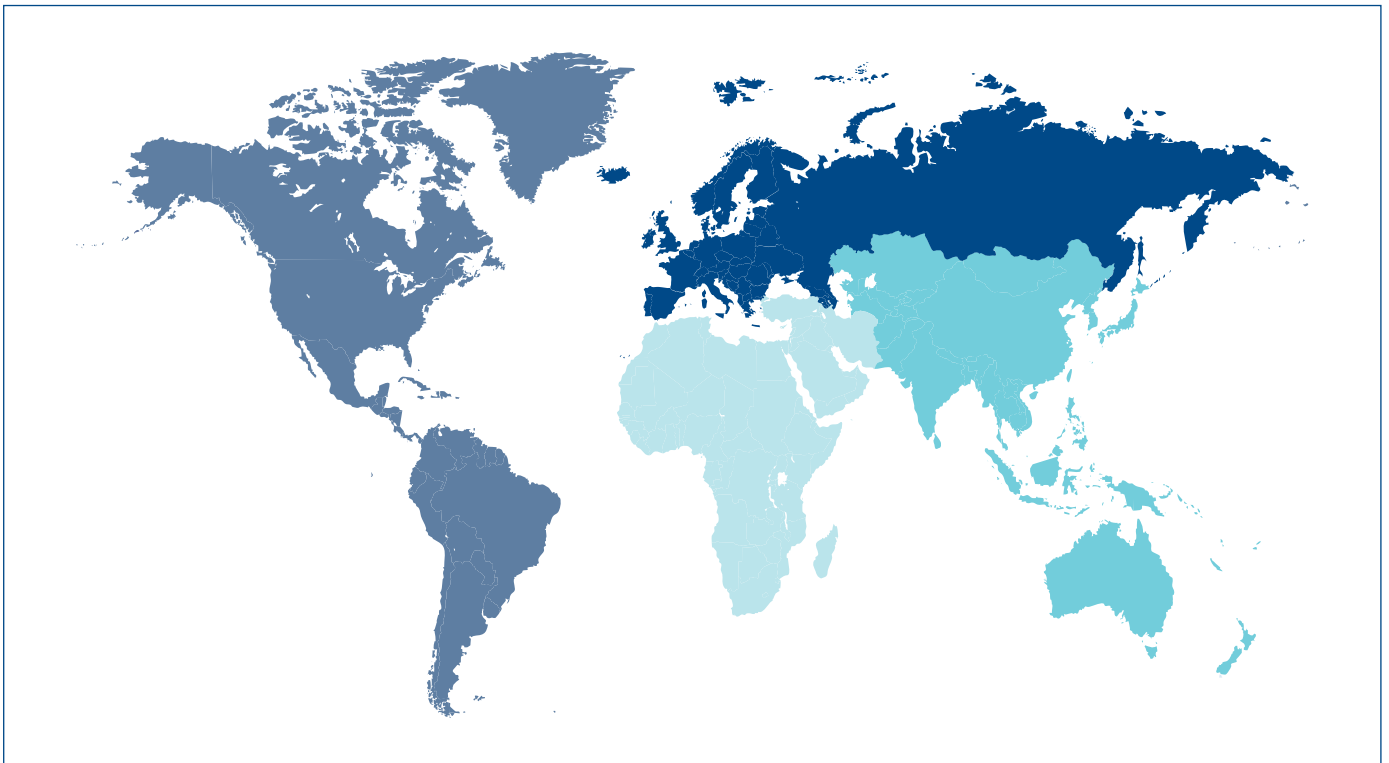
### H1 2018 operational highlights

- > Strong performance across all KPIs in H1 2018, driven by high levels of client activity and excellent sales execution.
- > Digital, regulatory and competitive pressures on banks continue to intensify, with open banking and payments a key focus.
- > Temenos' leadership position reconfirmed – pulling ahead in a winner-takes-all market.
- > Significant increase in cloud and SaaS signings, with strong growth expected in 2019.

- > 49 implementation go-lives in the first half of 2018.
- > Strong start to Q3, committed spend from tier 1 and 2 banks giving confidence in 2018 guidance, with structural drivers and strong pipeline provide confidence for medium term.

