



TEMENOSTM

TEMENOS Luxembourg SA

(incorporated in the Grand Duchy of Luxembourg, with limited liability)

CHF 132,250,000 1.5% Convertible Bonds due 2013

unconditionally and irrevocably guaranteed by and convertible into registered shares of

TEMENOS Group AG

(incorporated in Switzerland with limited liability)

This prospectus (the "**Prospectus**") relates to the offering (the "**Offering**") of 1.5% bonds in the aggregate principal amount of Swiss francs ("**CHF**") 132,250,000 due 2013 (the "**Bonds**" and each, a "**Bond**") of TEMENOS Luxembourg SA (the "**Issuer**"), convertible into registered shares with a par value of CHF 5.00 each (the "**Shares**" and each a "**Share**") of, and guaranteed by, TEMENOS Group AG (the "**Company**" or the "**Guarantor**" and together with its subsidiaries, "**TEMENOS**" or the "**Group**"), and the listing of the Bonds on the SWX Swiss Exchange ("**SWX**").

Offering:	The Offering consists of (i) a public offering of Bonds in Switzerland and (ii) private placements of the Bonds in certain other jurisdictions outside of Switzerland in accordance with applicable securities laws.
Issue Price:	100%.
Subscription Period:	Until 15 March 2006, noon (CET).
Payment Date:	21 March 2006.
Maturity Date:	21 March 2013.
Early Redemption for Tax Reasons:	Pursuant to Condition 5(d) of the Terms of the Bonds (the " Terms of the Bonds ").
Coupon:	1.5% per annum (calculated on a 30E/360 basis), payable annually in arrears on 21 March each year, commencing on 21 March 2007.
Yield-to-Maturity:	3.50% per annum (calculated on an annual basis).
Redemption Price:	115.56% of principal amount.
Denomination:	CHF 5,000 principal amount or multiples thereof.
Guarantee:	Unconditional and irrevocable by the Company pursuant to Art. 111 Swiss Code of Obligations.
Conversion Price:	CHF 18.06 per Share (subject to adjustment).
Conversion Period:	From 2 May 2006 to 21 February 2013 inclusive, subject to excluded periods.
Source of Shares:	Conditional capital of the Company.
Entitlement of Underlying Shares:	As of the Conversion Date, same rights and entitlements as outstanding Shares.
Dividend Protection:	Pursuant to Condition 6(a)(iv) of the Terms of the Bonds.
Assurances:	Pari passu clause, negative pledge clause (with exceptions), events of default provisions, change of control provision, and cross default provision (with exceptions), all as provided in the Terms of the Bonds.
Form of the Bonds:	The Bonds are represented by a permanent global certificate. Holders of the Bonds (" Holders " or " Bondholders ") do not have the right to request the printing and physical delivery of individually certificated Bonds. Should the Issuer decide to issue individually certificated Bonds, such Bonds will not be issued in bearer form but exclusively in registered form for U.S. tax purposes, whereby, <i>inter alia</i> , title will pass exclusively by registration of the Holder in a Bondholders' register.
Listing:	Application will be made for the listing on the main segment of the SWX of the Bonds and the Shares to be issued out of the conditional capital of the Company. Provisional trading of the Bonds on the SWX is expected to commence on 16 March 2006. The existing Shares are listed on the SWX. In addition, but unrelated to the Offering, application for the listing of 4,400,000 Shares reserved under the option plan for officers, directors and employees of the Group will be made.
Sales Restrictions:	Offers and sales are restricted in the U.K., Luxembourg and the European Economic Area. No offers or sales will be made in the U.S. Offers and sales may be made to U.S. persons outside of the U.S. only in accordance with Regulation S (see pages 5 et seq. of this Prospectus).
Governing Law and Jurisdiction:	Swiss Law, Zurich 1 (Bonds and Guarantee).

Sole Bookrunner and Lead Manager Merrill Lynch International

CHF 132,250,000 1.5% convertible bonds due 2013	Swiss Security Number	ISIN	Common Code
Registered shares of par value CHF 5.00 each	2466722	CH0024667229	024682056
	1245391	CH0012453913	013169144

IMPORTANT INFORMATION

Prospective Bondholders are expressly advised that an investment in the Bonds entails financial risks (including, without limitation, that (a) the Bond prices may be volatile, (b) there is no prior market for the Bonds and no active trading market may develop, and (c) the market price of the Shares into which the Bonds are convertible may be volatile). Prospective Bondholders should therefore carefully review the entire content of this Prospectus. For a description of certain further risks see also “Risk Factors” on pages 8 to 14.

The distribution of this Prospectus and the offering or sale of the Bonds in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer, the Guarantor, the Sole Bookrunner and Lead Manager (the **“Lead Manager”**) to inform themselves about and to observe such restrictions. This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, Guarantor or the Lead Manager to subscribe for, any of the Bonds. This Prospectus may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

In making an investment decision, prospective Bondholders must rely on their own examination of the Issuer, the Guarantor and the Terms of the Bonds, including the merits and risks involved. Prospective Bondholders should not construe anything in this Prospectus as legal, business or tax advice. Each prospective Bondholder should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Bonds under applicable laws and regulations.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by or on behalf of the Issuer, the Guarantor or the Lead Manager. No representation or warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Lead Manager or any of its affiliates or advisers or selling agents as to the accuracy or completeness of any information contained in this Prospectus and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Lead Manager or any of its affiliates or advisers or selling agents as to the past or the future.

Neither the delivery of this Prospectus nor any sale of Bonds shall under any circumstances create any implication that there has been no change in the information contained herein or in the affairs of the Issuer or the Guarantor since the date hereof.

The Bonds, the guarantee with respect to the Bonds by the Guarantor (the **“Guarantee”**) and the Shares to be delivered upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **“Securities Act”**), or under the laws of any states within the United States of America (the **“United States”**). The Bonds, the Guarantee and the Shares to be delivered upon conversion of the Bonds may not be offered, sold or delivered within the United States. The Prospectus has been prepared by the Issuer and the Guarantor for the purpose of making offers and sales of the Bonds outside the United States in reliance on Regulation S under the Securities Act (**“Regulation S”**).

Notice: The financial institution involved in the issuance and offering of these Bonds is a bank, which directly or indirectly has participated, or will participate, in financing transactions and/or other banking business with the Issuer and/or Guarantor, which are not disclosed herein.

For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Prospectus, see “Sales Restrictions” on pages 5/6.

For the purposes of this Prospectus, “TEMENOS CoreBanking” or “TCB” shall mean TEMENOS™ CORE-BANKING, “T24” or “TEMENOS T24” shall mean TEMENOS T24™ and “GLOBUS” or “TEMENOS GLOBUS” shall mean TEMENOS GLOBUS™. TEMENOS™COREBANKING is a registered trademark of T-TCB SA; TEMENOS T24™ and TEMENOS GLOBUS™ are registered trademarks of Temenos Headquarters SA. Both T-TCB SA and Temenos Headquarters SA belong to the Group.

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SALES RESTRICTIONS

The Issuer has represented and warranted that it has not made and will not make any application for listing the Bonds on an exchange outside Switzerland.

The Offering consists of a public offering of Bonds in Switzerland until 15 March 2006, at the latest, and of private placements of Bonds to prospective Bondholders in certain jurisdictions outside of Switzerland, other than the United States or other jurisdictions where an offering would be prohibited by applicable law. The Bonds are being offered outside the United States in reliance on Regulation S, and in accordance with applicable securities laws.

No action has been or will be taken by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction other than Switzerland where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

Each prospective Bondholder must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Bonds or possesses or distributes this Prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantor or the Lead Manager shall have any responsibility therefor.

United States of America

The Bonds, the Guarantee and the Shares to be delivered upon conversion of the Bonds have not been and will not be registered under the Securities Act or under the laws of any states within the United States, and may not be offered or sold within the United States, except in accordance with Regulation S or pursuant to another exemption from the registration requirements of the Securities Act or state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S.

European Economic Area

In relation to each member state of the European Economic Area (“**EEA**”) which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), the Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in the Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of the Bonds to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Bonds to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to any Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000, and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Grand-Duchy of Luxembourg

Without prejudice to the sales restrictions set out under the heading “European Economic Area” above, the Lead Manager acknowledges that no steps have been taken to allow a public offering of the Bonds in the Grand-Duchy of Luxembourg and represents and agrees that it will not publicly offer or sell the Bonds in the Grand-Duchy of Luxembourg, except for Bonds for which the requirements of Luxembourg law concerning public offerings of securities have been met.

General Sales Restrictions

No action has been or will be taken in any jurisdiction other than in Switzerland by the Issuer, the Guarantor or the Lead Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required.

Accordingly, each of the Lead Manager, the Issuer and the Guarantor severally represents and agrees that it will not offer, directly or indirectly, or sell the Bonds, or distribute, directly or indirectly, the Prospectus or any other offering material, in any country or jurisdiction except in accordance with any restrictions on such offers, sales or distribution.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements and information relating to TEMENOS that are based on the current expectations, estimates, plans, strategic aims, vision statements, and projections of its management and information currently available to TEMENOS.

These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results of operations, financial condition, performance or achievements of TEMENOS to be materially different from any future results, financial condition, performance or achievements expressed or implied by such forward-looking statements. Terms and phrases such as “will”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “predict”, “estimate”, “project”, “target”, “assume”, “may” and “could”, and variations of these words and similar expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These statements reflect the current views of TEMENOS’ management (the **“Management”**) with respect to future events and are not a guarantee of future performance. Various factors could cause actual results or performance to differ materially from the expectations reflected in these forward-looking statements, including those described under the heading “Risk Factors” and elsewhere in this Prospectus. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Therefore, no undue reliance should be placed on forward-looking statements and Bondholders should assess and take into account these risks as part of their investment decision. Neither the Issuer, the Guarantor nor the Lead Manager undertakes an obligation to update any forward-looking statement, even if new information, future events or other circumstances have made it incorrect or misleading. All subsequent written and oral forward-looking statements attributable to the Issuer, the Guarantor or any other entity of TEMENOS are qualified in their entirety by the risk factors outlined below.

RISK FACTORS

The Group operates in a rapidly changing environment that involves a number of risks and uncertainties, some of which are beyond its control. Prospective Bondholders should carefully consider each of the risks and uncertainties described below and all other information in this Prospectus before deciding to invest in the Bonds. If any of the following events actually occur, the Group's business, operating results and financial condition would likely suffer. In addition, the risks and uncertainties described below are not the only ones that the Group faces. Additional risks and uncertainties that the Group does not currently know of or that the Group currently believes to be immaterial may also adversely affect the Group's business operations.

Risks Relating to the TEMENOS Business

The Group depends on the banking and financial services industry.

The Group derives all of its license, maintenance and services revenues from banks and other financial institutions. Accordingly, the Group's future success depends upon continued demand for its products in the banking industry and continued success in marketing its products to clients and prospective clients. In recent years, TEMENOS believes there have been substantial changes in this industry, including continuing consolidation, decreasing profit margins in certain sectors, regulatory changes and technological innovation. TEMENOS believes these changes have led to increased IT spending by banks and driven replacement of legacy systems, leading to increased demand for its banking solutions. If this environment of change were to slow, the Group could experience reduced demand for its products and services. In addition, the banking industry is sensitive to changes in economic conditions and is highly susceptible to unforeseen external events, such as political instability, recession, inflation or other adverse occurrences that may result in a significant decline in the use of financial services. Any event that results in decreased consumer or corporate use of financial services, cost-cutting measures by financial services companies, or increased pressure on banks to develop, implement and maintain solutions in-house, could have a material adverse effect on the Group's business, operating results and financial condition.

Increased competition may result in price reductions and decreased demand for the Group's products and services.

The Group competes both to attract new customers and to retain its existing customers. Growing competition may force the Group to reduce the price of its products and services, may reduce its revenues and gross margins or may decrease its market share, any of which could have a material adverse effect on the Group's business, operating results and financial condition. The market for banking industry software is intensely competitive.

The Group's competitors are diverse and offer a variety of solutions directed at various segments of the banking and financial services industry software market. These competitors include large software vendors offering banking software solutions such as Fiserv and SAP, as well as focussed providers such as Fidelity Information Services, I-Flex (acquired by Oracle in 2005), Infosys and Misys; the IT departments of financial institutions that conduct internal development efforts; and smaller independent companies that provide specialized solutions generally addressing discrete needs or specific geographic regions. Some of the Group's competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition and/or a larger installed client base than TEMENOS. In addition, several of the Group's existing and potential competitors have well established relationships with some of the Group's current and potential clients and strategic partners, have extensive knowledge of the banking software industry and have the resources to enable them to offer a single-vendor solution. As a result, some of the Group's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products and new technologies than TEMENOS. The Group also expects to face additional competition as established software companies that are significant players in other vertical industries enter the market for banking and financial industry software and as consolidation in the industry produces stronger competitors.

The Group also anticipates that it will face increasing competitive pressures as it continues to acquire additional "Tier 1" clients, thereby increasing the Group's profile, as well as its reputational exposure in the event of any product defects or customer complaints. In addition, as the industry experiences further consolida-

tion, the Group's ability to pursue desirable acquisitions may be limited relative to that of its larger competitors.

The Group must attract and retain key management and other skilled personnel with knowledge of the banking software industry.

The economic success of TEMENOS partly depends on its ability to hire and retain highly skilled management, sales, support, service, marketing and software development personnel, particularly those with expertise in the banking software industry. In particular, the Group depends heavily on the continued services and performance of its directors, members of its Executive Board and other senior managers and technical personnel. In addition, the Group relies on its technical staff at its facilities in India for cost-effective software coding and de-bugging. The Group believes that in order to grow its business it will need to continue to hire and retain highly qualified employees with the requisite skills and expertise to support its growing client base. There is intense competition for such skilled personnel, particularly in India, and there is no guarantee that the Group will continue to be able to successfully and consistently meet its personnel recruitment goals. If the Group fails to recruit and retain the numbers and types of employees that it requires, its business, operating results and financial condition could be adversely affected.

The Group's business could be adversely affected if it fails to successfully integrate acquired businesses.

The Group intends to use a substantial portion of the proceeds of this offering to fund potential strategic acquisitions. Acquisitions typically involve numerous risks, including difficulties in the assimilation of the operations, technologies and personnel of the acquired business, the diversion of Management's attention from other business concerns, the risk of entering markets in which the Group has no or limited prior experience and the potential loss of the key employees of the acquired company. Although the Group has on occasion acquired other smaller businesses or business assets in the past, the failure to successfully integrate any acquired businesses or assets in the future could materially adversely affect the Group's business, results of operations and financial condition. Moreover, future acquisitions by the Group may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities and the incurrence of debt or amortization expenses related to intangible assets. Likewise, the inability of the Group to proceed with acquisitions that are material to its business could adversely affect its business, operating results and financial condition. The Group may also face currently unknown liabilities from past or potential future acquisitions.

The Group's results of operations can be adversely affected by foreign exchange fluctuations.

The Group's operating results and financial position are reported in U.S. dollars, and it generates the majority of its revenues in U.S. dollars. Because of the Group's multinational operations, however, a significant portion of its operating expenses is incurred in currencies other than the U.S. dollar, particularly in euros, Swiss francs and pounds sterling. In addition, the proceeds of the sale of the Bonds will be denominated in Swiss francs.

Although the Group enters into forward contracts in an effort to hedge its exposure in this regard, fluctuations in the value of the U.S. dollar relative to the other currencies in which the Group incurs operating expenses and generates some of its revenues or holds assets could adversely affect its results of operations or financial condition. In some jurisdictions the Group sells its products in U.S. dollars to independent distributors who may, in turn, resell to clients in the local currency. In the event of the devaluation of the local currency against the U.S. dollar, the Group may, in the future, be forced to reduce the U.S. dollar price at which it sells its products to its local distributors. Due to constantly changing currency exposures and the volatility of currency exchange rates, the Group may experience currency losses in the future, and exchange rate fluctuations could affect the Group's future results of operations and the comparability of its results between different financial periods.

The Group relies on third parties for implementation services.

The Group implements its products both directly and indirectly through distributors and strategic alliances with IT service providers and systems integrators, in particular with IBM. Failure to maintain and expand relationships with IT service providers and systems integrators could adversely affect the Group's business, results of operations and financial condition.

The Group's use of professional subcontractors may negatively impact margins.

The Group currently retains, and currently intends to continue to retain in the future, professional subcontractors in order to fulfil certain of its obligations vis-à-vis customers, in particular in the context of implementing its products. The Company's use of subcontractors negatively impacts the Group's professional services gross margins. To the extent that the Company continues to use subcontractors in the future, this will continue to negatively impact the Group's services margins.

The Group's sales cycle is long and may cause its operating results to vary widely.

A bank's decision to purchase banking software products involves a significant commitment of its resources and is influenced by its budget cycles. To license its products successfully, TEMENOS generally must educate its potential clients regarding their use and benefits, which can require significant time and resources. Consequently, the period between initial contact and the purchase of products is often long and subject to delays associated with the lengthy budgeting, approval and competitive evaluation processes that typically accompany significant IT expenditures. The Group's sales cycles typically range between nine and twelve months from initial contact with a potential customer to the signing of a license agreement. Sales delays could cause the Group's operating results to vary widely from period to period.

Seasonality may cause the Group's quarterly operating results to vary widely.

The Group's quarterly results are subject to seasonal fluctuations. In particular, license revenues are typically strongest in the fourth quarter, when the large proportion of customers with calendar year-end budgeting procedures make their purchasing decisions, and weakest in the first quarter. In addition, the third quarter includes the summer months when both sales and billable client services activity, as well as client purchase decisions, tend to be lower, particularly in Europe. As a result of these seasonal factors, the Group's quarterly operating results may fluctuate materially and could lead to volatility in the price of the Shares. In addition, the Group has on occasion had to draw on its working capital facilities to fund its cash needs during the fourth quarter.