# TECHNOLOGY DRIVING INNOVATION

## OUR MARKET OPPORTUNITY



H1 2018 TOTAL REVENUE



● Europe	49%
● Asia Pacific	17%
● Americas	17%
● Middle East and Africa	17%

H1 2018 TOTAL SOFTWARE LICENSING REVENUE



● Europe	50%
● Asia Pacific	17%
● Americas	17%
● Middle East and Africa	16%

## GLOBAL REACH



Europe

**23**

offices in the region



Asia Pacific

**17**

offices in the region



Americas

**15**

offices in the region



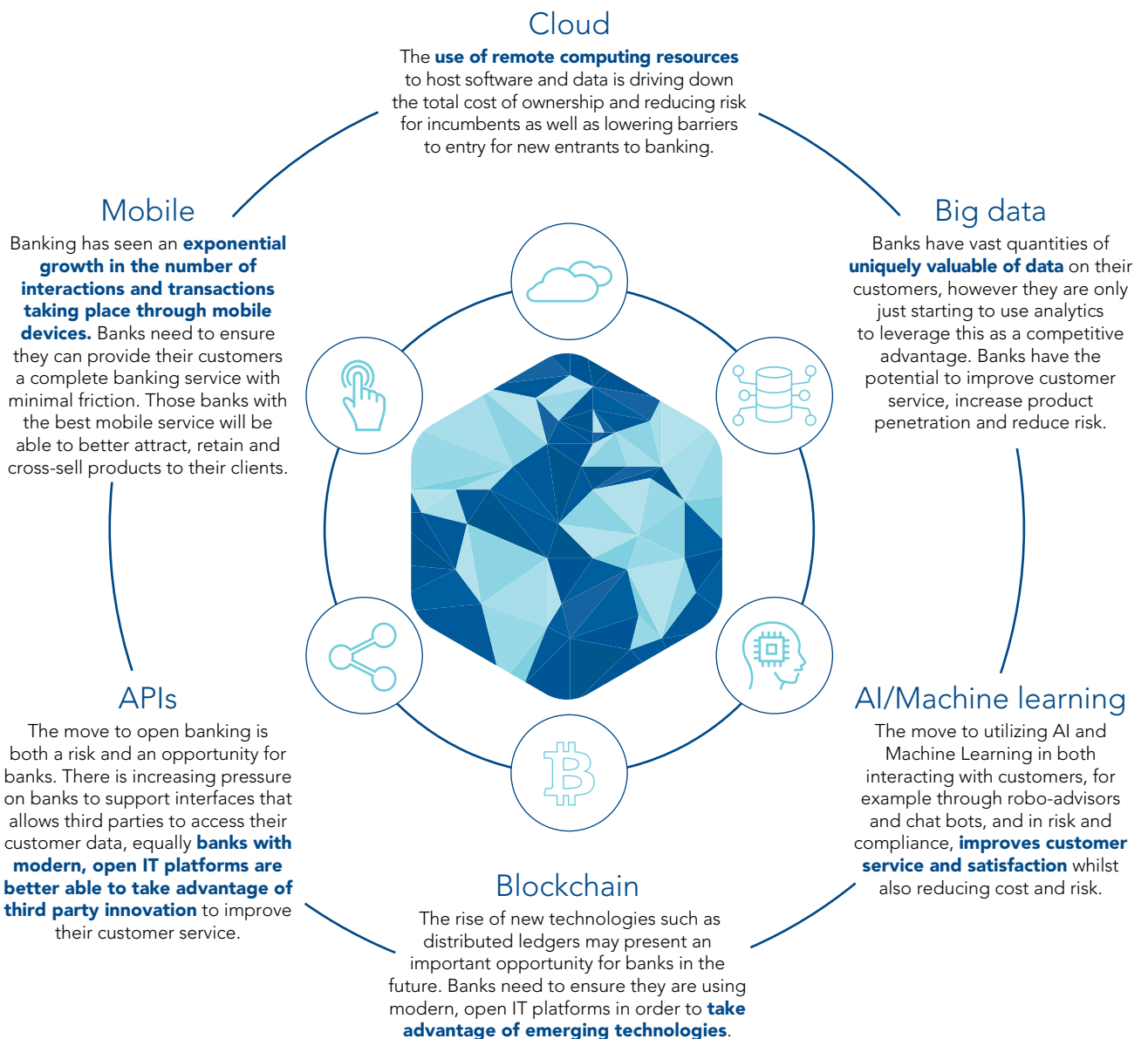
Middle East and Africa

**8**

offices in the region

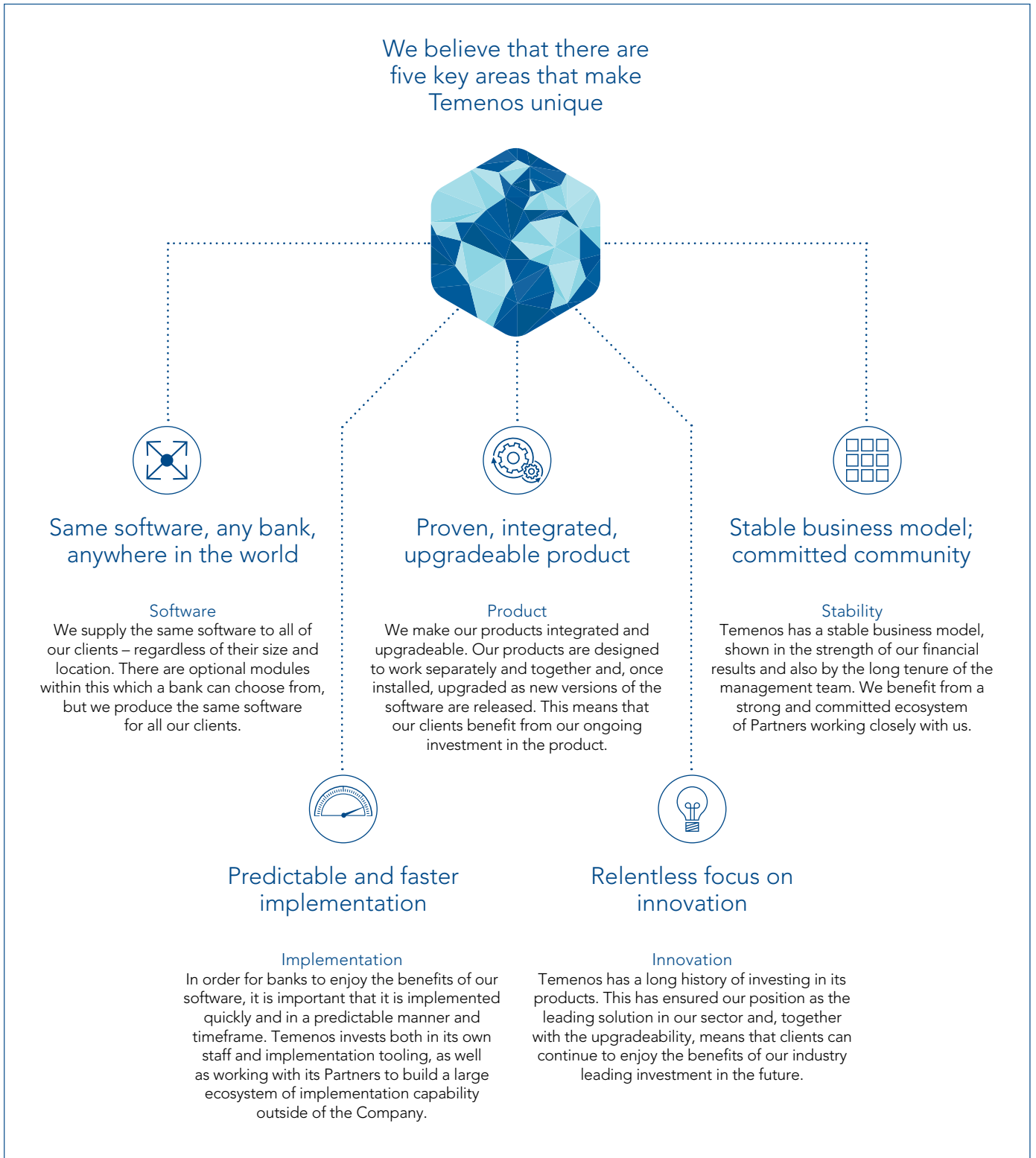
## KEY TECHNOLOGY TRENDS

A number of technology trends are driving change across the banking landscape and influencing the approach banks take to their IT renovation



# WHAT MAKES TEMENOS UNIQUE

## OUR INVESTMENT CASE



# A MARKET LEADER

## INDUSTRY RECOGNITION

# Leader

Recognized as a Leader in global banking platforms<sup>2</sup>

### Gartner<sup>1</sup>

- > Recognized as a Leader for 9<sup>th</sup> consecutive time in 'Magic Quadrant for Global Retail Core Banking.'

### Forrester<sup>2</sup>

- > Leader in Forrester Wave for Global Digital Banking platforms, 2018.
- > Leader in Forrester Wave for Digital Banking Engagement platforms, 2017.
- > Classed "Global Power Seller" for new business for 12<sup>th</sup> consecutive year and "Top Global Player" for new and existing business deals for 6<sup>th</sup> consecutive year.

### Ovum<sup>3</sup>

- > "Market Leader" in core banking and "Market Leader" in digital banking platforms.
- > "Market Challenger" in Anti-Financial Crime solutions.

# 6yrs

Ranked best selling core banking system<sup>4</sup>

# 12yrs

Classed "Global Power Seller" for new business<sup>2</sup>

### IBS Intelligence<sup>4</sup>

- > Best selling core banking system for the last 6 years and top two positions for the past 19 consecutive years.
- > Best selling digital banking and channels system.
- > Best selling risk and compliance system.

### Celent<sup>5</sup>

- > Awarded '2018 XCelent Awards' for client service and client base in wealth front office.
- > Awarded '2016 XCelent Award' for advanced technology in digital channels.
- > Awarded '2017 XCelent Award' for breadth of functionality in wealth core banking.

# 9

consecutive times

Recognized as a Leader nine consecutive times<sup>1</sup>

in Gartner Magic Quadrant for Global Retail Core Banking.

### International Data Corporation<sup>6</sup>

- > Recognized as a Leader in global core banking, European mobile banking and wealth management front and middle office.

### Banking Technology Awards<sup>7</sup>

- > T24 Core Banking awarded 'Editor's Choice Award.'
- > 'Readers' Choice Award' for "Best emerging/innovative technology product" for Temenos MarketPlace.

### FS Tech Awards<sup>8</sup>

- > "Technology Provider of the Year 2017."
- > "Payments Innovation of the Year 2018" for first cloud-based combined Payments Hub and Core Banking.

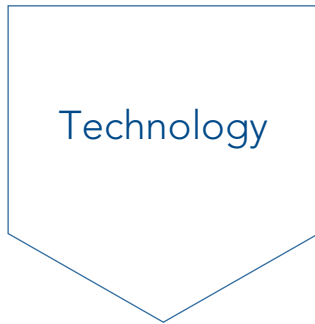
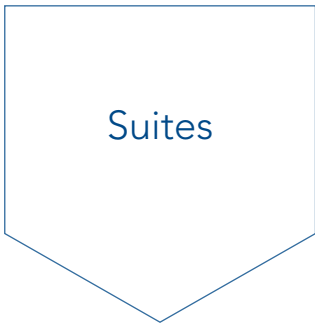
<sup>1</sup> The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Quarterly Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

# SOLUTIONS FOR THE DIGITAL AGE

## OUR SOLUTIONS

**OUR SOLUTIONS**

We offer our clients a set of complete front-to-back, integrated banking and finance software solutions which provides them with the full package for their specific needs.



Our set of complete front-to-back, integrated banking and finance software solutions.

Our product families span core banking through to channels, analytics and risk and compliance.

Our technology products and frameworks are organized into five offerings, reflecting five areas in which banks face major business challenges.