The Group faces challenges operating in a rapidly evolving technological environment.

Future revenues will depend, in significant part, on the Group's successful development and licensing of enhanced versions of its products as well as the successful migration of existing clients to such enhanced versions. The market for banking software is characterized by rapid technological change, frequent new product introductions, technology enhancements, changes in customer demands and evolving industry standards. The Group's future success will depend upon its ability to continue to enhance its products to keep pace with technological developments and satisfy increasingly sophisticated customer requirements on a cost effective and timely basis, including through the annual upgrades that the Group provides as part of its standard maintenance contracts. In particular, the Group's failure to enhance its products to adapt in a timely manner to the rapid development of computer hardware and software technology could cause customers to delay or forego their purchase of the Group's products. There can be no assurance that the Group will not experience difficulties that delay or prevent the successful development, introduction, marketing and licensing of enhancements to its products.

Undetected errors or defects in the Group's software could adversely affect the Group's performance and reduce the demand for its products.

The Group's products could contain errors or defects that the Group has not been able to detect and that could adversely affect the performance of the products and negatively impact the demand therefor. In the past, TEMENOS has discovered minor software defects in certain new versions and enhancements of its products after they have been introduced. Any such defects or errors could result in adverse client reactions and negative publicity, because the Group's clients and potential clients are highly sensitive to defects in the software they use. Any defects or errors in new versions or enhancements of the Group's products could result in the loss of orders or a delay in the receipt of orders and could result in reduced revenues, delays in market acceptance, diversion of development resources, product liability claims or increased service and warranty costs, any of which may have a material adverse effect on the Group's business, results of operations and financial condition. Any claim brought against the Group could be expensive to defend and require the expenditure of significant resources, regardless of the result.

The Group may be unsuccessful in completing the migration of existing clients to its T24 product or in achieving broad acceptance of its newer TCB solution.

Historically, the Group focused almost exclusively on the licensing and servicing of a single integrated banking software product, known as TEMENOS GLOBUS. In 2003, the Group began migrating its existing clients to its new T24 software system. The migration of installed systems to new products and the introduction of new products each entail implementation risks. Although the Group has successfully migrated approximately 70 clients to T24, it may encounter technical difficulties, delays or unexpected expenses as it completes the migration of existing clients to this new platform. In addition, the Group has relatively more limited experience in marketing, licensing and servicing its TCB product, designed for large retail banks, and may fail to achieve significant and sustained market acceptance of this platform.

The Group's business can be adversely affected by problems associated with international operations.

TEMENOS currently provides its integrated modular core banking systems to over 500 financial institutions in approximately 110 countries, directly or through distributors, and it has sales and support offices in 31 countries. In addition, more than a quarter of the Groups' workforce is currently located in India, where competition for skilled IT personnel is becoming increasingly intense.

The Group's future revenue growth depends on the successful continued expansion of its development, sales, marketing, support and service organizations, through direct or indirect channels, in the various countries around the world where its current and potential clients are located, including in many developing or newly industrialized countries. Such expansion will require the opening of new offices, hiring new personnel and managing operations in widely disparate locations with different economies, legal systems, languages and cultures, and will require significant Management attention and financial resources. The Group's operations are also affected by other factors inherent in international business activities, such as:

- differing economic and business conditions, including volatility and potential instability in emerging markets;
- difficulties in staffing and managing foreign operations;
- the complexity of managing different tax structures;
- differing import and export licensing and other legal requirements;
- tariffs and other restrictions on trade;
- limited protection for intellectual property rights in some countries;
- exposure to varying legal standards;
- political and economic instability, outbreaks of hostilities, international embargos and boycotts; and
- longer accounts receivable payment cycles.

The Group's business could be adversely affected if the Group is unable to protect its proprietary technology.

TEMENOS relies upon a combination of copyright, trademark and trade secrecy laws, trade secrets, confidentiality procedures, contractual provisions and license arrangements to establish and protect its proprietary rights. The Group enters into agreements with its employees, partners, distributors and clients that seek to limit the distribution of and otherwise protect its proprietary information. The Group cannot give any assurances that the steps taken to protect its proprietary rights, however, will be adequate to deter misappropriation of its proprietary information. In addition, the Group may not be able to detect unauthorized use of its intellectual property, or take appropriate steps to enforce the Group's intellectual property rights. The laws of certain countries in which the Group sells its products do not protect its software and intellectual property rights to the same extent as the laws of Switzerland. Unauthorized copying or misuse of TEMENOS products or the Group's proprietary information could result in its competitors offering products that incorporate features equivalent to the Group's most technologically advanced features, which could have a material adverse effect on the Group's business, results of operations and financial condition. Moreover, litigation, which could involve significant financial and Management resources, may be necessary to enforce the Group's intellectual property rights.

Others could claim that the Group infringes on their intellectual property.

Although the Group believes that its products do not infringe upon the intellectual property rights of others, and that the Group has all the rights necessary to utilize the intellectual property employed in its business, TEMENOS is subject to the risk of claims alleging infringement of third-party intellectual property rights,

including in respect of intellectual property that has been developed by third parties and acquired by the Group in business or asset purchase transactions. These claims could require the Group to spend significant sums in litigation costs, pay damages, expend significant Management resources, experience shipment delays, enter into royalty or licensing agreements on unfavorable terms, discontinue the use of challenged trade names or technology, or develop non-infringing intellectual property. The Group's liability insurance does not protect it against the risk that its own or licensed third-party technology infringes the intellectual property of others. Therefore, any such claims could have a material adverse effect on the Group's business, operating results and financial condition.

Failure to comply with the terms of the Group's credit facilities could materially adversely effect its liquidity and therefore the Group's results of operations.

The Group has credit facilities in place with Deutsche Bank Luxembourg SA and the Royal Bank of Scotland plc. The facilities contain financial and negative covenants, undertakings and events of default provisions. In certain instances, such as events of defaults relating to the loss of certain key members of Management or key customers, or the purchase by any party of a 25 per cent or more interest in the Shares, compliance with the provisions of the credit facilities is largely outside of the Group's control. Moreover, the facilities contain cross-default provisions such that a default under another debt instrument, such as the Bonds, could result in a default under the credit facilities and acceleration of the debt thereunder. The inability of the Group to draw under the credit facilities to satisfy its working capital requirements and/or the impact on the Group of any cross-acceleration or cross-default provisions could have a material adverse effect on the Group's business, results of operations and financial condition.

Internal controls may not effectively address all material risks affecting the Group.

Although the Group considers the controls and procedures it currently has in place to minimise the financial reporting, legal, disclosure and other regulatory risks associated with its business to be adequate for its purposes, the Group recognises that the efficacy of some of these controls and procedures depends significantly on input from external legal and other advisers and all of these controls and procedures need to be kept under regular review, particularly given the pace at which the Group's business has developed and generally increasing regulatory scrutiny. There can be no assurances that the Group will be able to identify and adequately remedy failures or weaknesses in the internal controls and procedures of the Group.

Risk Factors relating to the Bonds

There may be limited liquidity in the market for the Bonds.

There is no established trading market for the Bonds. There can be no assurance regarding the future development of a market for the Bonds, or the ability of Bondholders to sell their Bonds, or the price at which such holders may be able to sell their Bonds. The liquidity of any market will depend upon the number of Bondholders, the market for similar securities, the interest of securities dealers in making a market in the Bonds and other factors. A liquid trading market may not develop for the Bonds.

The price of the Bonds may be highly volatile.

The trading price of the Bonds may be subject to fluctuations as a result of numerous factors including, but not limited to, variations in the periodic operating results or financial condition of the Group or the Issuer, changes in investor perceptions of the Group and the Issuer, the depth and liquidity of the market for the Bonds and changes in actual or forecasted global or regional economic conditions or conditions in the banking or banking software industries. In addition, the global bond markets have from time to time experienced extreme price and volume fluctuations, notably in response to changes in interest rates and credit spreads. Any such broad market fluctuations may adversely affect the trading price of the Bonds. Developments and changes in securities analyst recommendations regarding the Shares may also influence and bring volatility to the price of the Bonds.

The price of the Shares may be highly volatile.

The market price of the Shares into which the Bonds are convertible may be subject to fluctuations. The market price of the Shares has experienced volatility in the past, and may continue to fluctuate, depending upon many factors, including:

- market expectation of the Group's performance or financial condition;
- fluctuations in the Group's financial position or operating results;
- fluctuations of interest rates in general;
- general market and economic conditions or conditions in the banking or banking software industries;
- announcements by the Group and developments affecting the Group, its business and customers and suppliers and the markets in which the Group competes;
- changes in senior management and/or the board of directors of the Guarantor;
- price and trading volume of the markets where the Shares are traded;
- investor perception of the success and impact of the Offering;
- the conversion of Bonds into Shares; and
- future offerings of equity securities or conversion rights into equity securities of the Guarantor.

As a result of these or other factors, the Shares may trade at prices significantly below their market price at the commencement of the Offering.

In addition, securities markets in general have from time to time experienced significant price and volume fluctuations. Such fluctuations, as well as the economic situation of the financial markets as a whole, can have a substantial negative effect on the market price of the Shares, regardless of the operating results or the financial position of the Group. Developments in, and changes to securities analyst recommendations regarding the Group's industry may also influence and introduce volatility to the price of the Shares in the market. Any such broad market fluctuations may adversely affect the trading price of the Shares.

No assurance can be given that the public trading market price of the Shares will reach or exceed the Conversion Price.

The absence of a credit rating may make it more difficult for the Bondholders to benchmark their investment.

The absence of a credit rating for the Guarantor and the Issuer may make it more difficult for the Bondholders to benchmark their investment or to become aware of any adverse change in the credit of the Group.

The Bonds will be unsecured indebtedness and will rank equally with all existing and future unsecured indebtedness.

The Bonds and the Guarantee of the Guarantor relating to the Bonds will be unsecured indebtedness of the Issuer and the Guarantor, respectively, and will rank equally in right of payment with all the Issuer's and the Guarantor's respective existing and future unsecured indebtedness. In addition, the Bonds and the Guarantee will be effectively subordinated to all of the Issuer's and the Guarantor's respective future secured indebtedness, to the extent of the value of the collateral securing such indebtedness, and other liabilities of the Issuer's and the Guarantor's respective subsidiaries. The Terms and Conditions of the Bonds do not limit the amount of additional indebtedness that the Issuer's and the Guarantor's respective subsidiaries can create, incur, assume or guarantee.

The Bondholders' claims under the Bonds will be structurally subordinated to the claims of certain third-party creditors.

The Group consists of the Guarantor and its direct and indirect subsidiaries, including the Issuer. The Issuer may use a portion of the net proceeds of the Offering to finance loans to others of these Group companies, which may in turn make further loans within the Group. Group companies may agree among themselves or with third-party creditors to subordinate their claims arising from any loans among Group companies to the claims of such third-party creditors. This structure results in de facto subordination, or so-called "structural subordination", of the Bondholders' claims under the Bonds. As a result of this structure, in the event of the liquidation of a Group company, the claims of other third-party creditors may be satisfied in priority to inter-Group claims against such company, and therefore in priority to the Bondholders' claims under the Bonds.

The Bondholders' claims arising from the Guarantee will be structurally subordinated.

The principal assets of the Guarantor are shares in its subsidiaries, which in turn hold the assets of the Group. The Group assets are primarily available to the creditors of the individual subsidiaries holding these assets. The Guarantor, as parent and not as creditor of the subsidiaries, only benefits from these assets to the extent

they are not necessary for covering the claims of the subsidiaries' creditors. Consequently, the claims of the creditors of the subsidiaries could be satisfied in priority to the Bondholders' claims under the Guarantee.

The Bondholders will have no shareholder rights prior to conversion.

An investor in the Bonds will not be a holder of Shares. No Bondholder (in his capacity as such) will have any right to participate in the shareholders' meeting, any voting rights, rights to receive dividends or other distributions or any other rights with respect to the Shares until such time, if any, when he converts his Bonds into Shares and becomes a shareholder. The Bonds are convertible into Shares at the option of the Bondholders, but only pursuant to the Terms of the Bonds. In addition, expenses, taxes, stamp, issue, registration, documentary, transfer and other duties may be due by the Bondholders upon the conversion of a Bond.

The Bondholders will have only limited anti-dilution protection.

The conversion price at which the Bonds may be converted into Shares will be adjusted only in the situations and to the extent provided in the Terms of the Bonds. There is no requirement that there will be an adjustment for every corporate or other event that may affect the value of the conversion rights. Events in respect of which no adjustment is made may adversely affect the conversion rights and the value of the Bonds.

A sale by the major shareholders could adversely affect the Share price.

As at 10 March 2006, the Chairman, George Koukis, held 17.5% of the issued Shares, without taking into account the sale of up to 1,050,000 Shares held by him to the Lead Manager should it exercise the over-allotment granted by Mr. Koukis to it in connection with a sale of Shares by him on 6 March 2006. Should he or other shareholders of the Guarantor sell substantial numbers of Shares held by them or should rumours to this effect circulate, this could have an adverse effect on the share price of the Share and the ability of the Guarantor to raise further capital in the future.

RESPONSIBILITY STATEMENT

The Issuer and the Guarantor, having made all reasonable enquiries, confirm to the best of their knowledge and belief that the information contained in this Prospectus is in all material respects true and accurate, and that there are no other material facts the omission of which would make misleading any statement herein, whether of fact or of opinion, in any material respect. The Issuer and the Guarantor accept responsibility accordingly.

Luxembourg, as of 13 March 2006

TEMENOS Luxembourg SA

Glarus, as of 13 March 2006

TEMENOS Group AG

SUMMARY

The following is a summary of the Terms of the Bonds and of the Offering. The summary is entirely qualified by the detailed information disclosed in this Prospectus, in particular in Section 2 – “Terms of the Bonds”. Unless defined otherwise, defined terms used hereinafter shall have the same meanings as ascribed to them in the Terms of the Bonds.

Offering:	The Offering consists of (i) a public offering of Bonds in Switzerland and (ii) private placements of the Bonds in certain other jurisdictions outside of Switzerland in accordance with applicable securities laws.
Issuer:	TEMENOS Luxembourg SA, 20, rue Eugène Ruppert L-2453 Luxembourg, an indirect wholly owned subsidiary of the Guarantor.
Guarantor:	TEMENOS Group AG, c/o RA lic. iur. Hansjürg Rhyner, Bahnhof, CH-8750 Glarus. The Guarantor has announced that it will relocate its domicile from Glarus to Geneva.
Offering Size:	CHF 132,250,000.
Guarantee:	The Guarantor irrevocably and unconditionally guarantees all payment obligations of the Issuer under and pursuant to the Terms of the Bonds as well as the delivery of Shares if, as and when due in accordance with the Terms of the Bonds.
Conversion Right:	Subject to adjustments as provided in Conditions 6 and 7 of the Terms of the Bonds, each Holder will have the right to convert each Bond into Shares on any Business Day during the Conversion Period at the Conversion Price. The number of Shares to be delivered upon conversion of Bonds will be determined by dividing the aggregate Principal Amount of Bonds converted by the Holder by the then valid Conversion Price.
Source of Shares:	Conditional capital of the Guarantor.
Exclusion of Rights:	Shareholders' pre-emptive rights to the Shares (<i>Bezugsrechte</i>) as well as shareholders' advance subscription rights for the Bonds (<i>Vorwegzeichnungsrechte</i>) have been excluded.
Status:	Unconditional and unsecured obligations ranking <i>pari passu</i> among themselves and with all other unsubordinated and unsecured outstanding indebtedness of the Issuer, present and future.
Denomination and Form of the Bonds:	CHF 5,000 (or multiples thereof) Principal Amount. The Bonds are represented by a Permanent Global Certificate deposited with SIS SegalInterSettle AG. Holders do not have the right to request printing and physical delivery of individually certificated Bonds. Should the Issuer decide to issue individually certificated Bonds, such Bonds will not be issued in bearer form but exclusively in registered form for U.S. tax purposes, whereby, <i>inter alia</i> , title will pass exclusively by registration of the Holder in the Register.
Issue Price:	100 per cent.
Payment Date:	21 March 2006.
Coupon:	1.5 per cent per annum, payable annually in arrears on 21 March of each year, commencing on 21 March 2007 (30E/360 basis).
Yield-to-Maturity:	3.50 per cent per annum (calculated on an annual basis).