- RetailSuite
- WealthSuite
- CorporateSuite
- IslamicSuite
- InclusiveBankingSuite
- FundSuite

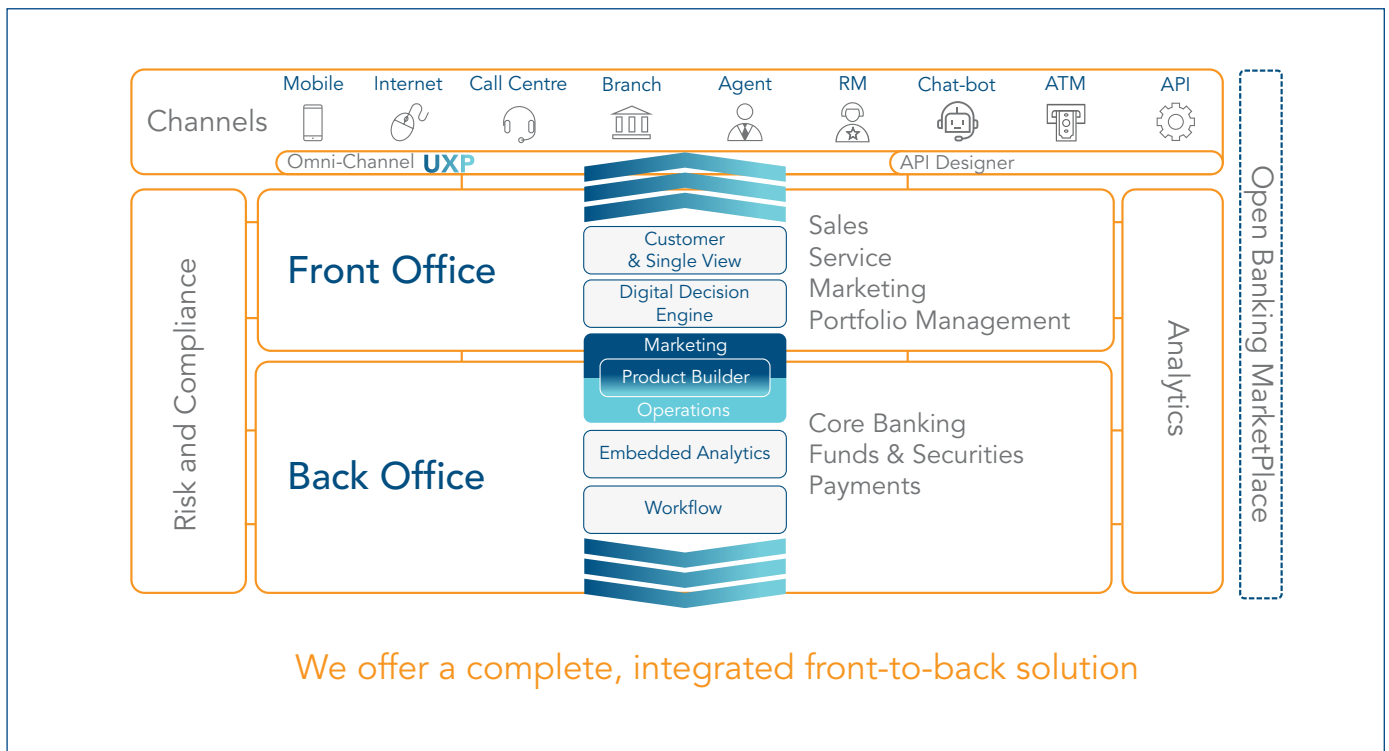
- Analytics
- Core Banking
- Channels
- Financial Crime Mitigation
- Front Office
- Funds and Securities
- Payments
- Risk and Compliance
- Solutions for the US market

- Data
- Design
- Integration
- Interaction
- Platform



## INNOVATIVE SOFTWARE

Temenos' software is the world's most comprehensive, integrated and fully upgradeable solution for banks embracing digitalization and open banking.



## OUR SOFTWARE

### A complete and integrated software platform for banks.

Temenos builds and supports the world's leading software platform for banking. Our software covers the full range of activities of banks and similar financial institutions from front-to-back and across all types of bank and banking activity. The same software is pre-packaged into a series of Suites adapted for the retail, wealth and corporate banking verticals. Suites are also available for the more specialist areas of banking including Islamic and microfinance. In this way our industry-leading levels of investment in our software benefit all our clients in all types of banks.

Our clients can take a complete solution based on our platform or alternatively implement specific modules to address specific issues or requirements. This approach lends itself well to larger banks who wish to conduct a lower risk, phased migration to our platform; an approach called progressive renovation.

We strive to ensure that all of our modules are market-leading in their own right and able to compete with 'best of breed' competitors. At the same time we invest in full integration of our modules so banks who choose to implement a full Temenos solution gain significant additional benefit.

We invest heavily in our software platform to ensure that it remains fully up to date regarding banking practice, regulation and technology. Our clients are able to benefit from this investment because of our disciplined packaged approach where all our software is fully upgradeable.

## OVERVIEW OF IFRS VS NON-IFRS

USDm, except EPS	Non-IFRS (under IAS 18 basis)			IFRS			
	H1 2018 (IAS 18)	H1 2017 (IAS 18)	Change	H1 2018 (IFRS 15)	H1 2018 (IAS 18)	H1 2017 (IAS 18)	Change (IAS 18)
Software licensing	117.8	89.4	32%	137.6	117.8	89.4	32%
SaaS and subscription	35.6	28.7	24%	15.6	35.5	28.0	27%
<b>Total software licensing</b>	<b>153.3</b>	<b>118.2</b>	<b>30%</b>	<b>153.2</b>	<b>153.2</b>	<b>117.5</b>	<b>30%</b>
Maintenance	149.1	131.7	13%	153.6	149.1	131.8	13%
Services	73.5	67.6	9%	72.1	73.5	67.6	9%
<b>Total revenues</b>	<b>375.9</b>	<b>317.4</b>	<b>18%</b>	<b>378.9</b>	<b>375.8</b>	<b>316.8</b>	<b>19%</b>
<b>EBIT</b>	<b>94.1</b>	<b>75.3</b>	<b>25%</b>	<b>72.7</b>	<b>67.6</b>	<b>53.4</b>	<b>27%</b>
EBIT margin	25.0%	23.7%	1%	19.2pts	18.0%	16.9%	1% pts
<b>EPS (USD)</b>	<b>1.04</b>	<b>0.79</b>	<b>32%</b>	<b>0.69</b>	<b>0.63</b>	<b>0.52</b>	<b>21%</b>

To ensure that the presentation of results reflects the underlying performance of the business, Temenos publishes its key metrics on a non-IFRS basis as well as on an IFRS basis. For transparency purposes, Temenos also publishes full reconciliations between IFRS and non-IFRS measures. Full definitions of non-IFRS adjustments can be found below.

### NON-IFRS ADJUSTMENTS:

#### Impact of IFRS 15

Adjustments made resulting from elimination of impact of IFRS 15 accounting.

#### Contract liabilities (Deferred revenue) adjustments

Adjustments made resulting from acquisitions.

#### Discontinued activities

Discontinued operations at Temenos that do not qualify as such under IFRS.

#### Acquisition related charges

Relates mainly to advisory fees, integration costs and earn-outs.

#### Amortization of acquired intangibles

Amortization charges as a result of acquired intangible assets.

#### Restructuring

Costs incurred in connection with a restructuring plan implemented and controlled by management. Severance charges, for example, would only qualify under this expense category if incurred as part of a company-wide restructuring plan.

#### Taxation

Adjustments made to reflect the associated tax charge relating to the above items.

### RECONCILIATION FROM IFRS EBIT TO NON-IFRS EBIT

USDm	2018	2017
IFRS EBIT	72.7	53.4
IFRS 15 adjustment	(5.0)	–
Contract liabilities (Deferred revenue) write-down	0.1	0.7
Amortization of acquired intangibles	19.1	15.5
Restructuring	2.4	3.8
Acquisition-related charges	4.8	2.0
<b>Non-IFRS EBIT</b>	<b>94.1</b>	<b>75.3</b>

Readers are cautioned that the supplemental non-IFRS information presented is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company's supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

# IFRS FINANCIAL STATEMENTS

## IFRS Financial Statements (Unaudited)

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONDENSED)

For the six months ended 30 June

Unaudited

	2018 USD 000	2017* USD 000
<b>REVENUES</b>		
Software licensing	137,625	89,422
SaaS & subscription	15,564	28,075
<b>Total software licensing</b>	<b>153,189</b>	<b>117,497</b>
Maintenance	153,556	131,766
Services	72,094	67,514
<b>Total revenues</b>	<b>378,839</b>	<b>316,777</b>
<b>OPERATING EXPENSES</b>		
Cost of sales	(105,441)	(99,436)
Sales and marketing	(69,975)	(55,452)
General and administrative	(49,463)	(39,933)
Other operating expenses	(81,291)	(68,550)
<b>Total operating expenses</b>	<b>(306,170)</b>	<b>(263,371)</b>
<b>Operating profit</b>	<b>72,669</b>	<b>53,406</b>
Finance costs – net	(13,954)	(9,701)
<b>Profit before taxation</b>	<b>58,715</b>	<b>43,705</b>
Taxation	(8,599)	(6,329)
<b>Profit for the period</b>	<b>50,116</b>	<b>37,376</b>
<b>Attributable to:</b>		
Equity holders of the Company	50,116	37,376
<b>Earnings per share (in USD) (note 11):</b>		
basic	0.72	0.53
diluted	0.69	0.52

\* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 15 to 28 are an integral part of these interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONDENSED)

For the six months ended 30 June

Unaudited

	2018 USD 000	2017* USD 000
Profit for the period	50,116	37,376
Other comprehensive income:		
Items that are or may be subsequently reclassified to profit or loss		
Available-for-sale financial assets	–	(18)
Cash flow hedge	3,266	(1,235)
Currency translation difference	(13,172)	20,649
Other comprehensive income for the period, net of tax	(9,906)	19,396
Total comprehensive income for the period	<b>40,210</b>	<b>56,772</b>
Attributable to:		
Equity holders of the Company	40,210	56,772

\* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONDENSED)

Unaudited

	30 June 2018 USD 000	31 December 2017* USD 000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	87,959	167,855
Trade and other receivables	276,676	258,632
Other financial assets (note 9)	4,689	3,967
<b>Total current assets</b>	<b>369,324</b>	<b>430,454</b>
<b>Non-current assets</b>		
Property, plant and equipment (note 12)	16,776	16,385
Intangible assets (note 12)	765,134	795,961
Trade and other receivables	12,777	10,379
Other financial assets (note 9)	235	161
Deferred tax asset	22,013	21,943
<b>Total non-current assets</b>	<b>816,935</b>	<b>844,829</b>
<b>Total assets</b>	<b>1,186,259</b>	<b>1,275,283</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	139,761	124,652
Other financial liabilities (note 9)	4,489	3,184
Contract liabilities (Deferred revenue)	225,151	232,489
Income taxes payable	38,715	41,042
Borrowings (note 13)	102,567	5,885
Provisions for other liabilities and charges	1,443	3,085
<b>Total current liabilities</b>	<b>512,126</b>	<b>410,337</b>
<b>Non-current liabilities</b>		
Trade and other payables	–	–
Other financial liabilities (note 9)	25,438	27,752
Income tax liabilities	–	–
Borrowings (note 13)	401,924	434,299
Provisions for other liabilities and charges	264	238
Deferred tax liabilities	13,344	15,408
Retirement benefit obligations	8,365	7,736
<b>Total non-current liabilities</b>	<b>449,335</b>	<b>485,433</b>
<b>Total liabilities</b>	<b>961,461</b>	<b>895,770</b>
<b>Shareholders' equity</b>		
Share capital	233,217	232,192
Treasury shares	(230,453)	(197,750)
Share premium and other reserves	(299,645)	(186,287)
Other equity	(103,247)	(93,341)
Retained earnings	624,926	624,699
<b>Total equity</b>	<b>224,798</b>	<b>379,513</b>
<b>Total liabilities and equity</b>	<b>1,186,259</b>	<b>1,275,283</b>

\* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 15 to 28 are an integral part of these interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONDENSED)

For the six months ended 30 June

Unaudited

	2018 USD 000	2017* USD 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	58,715	43,705
Adjustments:		
Depreciation, amortization and impairment of financial assets	47,039	42,311
Cost of share options	16,385	9,386
Foreign exchange (gain)/loss on non-operating activities	(1,744)	3,788
Interest expenses, net	5,256	6,377
Net loss/(gain) from financial instruments	1,852	(1,746)
Other finance costs	8,794	1,921
Other non-cash item	70	(1,567)
Changes in:		
Trade and other receivables	(28,793)	(2,588)
Trade and other payables, provisions and retirement benefit obligations	12,015	(6,320)
Contract liabilities (Deferred revenue)	(6,663)	(14,612)
Cash generated from operations	<b>112,926</b>	<b>80,655</b>
Income taxes paid	(10,457)	(5,500)
Net cash generated from operating activities	<b>102,469</b>	<b>75,155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment, net of disposals	(3,869)	(2,782)
Purchase of intangible assets, net of disposals	(1,653)	(2,810)
Capitalized development costs (note 12)	(25,750)	(23,062)
Acquisitions of subsidiaries, net of cash acquired	–	(51,818)
Settlement of financial instruments	870	2,006
Interest received	738	1,063
Net cash used in investing activities	<b>(29,664)</b>	<b>(77,403)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid (note 15)	(46,134)	(39,506)
Acquisition of treasury shares	(161,151)	(38,127)
Proceeds from borrowings (note 13)	75,000	–
Repayments of borrowings (note 13)	(41)	(10,206)
Proceeds from issuance of bond	–	148,781
Interest payments	(11,037)	(7,750)
Payment of other financing costs	(7,992)	(1,516)
Net cash (used in)/generated from financing activities	<b>(151,355)</b>	<b>51,676</b>
Effect of exchange rate changes	(1,346)	9,143
Net (decrease)/increase in cash and cash equivalents in the period	<b>(79,896)</b>	<b>58,571</b>
Cash and cash equivalents at the beginning of the period	<b>167,855</b>	<b>194,340</b>
Cash and cash equivalents at the end of the period	<b>87,959</b>	<b>252,911</b>

\* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 15 to 28 are an integral part of these interim consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONDENSED)

Unaudited

	Share capital USD 000	Treasury shares USD 000	Share premium and other reserves USD 000	Other equity USD 000	Retained earnings USD 000	Total USD 000
<b>Balance at 1 January 2017*</b>	<b>226,058</b>	<b>(66,487)</b>	<b>(154,249)</b>	<b>(131,168)</b>	<b>524,985</b>	<b>399,139</b>
Profit for the period	–	–	–	–	37,376	37,376
Other comprehensive income for the period, net of tax	–	–	–	19,396	–	19,396
Total comprehensive income for the period	–	–	–	19,396	37,376	56,772
Dividend paid	–	–	–	–	(39,506)	(39,506)
Cost of share options	–	–	9,386	–	–	9,386
Exercise of share options	6,134	50,184	(56,318)	–	–	–
Costs associated with equity transactions	–	–	(146)	–	–	(146)
Acquisition of treasury shares	–	(38,127)	–	–	–	(38,127)
	6,134	12,057	(47,078)	19,396	(2,130)	(11,621)
<b>Balance at 30 June 2017</b>	<b>232,192</b>	<b>(54,430)</b>	<b>(201,327)</b>	<b>(111,772)</b>	<b>522,855</b>	<b>387,518</b>
<b>Balance at 1 January 2018</b>	<b>232,192</b>	<b>(197,750)</b>	<b>(186,287)</b>	<b>(93,341)</b>	<b>624,699</b>	<b>379,513</b>
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–	(3,755)	(3,755)
<b>Adjusted balance at 1 January 2018</b>	<b>232,192</b>	<b>(197,750)</b>	<b>(186,287)</b>	<b>(93,341)</b>	<b>620,944</b>	<b>375,758</b>
Profit for the period	–	–	–	–	50,116	50,116
Other comprehensive income for the period, net of tax	–	–	–	(9,906)	–	(9,906)
Total comprehensive income for the period	–	–	–	(9,906)	50,116	40,210
Dividend paid (note 15)	–	–	–	–	(46,134)	(46,134)
Cost of share options	–	–	16,385	–	–	16,385
Exercise of share options	1,025	128,448	(129,473)	–	–	–
Costs associated with equity transactions	–	–	(270)	–	–	(270)
Acquisition of treasury shares	–	(161,151)	–	–	–	(161,151)
	1,025	(32,703)	(113,358)	(9,906)	3,982	(150,960)
<b>Balance at 30 June 2018</b>	<b>233,217</b>	<b>(230,453)</b>	<b>(299,645)</b>	<b>(103,247)</b>	<b>624,926</b>	<b>224,798</b>

\* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 15 to 28 are an integral part of these interim consolidated financial statements.



# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 30 June 2018

Unaudited

## 1. GENERAL INFORMATION

Temenos AG formerly named as 'Temenos Group AG' (the 'Company') was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of Temenos AG have been publicly traded on the SIX Swiss Exchange. The registered office is located at 2 Rue de L'Ecole-de-Chimie, 1205 Geneva, Switzerland.

Further to approval by the shareholders at the annual general meeting held on 15 May 2018, the Company's name was changed from 'Temenos Group AG' to 'Temenos AG'.

The Company and its subsidiaries (the 'Temenos Group' or the 'Group') are engaged in the development, marketing and sale of integrated banking software systems. The Group is also involved in supporting the implementation of the systems at various client locations around the world as well as in offering help desk support services to existing users of Temenos software systems. The client base consists of mostly banking and other financial services institutions.