Maturity Date:	21 March 2013.
Final Redemption:	Unless previously redeemed or converted, the Bonds will be redeemed on 21 March 2013, at 115.56 per cent of their principal amount.
Conversion Price:	CHF 18.06 per Share, subject to adjustment.
Conversion Period:	From 2 May 2006 to 21 February 2013 inclusive or, in case of early redemption, the date which is five (5) Business Days before such redemption, subject to excluded periods.
Anti-dilution Adjustments:	Anti-dilution provisions dealing with, <i>inter alia</i> , share consolidations, share splits, share distributions, cash distributions, spin-off events, rights issues, reorganizations, bonus issues, changes of control, dividends (see below) or divestments, all as provided in the Terms of the Bonds.
Dividend Protection:	The Conversion Price will be adjusted for any cash distributions paid during the Conversion Period.
Change of Control:	In the event of a Change of Control, Holders will (i) have the one-off right to require the redemption of their Bonds at the Accreted Principal Amount plus accrued interest or (ii) be entitled to convert the Bonds at a Conversion Price that shall be adjusted downwards in accordance with a ratchet mechanism (by way of a linear amortisation of the effective conversion premium to the Maturity Date of the Bonds).
Issuer Call:	From 6 April 2009, subject to Share price exceeding 150 per cent. of the Effective Conversion Price, at the prevailing Accreted Principal Amount and accrued interest.
Early Redemption (clean-up):	In the event that 85 per cent. or more of the Bonds originally issued have been converted or purchased and cancelled, the Issuer shall have the option to redeem all outstanding Bonds at the Accreted Principal Amount plus accrued interest.
Early Redemption for Tax Reasons:	In the event certain changes in the tax laws or tax practices of Luxembourg or Switzerland require the payment of Additional Amounts (see "General Information – Taxation"), the Issuer shall give notice thereof to the Holders. If upon such notice a Holder elects not to have his Bonds redeemed, then such Holder will not be entitled to any Additional Amounts.
Assurances:	Pari passu clause, negative pledge clause (with exceptions), events of default provisions, and cross default provision (with exceptions), all as provided in the Terms of the Bonds.
Governing Law and Jurisdiction:	Swiss Law / Zurich 1 with respect to the Bonds and the Guarantee.
Delivery of Shares:	Within 20 Trading Days after the relevant Conversion Date through SIS SegalInterSettle AG or any other relevant settlement organisation, all in accordance with the instructions of the Holder.
Taxation:	See "General Information – Taxation".
Sales Restrictions:	Sales are restricted, including in the EEA, the U.K. and Luxembourg. No sales in the United States and sales to U.S. persons outside the United States only in accordance with Regulation S.
Listing and Trading:	Application will be made for the listing of the Bonds on the main segment of SWX. In connection with the Bonds, application for the formal listing of the

9,000,000 Shares that may be issued upon conversion of the Bonds out of the conditional capital of the Guarantor in accordance with Article 3^{quater} (2) of the Guarantor's Articles of Association will be made.

In addition, but unrelated to the Bonds, application for the formal listing of 4,400,000 Shares reserved for officers, directors and employees of the Guarantor and Group companies in accordance with Article 3^{quater} (1) of the Guarantor's Articles of Association will be made (see "Section 3: Information on the Shares – The Shares").

Provisional trading of the Bonds on the SWX is expected to commence on 16 March 2006. The existing Shares are listed on the SWX.

Lock-up: Subject to exceptions, 90 days from the Payment Date for the Issuer and the Guarantor on the issuance, offer or sale of like convertible securities, Shares, other equity instruments and options or the announcement to issue, offer or sell any of the foregoing.

Lock-up of core shareholders of the Guarantor: Subject to exceptions, separate 180 days lock-up undertakings, running for 180 days from 6 March 2006, have been obtained from George Koukis and Global Capital Investors, principal shareholders of the Company, in connection with the sale by them of Shares contemporaneously with the launch of the Offering. In connection with such sale, Mr. Koukis granted the Lead Manager an over-allotment option in respect of 1,050,000 Shares which option may be exercised during a 30-day period that commenced on 6 March 2006. The sale of such over-allotment Shares is permitted pursuant to the terms of Mr. Koukis' lock-up arrangement.

Rating: The Bonds will not be formally rated by any rating agency.

Use of Proceeds: The proceeds will be used outside of Switzerland for acquisitions and general corporate purposes.

Swiss Tax Classification: Subject to final confirmation by the Swiss Federal Tax Administration, the Bonds are expected to be qualified as "non-classical", "transparent" and "IUP" (bonds with predominant one-time interest payment (*Obligationen mit überwiegender Einmalverzinsung*)) convertible bonds, under the circular letter No. 4 issued by the Swiss Federal Tax Administration on 12 April 1999, as amended as of 28 January 2002 (*Kreisschreiben Nr. 4*).

Principal Paying and Conversion Agent: Bank Sarasin & Co. Ltd, Zurich

SECTION 1: GENERAL INFORMATION

Authorisation

The issue of the Bonds and the Offering were authorised by a resolution of the board of directors of the Issuer, passed on 28 February 2006. On 17 and 28 February 2006, the board of directors of the Guarantor resolved to authorise the issue of the Guarantee and delivery of the Shares to be issued upon conversion of the Bonds out of the conditional capital of the Guarantor.

Issue and Sale of the Bonds

It is anticipated that, on or about the date of this Prospectus, the Issuer and the Guarantor, on the one hand, and the Lead Manager, on the other hand, will enter into an agreement concerning the issue and sale of the Bonds by the Issuer to the Lead Manager (the **"Bond Purchase Agreement"**). Pursuant to the terms of the Bond Purchase Agreement, the Lead Manager will agree to purchase and the Issuer will agree to sell Bonds to the Lead Manager for an aggregate principal amount of CHF 132,250,000.

The Bond Purchase Agreement will provide that the Bonds will be offered by the Lead Manager to prospective investors. The Offering will be made in accordance with this Prospectus and subject to the relevant selling restrictions.

The issue and sale of the Bonds shall be completed on the Payment Date. Completion is subject to the fulfillment of certain conditions precedent and to the right of the Lead Manager to terminate the Bond Purchase Agreement upon the occurrence of certain materially adverse events. The Bond Purchase Agreement contains customary representations and warranties and indemnification obligations.

Use of Proceeds

The Group intends to use the net proceeds from the Offering, expected to be approximately CHF 130 million after deduction of placement commissions and expenses, outside of Switzerland for acquisitions and general corporate purposes.

Paying and Conversion Agent

It is anticipated that, on or about the date of this Prospectus, the Issuer and the Guarantor, on the one hand, and Bank Sarasin & Co. Ltd, Zurich, Switzerland, (referred to in this capacity as **"Principal Paying and Conversion Agent"**), on the other hand, will enter into an agreement concerning the performance by Bank Sarasin & Co. Ltd of the services to be performed by the Principal Paying and Conversion Agent in accordance with the Terms of the Bonds (the **"Paying and Conversion Agency Agreement"**).

Lock-up

The Issuer and the Guarantor have agreed that they will not, and that they will procure that none of their subsidiaries or affiliates over which the Issuer or the Guarantor exercises management or voting control will, during the period ending 90 calendar days following the Payment Date, without the prior written consent of the Lead Manager, (i) issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for or otherwise representing a right to acquire Shares, (ii) enter into any swap or other agreement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or warrants or other rights to purchase Shares representing the right to receive any such securities, or (iii) announce its intention to do any of the foregoing. This lock-up undertaking shall not apply to (aa) Share sales or issuances as a result of conversions under the Terms of the Bonds; (bb) Share issuances and sales to employees under existing employee benefit, stock option or similar plans; (cc) Shares issued in connection with one or more acquisitions of or mergers with another company or enterprise up to an aggregate fair market value of U.S. dollars (**"USD"**) 20,000,000; and (dd) Shares issued in connection with acquisitions of or mergers with another company or enterprise over and above the USD 20,000,000 threshold, provided, however, that each owner of such newly

issued Shares agrees with the Lead Manager in writing to be bound by this lock-up undertaking for the then remaining balance of the 90-day lock-up period set out above.

Subject to exceptions, separate 180 calendar days lock-up undertakings, starting from 6 March 2006, have been obtained from two core shareholders of the Guarantor, namely George Koukis and Global Capital Investors, in connection with the sale by them of Shares of the Guarantor contemporaneously with the launch of the Offering.

Representatives

In accordance with Art. 50 of the Listing Rules of the SWX Swiss Exchange (the “**SWX Listing Rules**”) Bank Sarasin & Co. Ltd, Löwenstrasse 11, 8022 Zurich, Switzerland, was appointed by the Issuer and the Guarantor as representative to lodge the listing application with regard to the Bonds and the Shares to be issued out of the conditional capital of the Guarantor with the Admission Board of the SWX.

Prospectus

Copies of this Prospectus are available, free of charge, at Bank Sarasin & Co. Ltd, Löwenstrasse 11, 8022 Zurich, Switzerland, or can be ordered by fax (number +41 (0)44 213 96 98) or email to corporate.finance@sarasin.ch.

Taxation

Luxembourg

Luxembourg tax residency of the Bondholders:

A Bondholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Bonds, or the performance, delivery and/or enforcement of the Bonds.

Withholding tax

Without taking into account the application of the European Directive on the Taxation of Savings Income (as discussed below under the heading “European Union Directive on the Taxation of Savings Income”), under Luxembourg tax law currently in effect, no withholding tax for Luxembourg resident corporations and non-resident Bondholders on payments of interest (including accrued but unpaid interest) applies as the interest rate of the Bonds is at arm’s length and is not profit participating, whereas a 10% withholding tax applies on interest income paid or attributed in favor of Luxembourg resident individuals.

Taxation of the Bondholders

Taxation of Luxembourg non-residents

Bondholders who are non-residents of Luxembourg and who have no permanent establishment in Luxembourg with which the holding of the Bonds is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Bonds, or realize capital gains on the sale of any Bonds.

Taxation of Luxembourg resident individuals

Interest income paid or attributed through a paying agent located in Luxembourg to Bondholders who are Luxembourg resident individuals is subject to a 10% withholding tax. The latter is in full discharge of income tax provided that the interest is in connection with assets not forming part of a commercial or professional business of a Bondholder.