## 2. BASIS OF PREPARATION

This condensed interim financial information for the six month ended 30 June 2018 has been prepared in accordance with IAS 34 'Interim financial reporting' and is unaudited. The consolidated interim financial report should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017 which have been prepared in accordance with the International Financial Reporting Standards ('IFRS').

## 3. ACCOUNTING POLICIES

The accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2017, except for the changes described in paragraph 'Changes in accounting policies' related to the adoption of new standards IFRS 9 'Financial instruments' and IFRS 15 'Revenue from Contracts with Customers' and for specific requirements applicable to interim financial reporting which is as follows:

### Taxation

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

The tax charge for the period ended 30 June 2018 consisted of tax on profits, withholding tax and deferred tax movements.

### New Standards, amendments and interpretations relevant to the Group's operation and adopted by the Group as at 1 January 2018

Unless otherwise specified, the following standards, amendments and interpretations published and adopted by Group are not expected to have any significant impact on the Group's financial statements.

#### IFRS 9 ' Financial instruments '

As of 1 January 2018, the Group has adopted IFRS 9 'Financial Instruments'. This new standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and introduces revised guidance on the classification, recognition, derecognition and measurement of financial assets and financial liabilities as well as a new expected credit losses model for calculating impairment on financial assets. It also introduces new rules for hedge accounting. The Group has applied this new standard retrospectively with the use of the expedient so that prior periods do not need to be restated and the effect of the initial application was recognized as an adjustment to the opening retained earnings. For hedge accounting, the Group applied this standard prospectively.

The adoption of the new standard had no effect on the Group's policies related to the classification and measurement of the Group's financial instruments.

The Group has elected to adopt the new standard for hedge accounting. As the hedging relationships that were existing at the initial application met the requirements according to IFRS 9, the adoption of the standard had no effect in the Group's financial statements.

The effect of introduction of the expected credit loss impairment model on opening retained earnings was not significant, since the Group's historical default rate due to credit risk was rather limited in light of its customer profile. Under IFRS 9, trade receivables and contract assets are credit impaired when there is objective evidence that Group will not be able to collect due to financial difficulty of the debtor. Any other factors for non-collection are treated as variable consideration covered by IFRS 15.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 3. ACCOUNTING POLICIES CONTINUED

#### IFRS 15 'Revenue from Contracts with Customers'

As of 1 January 2018, IFRS 15 'Revenue from Contracts with a Customer' has come in to effect. The new standard has replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognizing, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognized based on a five-steps model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognized upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on the treatment of any costs to obtain and/or fulfill a contract that may be recognized as assets.

The Group has adopted IFRS 15 Revenue from Contracts with Customers effective 1 January 2018 applying the modified retrospective application, and chose to apply IFRS 15 on all contracts that were not completed at date of initial application. The Group also elected the practical expedient to apply the contract modifications guidance to contract modification that occurred at the date of initial application.

The transition effect into the new revenue recognition standard was accounted for by recognizing the cumulative effect of initially applying the standard as an opening balance sheet adjustment to equity at 1 January 2018 without any adjustment to prior year comparative information. The cumulative effect of policy change was a reduction of equity of \$3.8 million.

The following are the main areas which has an impact on application of IFRS 15:

- Subscription software contracts were recognized rateably over the life of the contract under IAS 18. Following adoption of IFRS 15, the Group separate out the revenue due under licensing performance obligations and the revenue due under maintenance service obligations. The revenue due under licensing performance obligations is now recognized at the point when the control of the software is transferred to the client. The revenue due under maintenance service obligations is now recognized rateably over the life of the contract. In effect, the total amount of revenue from subscription contracts has not changed, only the pattern of recognition of revenue over the term of contract has been modified.
- With the change in subscription software contracts, financing has become a factor in a small number of contracts where the financing component is considered significant to the value of that contract. Under IFRS 15 if some of the consideration for a performance obligation is due greater than 1 year from the point the performance obligation was satisfied, then financing is to be assessed. If the financing is a significant component then the total transaction price is discounted and the difference is recorded as an interest expense.
- Non-generic development fees were previously recognized on a percentage of completion basis. Under IFRS 15, licensed development revenue is recognized upon delivery of the software, with any costs incurred to fulfill the contract to be deferred until the relevant revenue is recognized. This results in some deferral of development revenue recognition and associated cost.
- Under IFRS 15 standard optional additional copies of the software, renewals and additional modules or products might give rise to a material right. In these cases a performance obligation for the material right is identified and consideration allocated, based on standalone selling price, is assigned to the performance obligation. The transaction price allocation to the material right is then recognized as revenue once the option is exercised or lapsed. Under our current accounting policies, such option do not have an impact on the amount or pattern of revenue recognized.
- Under IAS 18, the Group would consider all amounts in a contract that are contractually fixed when making the initial revenue recognition assessment. IFRS 15 requires the assessment of potential variable consideration from the outset, which could include such items as right of refund, credits, price concessions, performance bonuses and penalties. This results in deferral of revenue previously recognized.

The following tables summarize the impact of adopting IFRS 15 on the Group's Consolidated statement of profit and loss for six month ended 30 June 2018 and statement of financial position for interim period ending 30 June for each of the lines affected.

#### Impact on the Group's consolidated statement of profit and loss for six month ended 30 June 2018

	As reported USD 000	Impact of IFRS 15 USD 000	Amounts without adoption of IFRS 15 USD 000
Software licensing	137,625	(19,877)	117,748
SAAS & Subscription	15,564	19,926	35,490
<b>Total Software licensing</b>	<b>153,189</b>	<b>49</b>	<b>153,238</b>
Maintenance	153,556	(4,490)	149,066
Services	72,094	1,427	73,521
<b>Total Revenues</b>	<b>378,839</b>	<b>(3,014)</b>	<b>375,825</b>
<b>Operating expenses</b>	<b>(306,170)</b>	<b>(2,014)</b>	<b>(308,184)</b>
<b>Operating profit</b>	<b>72,669</b>	<b>(5,028)</b>	<b>67,641</b>
Finance cost – net	(13,954)	–	(13,954)
<b>Profit before taxation</b>	<b>58,715</b>	<b>(5,028)</b>	<b>53,687</b>
Taxation	(8,599)	737	(7,862)
<b>Profit for the period</b>	<b>50,116</b>	<b>(4,291)</b>	<b>45,825</b>

#### Impact on Group's consolidation statement of financial position ending 30 June 2018

	As reported USD 000	Impact of IFRS 15 USD 000	Amounts without adoption of IFRS 15 USD 000
<b>Current assets</b>			
Trade and other receivables	276,676	4,354	281,030
<b>Current liabilities</b>			
Contract Liabilities (Deferred revenue)	225,151	5,786	230,937
Income tax payable	38,715	(896)	37,819
<b>Equity</b>			
Retained Earnings	624,926	(536)	624,390

IFRS 2 (standard) 'Share-based Payment', effective for annual periods beginning on or after 1 January 2018. This amendment provides additional guidance on the accounting for cash-settled share-based payments and adds an exception that provides equity-settled accounting where the settlement of share-based payment awards is split between equity instruments issued to the employee and a cash payment to the tax authorities. This amendment did not have any impact on the Group's financial statements since the Group's share-based payment transactions are all qualified as equity settled share-based payments. The Group has applied the amendment for the financial reporting period commencing on 1 January 2018.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (new interpretation), effective for annual periods beginning on or after 1 January 2018. This interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. This interpretation did not have any impact on the Group's financial statements since the Group already measures the derecognition of its related non-monetary asset or non-monetary liability in accordance with rules of this new interpretation. The Group has applied this interpretation for the financial reporting period commencing on 1 January 2018.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 3. ACCOUNTING POLICIES CONTINUED

**Updates on new Standards relevant to the Group's operation and not yet adopted by the Group**  
IFRS 16 (standard) 'Leases', effective for annual periods beginning on or after 1 January 2019.

The Group will adopt the standard per its effective date of 1 January 2019, using the modified retrospective approach.

The Group has identified all the leases that are currently in use and the majority of these leases are for office rentals. The Group intends to take exemptions to elect not to apply IFRS 16 requirements to short term leases and low value leases. The application of the new standard will result in an increase in non-current assets and borrowings on the Consolidated Statement of Financial Position, however the impact on net assets will not be material. On the Consolidated statement of profit or loss the Group does not anticipate a significant impact on net earnings however there will be a reallocation of its current operating lease expense between operating profit and financing expenses.