The definition of “capital gain” corresponds to the difference between the sale price and the subscription or acquisition price, but excludes any accrued interest income, which is taxed as portfolio income (as discussed

below). Luxembourg resident individual bondholders are not subject to taxation on capital gains upon the disposal of the Bonds unless the Bonds are disposed of within six months of the date of acquisition of the Bonds or the disposal of the Bonds precedes the acquisition of the Bonds. Such speculative gain is taxable as miscellaneous income, and consequently added to the taxpayers' other income for determining their taxable basis. As such, it is subject to the progressive income tax table (up to a maximum of 38.95%). Yearly speculative gains of less than EUR 500 are exempted and an amount up EUR 50,000 (which is doubled for married taxpayers who are taxable jointly) is available for a ten-year period as a lump-sum deduction against the capital gain (only available for capital gains realized until 2007 included).

Upon sale, repurchase or redemption of the Bonds, the portion of the price corresponding to accrued but unpaid interest is subject to the 10% withholding tax.

Luxembourg resident corporations benefiting from a special tax regime

Bondholders who are holding companies subject to the law of 31 July 1929 ("1929 holding companies") or undertakings for collective investment subject to the law of 20 December 2002 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax).

Residual corporations or individuals

The corporations or individuals listed below are not subject to any withholding tax but must file an income tax return disclosing both interest and capital gains income:

- Luxembourg taxable corporations
- Non resident corporations deriving interest and capital gains income from Bonds connected with a Luxembourg permanent establishment
- Luxembourg resident individuals deriving interest and capital gains income from Bonds connected with a commercial or professional business.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Bondholder, unless (i) such holder is a Luxembourg resident corporation or (ii) a Luxembourg resident corporation where such Bonds are connected with its Luxembourg permanent establishment.

Net wealth tax has been abolished as from 1 January 2006 for (resident and non-resident) individuals.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Bondholders as a consequence of the issuance of the Bonds, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Bonds.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Bonds or in respect of the payment of interest or principal under the Bonds or the transfer of the Bonds. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No Luxembourg gift, estate or inheritance taxes is levied on the transfer of the Bonds upon death of a Bondholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes and the gift was not recorded in a notarial deed in Luxembourg.

European Union Directive on the Taxation of Savings Income

The EU Savings Tax Directive has been implemented into Luxembourg domestic law by the law dated June 21, 2005 (the "Law"), which entered into force on July 1, 2005.

The Law imposes on Luxembourg paying agents an obligation to withhold tax on certain interest payments and investment funds distributions/redemptions made to individuals as “beneficial owners” or to “residual entities” (as defined by the Law), which are residents in another Member State of the EU (or one of the dependant and associated territories having opted for reciprocity).

The rate of such withholding tax equals 15% for the first three years after the date of implementation of the Law (i.e., 1 July 2005), this rate being increased to 20% for the subsequent three years and 35% thereafter (i.e., as from 1 July 2011). Responsibility of the withholding will be assumed by the Luxembourg paying agent.

According to the Law, there are however possibilities to avoid the application of the withholding tax (authorization of exchange of information or certificate drawn up in the name of the beneficial owner by the competent authority of his country of residence). The choice between these two procedures depends on the decision of the Luxembourg paying agents.

The foregoing is only a summary of the implications of the EU Savings Tax Directive and the Law in force at the date of this Prospectus, and does not constitute a tax advice. Investors are therefore advised to consult their professional advisors concerning the consequences for themselves of the application of the EU Savings Tax Directive and the Law.

Switzerland

The following statements contain an overview of the Swiss tax implications resulting from the Bonds or the Shares. The following statements are based upon Swiss tax laws and administrative practices as currently in force. Modifications of the applicable legal regulations may necessitate a re-evaluation of the tax consequences. The summary below is not a substitute for legal or tax advice sought by interested parties. Prospective investors should seek the advice of their tax advisors to clarify any tax implications resulting from an investment in the Bonds.

Under present Swiss taxation rules and practice, the Bonds are expected to be qualified as “non-classical”, “transparent” convertible bonds. Transparent means for these purposes that on the date of the issue of the Bonds, and during their subsequent life, the price for the embedded debt component and for the embedded option component can be calculated by means of an analytical method. The Bonds are expected to constitute bonds with predominant one-time interest payment (Obligationen mit überwiegender Einmalverzinsung) in accordance with circular No. 4 issued by the Swiss Federal Tax Administration on 12 April 1999, as amended as of 28 January 2002. The classification as “non-classical”, “transparent” bonds with predominant one-time interest payment is still subject to the approval of the Federal tax authorities.

Income Taxation of Bonds and Shares held by Swiss Resident Individuals as Private Property

Shares and Bonds held by Swiss resident individuals for private investment purposes are subject to the following Swiss income tax treatment:

The periodic interest payments on the Bonds are included in the private individual’s taxable income for federal income tax purposes. Furthermore, in accordance with the aforementioned circular No. 4, upon either sale, conversion or repayment of the Bonds, the increase of the value of the theoretical bond floor, initially 84.7463 per cent. during the period of holding the Bonds is included in the taxable income of the private holder of the Bonds (“*Differenzbesteuerung*”). The theoretical value of the bond floor will be published daily in the Telekurs system. The original theoretical bond floor is still subject to the approval of the Federal tax authorities.

Dividends and liquidation surplus (liquidation proceeds minus nominal value) in respect of the Shares are included in the individual’s taxable income. For the purposes of income taxes at the federal level, stock dividends are taxable dividends. Proceeds from the redemption of Shares by the Guarantor are under some circumstances taxed as liquidation surplus.

Other capital gains from the sale or exchange of Shares are exempt from income taxation, except if the gain is deemed to be realized in the context of a professional or commercial securities trading activity of the individual.

In most Cantons, the tax treatment for cantonal income taxes will correspond to the above-mentioned Federal tax treatment.

Income Taxation of Bonds and Shares held by other Swiss and Non-Swiss Resident Investors

Swiss resident individuals holding Bonds or Shares as business assets, Swiss resident corporate taxpayers and any non-Swiss resident individual or corporate investors who hold Bonds or Shares through a permanent business establishment, as defined in the tax laws and international conventions, situated in Switzerland have to include in their net profit for Swiss tax purposes any interest, dividends or capital gains realized upon the Bonds or Shares, as the case may be. Dividends and liquidation surplus in respect of the Shares received by a corporation or a co-operative company may under certain conditions benefit of the “participation relief” system, in particular, if the Shares held by such corporate investor represent a market value of at least CHF 2,000,000 or if the Shares held represent at least 20 per cent. of the total share capital of the Guarantor.

Non-Swiss resident investors who do not hold Bonds or Shares through a permanent business establishment, as defined for tax purposes, situated in Switzerland are in principle not subject to any Swiss income or capital gains taxes in respect of their Bonds or Shares, other than the federal withholding taxes as described below.

Federal Withholding Tax

As long as the proceeds of the Bonds are used outside of Switzerland and the obligations of the Issuer under the Bonds are not transferred to the Guarantor, payments in respect of the Bonds are not subject to Swiss federal withholding tax on the basis that the Issuer is not deemed to be resident for tax purposes in Switzerland.

Any dividends and similar distributions of profits and reserves made by the Guarantor in respect of the Shares, including stock dividends and the distribution of any liquidation proceeds in excess of the nominal value of the Shares are subject to Swiss federal withholding tax (Verrechnungssteuer, impôt anticipé), imposed on the gross amount of distribution at the rate of 35 per cent. The redemption of Shares by the Guarantor may under certain circumstances (in particular, if the Shares are redeemed for subsequent cancellation) be taxed as a partial liquidation for federal withholding tax purposes.

Swiss resident beneficiaries of taxable dividends and similar distributions in respect of the Shares are in principle entitled to full subsequent relief of the federal withholding tax, either through tax refund or through credit against underlying income tax liability, if they duly report the underlying income in their tax returns or financial statements used for tax purposes, as the case may be. The same holds true for foreign resident investors who hold Shares through a permanent business establishment in Switzerland, as defined for tax purposes. Swiss resident corporate investors may under certain circumstances benefit from a relief at source rather than a tax refund. Other non-Swiss resident beneficiaries of dividends and similar distributions in respect of Shares may be entitled to a partial or full refund of the Swiss tax withheld in accordance with any applicable double taxation treaty between Switzerland and the beneficiary’s country of tax residence or in accordance with article 15 of the Swiss-EU Savings Agreement.

Stamp Duties

Any stamp, issuance, registration or similar taxes imposed by Switzerland in connection with the issuance, redemption or conversion of Bonds will be borne by the Issuer or the Guarantor, as the case may be, except that neither the Issuer nor the Guarantor will bear any such taxes that may arise in connection with any other transfer or sale of Bonds or Shares by the holder thereof. Such transfer or sale of Bonds or Shares delivered upon exercise of Conversion Rights under the Bonds may in particular be subject to the Swiss Transfer Stamp Duty, as applicable, calculated on the proceeds of such transfer, if it occurs through or with a Swiss bank or other securities dealer as defined in the Swiss Federal Stamp Tax Act.

EU Savings Tax Directive in Switzerland

The EU has negotiated with certain states, namely Switzerland, Liechtenstein, Monaco, Andorra and San Marino, the introduction of “equivalent measures”, as within the EU, regarding the taxation of savings income

in the form of interest payments. In particular, in October 2004, the EU and Switzerland signed an agreement on the taxation of savings income by way of a withholding tax system or a voluntary declaration in the case of transactions between individuals resident in EU Member States and paying agents in Switzerland. This agreement was ratified by the Swiss Federal Council in May 2005 and entered into force on 1 July 2005. Based on this agreement, Switzerland introduced a withholding tax on interest payments or other similar income paid by a paying agent within Switzerland to EU resident individuals. The withholding tax is currently applied at a rate of 15 per cent (1 July 2005 to 30 June 2008), and will be applied at a rate of 20 per cent (1 July 2008 to 30 June 2011) and 35 per cent (from 1 July 2011 onwards), respectively. The beneficial owner of the interest payments will be entitled to a refund of the tax, if certain conditions are met. Instead of the withholding tax system, the affected EU individuals have the option to opt for voluntary disclosure. In this case, information related to their savings income in the form of interest payments is communicated to the tax authorities of their country of residence.

SECTION 2: TERMS OF THE BONDS

The terms and conditions (each a “**Condition**” and together, the “**Terms of the Bonds**”) of the 1.50 percent convertible bonds due 2013 (the “**Bonds**”), convertible into Shares of TEMENOS Group AG, and unconditionally and irrevocably guaranteed by, TEMENOS Group AG, in the aggregate Principal Amount of Swiss francs (“**CHF**”) 132,250,000, are established pursuant to a Bond Purchase Agreement (the “**Agreement**”) among TEMENOS Luxembourg SA, 20 rue Eugène Ruppert, L-2453 Luxembourg (the “**Issuer**”) and TEMENOS Group AG, c/o lic. iur. Hansjürg Rhyner, Bahnhof, Rechtsanwalt, 8750 Glarus, Switzerland (the “**Guarantor**”), on the first part, and Bank Sarasin & Co. Ltd, Loewenstrasse 11, 8022 Zurich, Switzerland (“**Sarasin**”) and Merrill Lynch International, 2 King Edwards Street, London EC1A 1HQ, United Kingdom (“**ML**” or the “**Lead Manager**”) on the second part, will be attached to the Permanent Global Certificate and of any individually certificated Bonds, if printed, in the English language. The Terms of the Bonds govern the rights and obligations of the Issuer, the Guarantor and of each Holder in relation to the Bonds and are as follows (defined terms used herein have the meaning ascribed to them in Condition 23):

1 Denomination, Form, Printing and Delivery of the Bonds

- a. The aggregate Principal Amount of the Bonds of CHF 132,250,000 (one hundred thirty two million two hundred fifty thousand Swiss francs) is divided into Bonds with denominations of CHF 5,000 (five thousand) (each, a “**Bond**”).
- b. The Bonds and all rights in connection therewith are documented in the form of a Permanent Global Certificate. Each Holder retains a quotal co-ownership interest (*Miteigentumsanteil*) in the Permanent Global Certificate to the extent of his claim against the Issuer. For the entire duration of the issue no partition of the co-ownership and no printing of individually certificated Bonds will occur, except as provided in Condition 1 d) below and Holders do not have the right to request the printing and delivery of individually certificated Bonds.
- c. The Permanent Global Certificate remains in safekeeping with SIS or any other collective safe custody organization approved by the SWX, during the entire duration of the issue and until Redemption or conversion of all Bonds or until it is exchanged for individually certificated Bonds in accordance with Conditions 1 d) and e) below.
- d. Should the Principal Paying and Conversion Agent deem, in its reasonable discretion, (i) the printing of individually certificated Bonds to be necessary or useful at any time prior to Redemption or conversion of all Bonds, or (ii) the presentation of individually certificated Bonds to be required by Swiss or foreign laws in connection with the enforcement of rights under the Bonds (e.g., in cases of bankruptcy, consolidation or reorganization of the Issuer), the Principal Paying and Conversion Agent, on behalf of the Issuer, will provide for such printing without cost for the Holders. Should individually certificated Bonds be printed, the Principal Paying and Conversion Agent, on behalf of the Issuer, will then exchange the Permanent Global Certificate as soon as possible for individually certificated Bonds in accordance with Condition 1 e) below. In case of the printing of individually certificated Bonds, no individually certificated coupons will be printed. The Holders will have to present the individually certificated Bonds in order to be able to claim the relevant Coupon Amount.
- e. Should individually certificated Bonds be printed, the Bonds shall be documented by individually certificated Bonds in the Principal Amount of CHF 5,000 (five thousand) or multiples thereof. The individually certificated Bonds will not be issued in bearer form, but exclusively in registered form for US tax purposes whereby, *inter alia*, title will pass exclusively by registration of the Holder in a bondholders’ register (the “**Register**”) to be established and maintained by a registrar (the “**Registrar**”) appointed by the Issuer and acting on its behalf after consultation with the Principal Paying and Conversion Agent and duly notified to the Holders in accordance with Condition 13.

Should individually certificated Bonds be printed, the Bonds may be transferred only by lodging the individually certificated Bonds with the Principal Paying and Conversion Agent at the specified office of the Registrar. No transfer of a Bond will be valid unless and until entered into the Register. A Bond may be registered only in the name of, and transferred to, a named person.

2 Interest and Coupon Amounts

The Bonds bear interest from (but excluding) the Payment Date at a rate of 1.50 percent per annum of their Principal Amount, payable annually in arrear on each Coupon Amount Payment Date (the CHF amount in respect of each Bond so calculated being the **“Coupon Amount”**). Interest on the Bonds is computed on a 30E/360 basis, i.e., on the basis of a year consisting of 12 (twelve) months of 30 (thirty) days each.

Each Bond will cease to bear interest (i) when the Conversion Right with respect to such Bond shall have been exercised by the Holder thereof pursuant to Condition 3, from the Coupon Amount Payment Date (or, if none, the Payment Date) immediately preceding the Conversion Date, save where such Bond is converted following a notice pursuant to Condition 5 b), c) or d), in which circumstances interest will cease to accrue from the relevant Conversion Date, or (ii) in all other circumstances, from the due date for redemption or repayment of such Bond, provided that if, upon due presentation, delivery of the Shares or payment of any amount due is improperly withheld or refused, such Bond shall continue to bear interest as provided in these Terms of the Bonds. In such case, interest will accumulate until the day on which all Shares and/or all sums due in respect of such Bond are received by the Principal Paying and Conversion Agent.

The amount of interest payable in respect of any period, which is less than one year shall be calculated on the basis of the number of days in the relevant period from (but excluding) the first day of such period to (and including) the last day of such period, all such calculations being made on a 30E/360 basis.

3 Conversion

a. Conversion Right, Conversion Period and Conversion Price

- i) Each Bond in the Principal Amount of CHF 5,000 (five thousand) will be convertible on any Business Day during the Conversion Period into Shares at the Conversion Ratio.
- ii) The Conversion Ratio will be determined by dividing CHF 5,000 (five thousand), the Principal Amount of one Bond, by the Conversion Price prevailing on the Conversion Date, such number of Shares to be calculated to five decimal places, provided that if more than one Bond is converted at any one time by the same Holder, the number of Shares to be delivered upon conversion will be determined by dividing the aggregate Principal Amount of the Bonds deposited by the same Holder at any one time by the Conversion Price prevailing at the Conversion Date, such number of Shares to be calculated to five decimal places.
- iii) Fractions of Shares will not be delivered on conversion. Instead, cash payments in CHF based on the Closing Price on the Trading Day immediately preceding the relevant Conversion Date will be made in respect thereof (the **“Cash Payment for Fractions”**), except where any individual entitlement would be less than CHF 10 (ten).
- iv) A Conversion Right may not be exercised following the giving of a default notice by the Bondholder Representative pursuant to Condition 10 nor in respect of a Bond where a Holder shall have exercised its right to redeem such Bond pursuant to Condition 7.

b. Conversion Procedures

i) Conversion Notices

To exercise the right to convert all or any Bonds pursuant to this Condition 3, a Holder must deposit at his own expense during the Conversion Period a duly completed notice of conversion (the **“Conversion Notice”**) in a form satisfactory to the Principal Paying and Conversion Agent together with either clearing instructions in a form satisfactory to the Principal Paying and Conversion Agent allowing for the transfer of the relevant Bond(s) through SIS to the Principal Paying and Conversion Agent at the Specified Office or, if individually certificated Bonds have been printed, the relevant individually certificated Bonds.