#### Changes in accounting policies

##### 3.1 Revenue recognition

The Group derives revenue from following four main sources:

##### Software License

Software license revenues represent all fees earned from granting customers licenses to use the Group's software, either through an initial license or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software license arrangements that do not require significant modification or customization of the underlying software, revenue is recognized at the point the software is delivered, functional and control has been passed to the customer. Temenos includes software that is either sold on a term basis or perpetual basis and includes software licenses that are sold on a subscription payment basis. Software developments and customizations are included within this revenue line and are recognized when they meet the same criteria as the licensed software.

##### SAAS

Software as a Service (SaaS) revenue is earned through the use of Temenos software to provide a service to the customer. This includes the support and development of the software as well as the hosting infrastructure. The customer does not have the ability to take infrastructure of the software under a licensed arrangement. The hosting infrastructure in the arrangement may be Temenos' own infrastructure or that of a third party hosting infrastructure that Temenos has engaged with.

##### Maintenance

Software maintenance is included in most software license arrangements and is generally priced as a percentage of the initial software license fees. Maintenance provides customers with rights to unspecified software product upgrades, maintenance enhancements and access to the help desk during the term of the support period and is recognized rateably on a straight-line basis over the term of the arrangement.

##### Services

Software implementation and support services represents income from consulting, training and implementation services sold separately under services contracts. Fixed-price arrangements are accounted for over time on a percentage-of-completion basis. Time and Material contracts are recognized as utilized by the client.

IFRS 15 requires estimates and judgments to be made and consistently applied by the Group in accounting for the revenue from contracts with customers. The areas that require estimates and judgments by the Group are detailed below:

##### Identification of Contract

Temenos often enters in to multiple contracts with a customer and will assess these for the need to combine if the contracts are negotiated in and around the same time, are for the same economic purpose or are dependent upon one another.

Initial/master agreements often have additional purchases, addendum or terms modified through out their term. At each point a contract is modified, Temenos assesses the contract under the standard to determine if modifications are to be treated as a modification or a separate contract.

Temenos makes an assessment initially to determine if the customer has the ability and intent to pay the consideration in the contract. Should Temenos determine the customer doesn't meet either of these criteria then Temenos doesn't believe it is in possession of a contract and revenue recognition is deferred until such a time as the customer has both the ability and intent or Temenos has been paid in full and has met all of the performance obligations.

### **Identifying Performance Obligations**

Temenos commonly sells clearly defined separate performance obligations as identified by revenue in the revenue streams. Significant judgments arise when developments and customizations are included and Temenos must determine if these significantly alter the functionality of the software licensed initially. If Temenos concludes the developments or customizations significantly modify the software licensed the performance obligations will be bundled as one performance obligation and recognized when the combined performance obligation is delivered, functional and complete.

Temenos often grants options to purchase additional products or services in its contracts with customers. These can be additional usage rights, renewals, products, modules or premium maintenance. Temenos assess each option to determine if it provides customer a material right. If a material right has been granted Temenos will identify this as a separate performance obligation and later in the revenue accounting process, allocate the appropriate consideration to the performance obligation.

### **Determining the Transaction Price**

Judgment is required in assessing the total consideration that will be paid in exchange for the satisfied performance obligations. This includes not only assessing the variable amounts to possibly include in the consideration but also assessing if any concessions, discounts or other variable factors may reduce the fixed fees in the contract. Temenos uses internal historical experiences as well as external factors in making the necessary estimates.

### **Allocating the Consideration to the Performance Obligation**

Temenos applies the consideration based on a standalone selling price hierarchy. This hierarchy is based on priority being given to performance obligations that have a high level of externally observable inputs and are low variability in price, such as implementation services. Low priority in the hierarchy is given to items that have little to no external comparability and have a highly variable selling price. Finally once all other performance obligations have been valued the residual is applied to the licenses.

Temenos also use renewal rates, historical data and cost inputs to determine the standalone selling price and its position in the allocation hierarchy.

Standalone selling price of a material right factors in the judgments about the likelihood of the customer taking up the option using historical data and the nature of the material right.

### **Timing of revenue recognition**

Temenos recognizes all licensed software (available products, development or customizations) at a point in time when the software is delivered, functional and the customer has control. Control is primarily seen as the customer can take possession of the functional software and use it within the licensed usage rights.

SaaS is recognized over time starting from the point the service is made available to the customer to access the service.

Maintenance services are recognized over the period the service is provided on a straight line basis. The standard maintenance offering is a stand ready obligation to provide technical support and unspecified updates, upgrades and enhancements on a when and if available basis. Customers simultaneously receive and consume the benefits of these support services as performed.

Professional services are recognized over time using a percentage of completion for the fixed price service offering. Temenos uses an inputs method aligned to milestones and the consideration recoverable. Time and Material contracts are recognized as utilized by the client.

### **Incremental Costs of Obtaining Customer Contracts**

The assets recognized for the incremental costs to obtain a contract are predominantly made up of sales commissions earned by Temenos sales force in obtaining SaaS contracts. The asset is amortized over the life of the contract committed for by the customer as the commissions are driven by the commitment period.

### **Cost to fulfill a contract**

The cost to fulfill a contract with a customer that are associated with customization developments are deferred on the balance sheet as work in progress until the development performance obligation is met, at which point the cost will be recognized in line with the revenue.

### **Contract balances – Assets and Receivable**

The Group classifies the right to consideration in exchange for products or services transferred to a client as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional whereas a contract asset is a right to consideration that is conditional upon factors other than the passage of time.

The Group's contract assets mainly relates to unbilled amounts related to fixed price service contracts , where the right to consideration is subject to milestone completion.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 3. ACCOUNTING POLICIES CONTINUED

#### 3.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short-term bank deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to negligible risks of change in value.

As the Group's objective and business model are to hold this asset to collect the contractual cash flows, cash and cash equivalents are initially measured at fair value and subsequently measured at amortized costs.

Cash and cash equivalents are subject to the impairment requirements of IFRS 9. Since this asset is primarily held with reputable major institutions with an 'investment grade' or similar rating and the period over which the Group is exposed is very short, the Group applies the low credit risk option and, therefore, the Group allocates this asset to the stage 1 of the credit loss model. Loss allowance is then measured at an amount equal to 12-month expected credit losses.

#### 3.3 Trade receivable and contract assets

Trade receivables are recognized initially at the transaction price or at fair value if they contain a significant financing components. They are subsequently measured at amortized cost using the effective interest method as the Group's objective and business model are to hold this asset to collect the contractual cash flows. The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses lifetime expected credit loss allowance for all trade receivables including trade receivables with significant financing components, and contract assets. The Group exercises judgment in determining expected credit loss allowance. In this judgment, the Group identifies historical default rate by analyzing the historical experience with credit losses, considering it to represent a reasonable approximation for future expected defaults and apply to the current receivables. The Group also takes into consideration forward looking factors, including changes in the overall economic environment or changes in regulation and if material reflects these in the expected credit loss allowance.

A credit impairment is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Evidence of impairment includes severe financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization.

The carrying amount of the asset is either reduced through the use of an allowance account or directly written off when there is no expectation of future recovery. The expense from expected credit loss allowance as well as from credit impaired debtors is recognized in profit or loss within 'Sales and marketing'. Subsequent recoveries are credited in the same account previously used to recognize the impairment charge.

Contract assets represents consideration which is conditional upon factors other than passage of time. They are initially recognized and subsequently measured as per the provision of IFRS 15.

Non-current trade receivables represent balances expected to be recovered after 12 months.

#### 3.4 Other receivables

Other receivables include other receivables (financial assets) and other assets (non-financial assets).

Other receivables (financial assets) represent receivables raised from transactions outside the ordinary activities of the Group.

As the Group's objective and business model are to hold this type of asset to collect the contractual cash flows, they are initially measured at fair value and subsequently measured at amortized costs.

When the impact of applying the effective interest method is not significant, the gross carrying amount equals to the contractual amount or the fair value at initial recognition.

Balances to be collected after 12 months from the reporting period are presented as non-current.

The Group applies the same impairment policy that are used to measure the expected credit loss for its Trade receivables.

Other assets (non-financial assets) primarily represent prepayments, contract costs according to IFRS 15 and statutory accruals. They are reported as current assets.

#### 3.5 Other financial assets

The Group's other financial assets include derivatives held with positive value.

Derivatives held for trading are initially and subsequently measured at fair value through profit or loss. They are reported as a current assets.

Derivatives used for hedging are initially recognized at fair value and subsequently measured according to the provisions for hedge accounting in IFRS 9. They are reported as non-current assets when they are expected to be settled more than 12 months after the reporting period.

### 3.6 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value and they are subsequently remeasured at fair value at each reporting date. The method of recognizing the gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the type of the hedging relationship.

#### Derivatives held for trading

While providing effective economic hedges under the Group's risk management policies, these derivatives are not designated as hedging instruments according to IFRS 9 and, therefore, the changes in the fair value are immediately recognized within 'Finance costs – net'. Related cash-flows are reported as cash flows from investing activities.

Derivatives held for trading are reported as a current asset or liability.

#### Derivatives used for hedging

Derivatives used for hedging are initially recognized at fair value and subsequently measured using the provisions for hedge accounting in IFRS 9.

For forward contracts used to hedge a forecast transaction in a cash flow hedge relationship, the Group generally designates the change in value of the whole instrument. For Cross-Currency Swaps contracts used in a cash flow hedge relationship, the Group separates the foreign currency basis spread from the instrument and exclude it from the hedging designation. Initial basis spread is recognized in the other comprehensive income and subsequently amortized over the hedging period within 'Finance costs – net'. Change in value of the basis spread is recognized in other comprehensive income.

At inception of the hedge relationship, the Group documents the hedging relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy.

The effectiveness of the hedging relationship is assessed at each interim periods using either the critical terms method when terms of the hedging instrument is identical to those of the forecast transaction or otherwise the Dollar method offset.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts deferred in other comprehensive income are reclassified to profit or loss in the period when the hedged item affects profit or loss. However, when the hedged transaction results in the recognition of a non-financial asset or a non-financial liability (e.g. fixed assets, deferred revenue), the effective portion accumulated in the other comprehensive income is included in the initial cost of the asset or the carry amount of the liability.

Hedge accounting is discontinued when the derivative expires, or is sold or terminated, or the hedging relationship no longer meets the risk management objective, or when there is no longer an economic relationship between the hedging instrument and the hedge item. At that time, any cumulative gain or loss deferred in other comprehensive income remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in profit or loss within 'Finance costs-net'.

Derivatives used for cash-flow hedge are classified as non-current assets or liabilities when they are expected to be settled more than twelve months after the reporting period.

The Group does not currently apply 'fair value hedge', neither 'hedge of a net investment in a foreign operation'.

## 4. SEASONALITY OF OPERATIONS

The Group's software licensing revenue, profit and cash collection tend to be stronger in the second half of the year and specifically the final quarter, therefore interim results are not necessarily indicative of results for the full year.

## 5. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

In May 2018, the Group announced the launch of a USD 250 million share buyback program, to be completed no later than 30 December 2019.

There were no material changes in respect of the Group's contingent liabilities, including litigation settlement, since the last annual reporting date.

There have been no substantive changes in the Group's exposure to financial risks and the Group has not suffered from significant adverse effect. Nature of the risks as well as the Group's policies and objectives reported in the consolidated financial statements at 31 December 2017 remain the same.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 6. ESTIMATES AND JUDGMENTS

The preparation of these consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Group's consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017. The only exceptions would be the changes due to newly applied IFRS 15 which are discussed below.

Critical judgment in applying the Group's accounting policies:

#### Revenue recognition

As detailed in note 3.1, the Group is required to make an assessment for each new software license contract as to whether the underlying software requires significant modification or customization by the Group in order to meet the customer's requirements. If significant modification or customization is required, then the license fee is recognized at the point in time when all developments and customizations are complete, functional and delivered to the customer. However, the majority of such modifications or customizations have not been deemed significant in current or prior periods.

Under IFRS 15, the collection of cash is addressed from the outset. If Temenos doesn't believe the customer has the ability or intent to pay the consideration promised for the performance obligations then Temenos is not in possession of a contract and revenue recognition can not commence. If there is doubt about the sum of consideration to be paid then this is addressed under variable consideration. This is addressed under step three of the revenue recognition model 'understanding the consideration in the contract'. Both of these require judgment to be applied by Temenos.

In respect of service revenue, the management exercises judgment in determining the percentage of completion, specifically with regards to the total man-days remaining to complete the implementation.

### 7. BUSINESS COMBINATION

The finalization of the initial accounting for prior year acquisition 'Rubik Financial Limited' has resulted in no subsequent adjustment to the initial assets acquired and liabilities assumed.

### 8. SEGMENT INFORMATION

The Chief Operating Decision Maker ('CODM') has been identified as the Group's Chief Executive Officer ('CEO'). He regularly reviews the Group's operating segments in order to assess performance and to allocate resources.

The CODM considers the business from a product perspective and, therefore, recognizes the reporting segments as: 'Product' and 'Services'. Other representation of the Group's activity such as regional information is also presented to the CODM but it is not primarily used to review the Group's performance and to make decisions as to how to allocate resources. These two reporting segments are the Group's only operating segments, hence there is no segmental aggregation.

The 'Product' segment is primarily engaged in marketing, licensing and maintaining the Group's software solutions, including software development fees for requested functionality, as well as providing hosting and subscription arrangements. The 'Services' segment represents various implementation tasks such as consulting and training.

The CODM assesses the performance of the operating segments based on the operating contribution. This measure includes the operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated expenses mainly comprise of restructuring costs, termination benefits, acquisition-related costs, share-based payment expenses, offices-related expenses and any other administrative or corporate overheads that cannot be directly attributable to the operating segments. Segment revenues provided to the CODM exclude the fair value adjustment recognized on deferred income liability acquired in business combination and hence total revenues allocated to the two segments exceed the IFRS reported figures.



The table below summarizes the primary information provided to the CODM:

	Product			Services			Total		
	Half-year 2018 USD 000 IFRS 15	Half-year 2018 USD 000 IAS 18	Half-year 2017 USD 000 IAS 18	Half-year 2018 USD 000 IFRS 15	Half-year 2018 USD 000 IAS 18	Half-year 2017 USD 000 IAS 18	Half-year 2018 USD 000 IFRS 15	Half-year 2018 USD 000 IAS 18	Half-year 2017 USD 000 IAS 18
External revenues	306,851	302,410	249,900	72,094	73,521	67,515	378,945	375,931	317,415
Operating contribution	144,308	137,853	112,986	14,089	15,516	11,850	158,397	153,369	124,836

Operating segment revenue and contribution was reported to CODM on an IFRS 15 and on an IAS 18 basis as it is the first year of transition and also to assist comparison.

Intersegment transactions are recognized as part of the allocated expenses. They are based on internal cost rates that excludes any profit margin.

There have been no differences from the last annual consolidated financial statements with regards to the basis of segmentation or to the basis of measurement of segment profit or loss.

There has been no material change in the assets reported to the CODM from the amount disclosed in the consolidated financial statements for the year ended 31 December 2017.

	Half-year 2018 USD 000	Half-year 2017 USD 000
<a href="#">Reconciliation to the Group's consolidated interim financial statements</a>		
Total operating profit for the reportable segments	153,369	124,836
Impact of IFRS 15 adoption	5,028	–
Fair value adjustment on acquired deferred income liability	(106)	(638)
Depreciation and amortization	(46,279)	(38,835)
Unallocated operating expenses	(39,343)	(31,957)
Finance costs – net	(13,954)	(9,701)
Profit before taxation	58,715	43,705

#### Geographical information

	Half-year 2018 USD 000	Half-year 2017 USD 000
<a href="#">Revenues from external customers by region</a>		
<b>REGIONS</b>		
Europe	183,925	153,915
America	63,932	53,645
Middle East and Africa	66,221	48,188
Asia	64,761	61,029
<b>TOTAL REVENUES</b>	<b>378,839</b>	<b>316,777</b>

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 9. FAIR VALUE MEASUREMENT

The following table provides the level of the fair value hierarchy within which the carrying amounts of the financial assets and liabilities measured at fair value are categorized.

- Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: Inputs for the asset or liability that are not based on observable market data.

#### Balance at 30 June 2018

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
<b>Financial assets at FVTPL</b>				
Forward foreign exchange contracts	–	1,303	–	1,303
<b>Derivatives used for hedging</b>				
Forward foreign exchange contracts	–	3,621	–	3,621
<b>Total</b>	<b>–</b>	<b>4,924</b>	<b>–</b>	<b>4,924</b>

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
<b>Financial liabilities at FVTPL</b>				
Forward foreign exchange contracts	–	2,961	–	2,961
<b>Derivatives used for hedging</b>				
Forward foreign exchange contracts	–	1,951	–	1,951
Cross currency swap	–	25,015	–	25,015
<b>Total</b>	<b>–</b>	<b>29,927</b>	<b>–</b>	<b>29,927</b>

#### Balance at 31 December 2017

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
<b>Financial assets at fair value through profit or loss</b>				
Forward foreign exchange contracts	–	2,464	–	2,464
<b>Derivatives used for hedging</b>				
Forward foreign exchange contracts	–	1,664	–	1,664
<b>Total</b>	<b>–</b>	<b>4,128</b>	<b>–</b>	<b>4,128</b>

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
<b>Financial liabilities at FVTPL</b>				
Forward foreign exchange contracts	–	1,298	–	1,298
<b>Derivatives used for hedging</b>				
Forward foreign exchange contracts	–	2,017	–	2,017
Cross currency swap	–	27,621	–	27,621
<b>Total</b>	<b>–</b>	<b>30,936</b>	<b>–</b>	<b>30,936</b>

There were no changes in the first six months of the year in the valuation techniques used for financial instruments nor transfers between level 1 and 2.

## Assets and liabilities in level 2

### Forward foreign exchange contracts:

Discounted cash flow method: The expected future cash flow, which represents the difference between the quoted forward exchange rate (provided by brokers) and the derivative contract price, is discounted over the contractual remaining period using a free-risk yield curve adjusted for credit risk.

### Cross currency swaps:

Discounted cash flow method: The future cash flows are discounted using forward interest yield-curves attributable to each currency (including the currency basis spreads). The resulting fair value of the leg measured in foreign currency is translated using the spot exchange rate.

The Group uses the exception provided by paragraph 48 of IFRS 13 'Fair Value Measurement' to measure the credit risk element attributable to the Group's own credit risk (net short position) or the counterparty's credit risk (net long position) on a net basis for the financial assets and financial liabilities governed by a master netting agreement.

The Group's policy is to recognize transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

## 10. FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The following table provides the fair value and the carrying amount of the Group's financial instruments measured at amortized cost; excluding cash and cash equivalents, current trade and other receivables, current trade and other payables as their carrying amounts represent a reasonable approximation of their fair values.

	30 June 2018		31 December 2017	
	Carrying amount USD 000	Fair value USD 000	Carrying amount USD 000	Fair value USD 000
<b>Financial assets</b>				
Non-current trade and other receivables	12,777	11,856	10,379	10,057
<b>Total</b>	<b>12,777</b>	<b>11,856</b>	10,379	10,057
<b>Borrowings</b>				
Other loans	151	140	203	197
Bank borrowings	75,000	75,123	–	–
Unsecured bonds	429,340	436,972	439,981	449,149
<b>Total</b>	<b>504,491</b>	<b>512,235</b>	440,184	449,346

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 30 June 2018

Unaudited

### 11. EARNINGS PER SHARE

#### Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Half-year 2018	Half-year 2017
Profit attributable to equity holders of the Company (USD 000)	50,116	37,376
Weighted average of ordinary shares outstanding during the period (in thousands)	69,221	69,879
Basic earnings per share (USD per share)	0.72	0.53

#### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the periods presented in these consolidated interim financial statements, the Group has only one category with a potential dilutive effect: 'Share options'.

For the period ended 30 June 2018 and 30 June 2017, this category was fully dilutive.

	Half-year 2018	Half-year 2017
Profit used to determine diluted earnings per share (USD 000)	50,116	37,376
Weighted average of ordinary shares outstanding during the period (in thousands)	69,221	69,879
Adjustments for:		
– Share options (in thousands)	3,430	1,882
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	72,651	71,761
Diluted earnings per share (USD per share)	0.69	0.52

### 12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Six months ended 30 June 2018	Property, plant and equipment USD 000	Intangible assets USD 000
Opening balance as at 1 January 2018	16,385	795,961
Additions	4,305	2,026
Capitalized development costs	–	25,750
Charge for the period	(3,285)	(42,994)
Foreign currency exchange differences	(629)	(15,609)
Closing net book amount as at 30 June 2018	16,776	765,134

### 13. BORROWINGS

	<b>30 June 2018 USD 000</b>	31 December 2017 USD 000
<b>CURRENT</b>		
Other loans	99	58
Unsecured bonds	102,468	5,827
<b>Total current</b>	<b>102,568</b>	5,885
<b>NON-CURRENT</b>		
Other loans	53	145
Bank borrowings	75,000	–
Unsecured bonds	326,871	434,154
<b>Total non-current</b>	<b>401,923</b>	434,299
<b>Total borrowings</b>	<b>504,491</b>	440,184

Movements in borrowings is analyzed as follows:

#### SIX MONTHS ENDED 30 JUNE 2018

Opening balance as at 1 January 2018 (USD 000)	<b>440,184</b>
Proceeds from borrowings, net proceeds	74,959
Unsecured bond-coupon payments	(8,430)
Interest expense	4,369
Foreign currency exchange differences	(6,591)
<b>Closing net book amount as at 30 June 2018 (USD 000)</b>	<b>504,491</b>

#### Bank facilities

The Group maintains a multicurrency revolving credit facility with a pool of eight large financial institutions. The pertinent details of the facility available to the Group are as follows:

- Total commitment of USD 500 million.
- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants.
- The facility is repayable on 19 February 2021.
- Commitment fees are due on the undrawn portion.

This agreement is subject to financial covenants, which have been adhered to during the reporting periods.

As at 30 June 2018, a total of USD 75 million (31 December 2017: nil) was drawn under this agreement.

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended 30 June 2018

Unaudited

### 14. SHARE CAPITAL

As at 30 June 2018, the issued shares of Temenos AG comprised 71,044,267 ordinary shares of a nominal value of CHF 5 each. All issued shares are fully paid.

The changes in the number of issued and outstanding shares for the period ended 30 June 2018 are summarized below:

	Number
Total number of shares issued, as at 1 January 2018	70,849,924
Treasury shares	(1,775,516)
<b>Total number of shares outstanding, as at 1 January 2018</b>	<b>69,074,408</b>
Creation of new ordinary shares out of conditional capital for share-based payment transactions	194,343
Disposal of treasury shares for share-based payment transactions	1,230,735
Acquisition of treasury shares (share buyback)	(1,083,311)
<b>Total number of shares outstanding, as at 30 June 2018</b>	<b>69,416,175</b>

As at 30 June 2018 the number of treasury shares held by the Group amounted to 1,628,092 (31 December 2017: 1,775,516).

Temenos AG also has conditional and authorized capital, comprising:

Authorized shares available until 10 May 2019	13,900,000
Conditional shares that may be issued on the exercise of share-based payment transactions	7,000,000
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

### 15. DIVIDEND PAYMENT

A dividend of CHF 45.8 million (CHF 0.65 per share) in respect of the financial year ended 31 December 2017 was paid during the period.

### 16. EVENTS OCCURRING AFTER THE REPORTING PERIOD.

There are no reportable events that occurred after the reporting period.

## SOURCES

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Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organisation and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.
- 2 'The Forrester Wave'™: Global Digital Banking Platforms, Q3 2018', Forrester, Jost Hoppermann, August 2018, 'The Forrester Wave'™: Digital Banking Engagement Platforms, Q3 2017', Forrester, Jost Hoppermann, July 2017 and 'True Digital Banking Drives Interest in Core Banking', Forrester, Jost Hoppermann, April 2018.
- 3 'Ovum Decision Matrix: Selecting a Core Banking System in the European Market, 2016-17', Ovum, Noora Haapajärvi, March 2016, 'Ovum Decision Matrix: Selecting a Digital Banking Platform 2017-18', Ovum, Noora Haapajärvi, December 2016 and 'Ovum Decision Matrix: Selecting an Anti-Financial Crime Solution 2017-18', Ovum, Matthew Heaslip, December 2017.
- 4 'Annual Sales League Table 2018'. IBS Intelligence, April 2018.
- 5 'Ranking the CRM Technology Vendors for Wealth Management', Celent, Ashley Globberman, May 2018, 'Ubiquitous Digital for Channel Banking: Global Digital Platforms Solutions Vendors, Multi-Product Provider Edition, 2016', Celent, Stephen Greer, June 2016 and 'European Wealth Management Technology Vendors: Evaluating Core Banking Platform Vendors', Celent, Ashley Globberman, February 2017.
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- 7 Banking Technology Awards, December 2017 and December 2016.
- 8 FSTech Awards 2018, March 2018 and FSTech Awards 2017, February 2017.
- 9 'Searching for profitability in a fast-changing world', The 10<sup>th</sup> annual Temenos survey of challenges, priorities and trends in the financial services sector.
- 10 World Retail Banking Report 2017.