A Conversion Notice, once duly completed and deposited as aforesaid, shall be irrevocable. Bonds duly presented and/or transferred for conversion shall be cancelled in their entirety by the Principal Paying and Conversion Agent and, upon delivery of the relevant Shares and the payment of the Cash Payment for Fractions, if any, shall be considered redeemed.

The right to convert one or more Bonds shall be exercised only in respect of the whole of the Principal Amount of a Bond.

A Conversion Notice shall be deemed to be presented on a Business Day if received in a form satisfactory to the Principal Paying and Conversion Agent before 4.00 p.m. CET on that Business Day at the Specified Office. Any Conversion Notice presented after 4.00 p.m. CET will be deemed to have been received on the following Business Day.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the date on which a Conversion Notice has been received or deemed to have been received in accordance with this Condition 3 b) (i).

ii) Delivery of Shares and Cash Payment for Fractions

The Shares to be delivered upon conversion of Bonds in accordance with this Condition 3 will be Shares to be issued from the conditional capital of the Guarantor with the same entitlements as the other outstanding Shares, except that the Shares so delivered will not be entitled to any dividend or other distribution declared, paid or made by reference to a record date prior to such Conversion Date and except that the voting rights may not be exercised unless the person designated in the Conversion Notice as recipient of the Shares is registered as the holder of the Shares in the Guarantor’s share register.

The Issuer will (A) effect or procure the delivery of the Shares and (B) make Cash Payments for Fractions, if any, within 20 (twenty) Business Days after the Conversion Date, in each case through SIS or any other of the Relevant Exchange’s settlement organizations in accordance with directions given by the relevant Holder in the relevant Conversion Notice. At the time of such delivery of the Shares, the then valid share registration rules of the Guarantor will apply; the Issuer does not offer any assurance or guarantee that the exercising Holder will be accepted as a shareholder with voting rights in the share register of the Guarantor.

iii) Taxes and other Costs

Any Swiss Federal Stamp Duty, if due, on the issuance of Shares will be paid, and borne, by the Guarantor. The fee of the Relevant Exchange, if any, in Switzerland payable upon the issuance and/or delivery of the Shares to the Holder upon the conversion of Bonds will be paid or reimbursed by the Issuer. The Issuer will, however, not pay (A) any tax payable in connection with any subsequent sale or transfer of Shares by the Holder thereof or (B) any tax or other cost payable in connection with the sale, transfer or delivery of Share(s) in or to a country other than Switzerland.

4 Payments

The amounts required for the payment of the Coupon Amounts, the Principal Amount and any other payments in cash to be made on the Bonds under these Terms of the Bonds will be made available in good time in freely disposable CHF, which will be placed at the free disposal of the Principal Paying and Conversion Agent in Switzerland, irrespective of any future transfer restrictions and notwithstanding any bilateral or multilateral payment or clearing agreement which may be applicable at the time of such payments. If the due date for any payment by the Issuer does not fall on a Business Day, the Issuer undertakes to effect payment for value the Business Day immediately following such due date and Holders will not be entitled to any additional sum in relation thereto.

Upon receipt of the funds in Switzerland and under the same conditions as received, the Principal Paying and Conversion Agent will arrange for payment to the Holders.

The Issuer undertakes that payments shall be made to the Principal Paying and Conversion Agent in freely disposable CHF without collection cost to the Holders, and, unless otherwise provided for by applicable law, without any restrictions and whatever the circumstances may be, irrespective of nationality, residence or domicile of the Holders and without requiring any affidavit or the fulfilment of any other formality, at the counters of the Principal Paying and Conversion Agent in Switzerland.

The receipt by the Principal Paying and Conversion Agent of funds in CHF in Switzerland from the Issuer shall release the Issuer from its obligations under the Bonds to the extent of the amounts received by the Principal Paying and Conversion Agent.

In the event, however, that it is impossible for the Issuer to make a payment as set forth above without violating laws or mandatory regulations, then the Issuer will inform the Principal Paying and Conversion Agent of this fact as soon as it has become aware thereof, but in no event less than 15 (fifteen) Business Days prior to the due date for making any payment. The Issuer will then:

- a. at the option of the Principal Paying and Conversion Agent and as the Principal Paying and Conversion Agent shall specify to the Issuer not less than 10 (ten) Business Days prior to the relevant due date, make payment either (i) in CHF at such place as the Principal Paying and Conversion Agent shall have specified, or (ii) in a Currency at such place as the Principal Paying and Conversion Agent shall have specified, in either case in such manner as shall not involve violation of any law or mandatory regulation; or
- b. if the Principal Paying and Conversion Agent shall fail to exercise its option under paragraph (a) or if none of the alternatives under paragraph (a) are available without violation of any law or mandatory regulation, make payment in any currency to the Principal Paying and Conversion Agent or any of its affiliates for the benefit of the Holders.

The amount of any payment in the respective currency pursuant to paragraphs (a) and (b) shall be determined by converting the amount of the payment due in CHF into such currency at the rate of exchange for wholesale purchases of the respective currency with CHF in effect at the close of business in Zurich on the Business Day immediately prior to the payment date as determined by the Principal Paying and Conversion Agent. The receipt by the Principal Paying and Conversion Agent of such funds shall release the Issuer from its obligations under the Bonds to the extent of the amounts received by the Principal Paying and Conversion Agent.

If printed, individually certificated Bonds presented for Redemption and conversion must be delivered and surrendered for payment.

5 Redemption and Purchase

a. Repayment at Maturity Date

Unless previously converted, redeemed, or purchased and cancelled as provided below, the Issuer undertakes to repay the Bonds on the Maturity Date, without further notice, at the Accreted Principal Amount (such repayment of any Bond on the Maturity Date, as well as any early redemption in accordance with this Condition 5 or early repayment in accordance with Condition 10, being referred to as **“Redemption”**).

b. Early Redemption at the Option of the Issuer

Subject to a period of not less than 30 (thirty) nor more than 60 (sixty) days' prior notice to the Principal Paying and Conversion Agent in accordance with Condition 5 g), the Issuer may redeem the Bonds at any time after the Payment Date and prior to the Maturity Date, in whole but not in part only, at the Accreted Principal Amount plus accrued interest, if any, if 85 percent or more of the aggregate Principal Amount of the Bonds have been redeemed, converted or purchased and cancelled at the time of the notice. The Principal Paying and Conversion Agent shall inform the Holders of any such notice in accordance with Condition 13.

c. Early Redemption at the Option of the Issuer in Case of Share Price Appreciation

At any time on or after 6 April 2009, the Issuer may, by giving not less than 30 (thirty) days' prior notice, redeem all but not only some of the Bonds for the time being outstanding at the Accreted Principal Amount, with interest accrued to the day of redemption, if any, if, within a period of 30 (thirty) consecutive Trading Days ending 5 (five) Trading Days prior to the date on which the relevant notice of Redemption is given to the Principal Paying and Conversion Agent, the Closing Price of a Share on the Relevant Exchange for 20 (twenty) Trading Days shall have been at least 150 per cent of the Effective Conversion Price.

d. Early Redemption at the Option of the Issuer for Tax Reasons

Subject as provided in the next paragraph, the Bonds may be redeemed at the option of the Issuer in whole, but not in part only, at any time, on giving not less than 30 (thirty) nor more than 60 (sixty) days' prior notice (a "**Tax Redemption Notice**") and in accordance with Condition 5 g) (which notice shall be irrevocable), at their Accreted Principal Amount plus accrued interest on the date of Redemption (the "**Tax Redemption Date**"), if any, if (A) the Issuer or the Guarantor satisfies the Principal Paying and Conversion Agent immediately prior to the giving of the Tax Redemption Notice that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8, and (B) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 (ninety) days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such Additional Amounts on a payment in respect of the Bonds (or, as the case may be, the Guarantee) then due. Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, the Issuer or the Guarantor, as the case may be, shall deliver to the Principal Paying and Conversion Agent a certificate signed by two authorised signatories of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (A) above cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it and the Principal Paying and Conversion Agent shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (A) above in which event it shall be conclusive and binding on the Holders.

If the Issuer gives a Tax Redemption Notice, each Holder will have the right to elect that his Bond(s) shall not be redeemed in which case the obligation of the Issuer and the Guarantor to pay Additional Amounts in accordance with Condition 8 shall not apply in respect of any payment of the Principal Amount or other amounts to be made in respect of such Bond(s) or delivery of Shares which falls due after the Tax Redemption Date and payment of all amounts after the Tax Redemption Date by the Issuer and the Guarantor shall be made subject to the deduction or withholding of the relevant Luxembourg or Swiss tax required to be withheld or deducted. To exercise his rights under this paragraph, the relevant Holder must deposit for all or any of the Bonds held by such Holder at his own expense a duly completed and signed notice of exercise in a form satisfactory to the Principal Paying and Conversion Agent at the Specified Office on or before the day falling 20 (twenty) days prior to the Tax Redemption Date. All Bonds in respect of which no notice of exercise will have been deposited will be redeemed in accordance with this Condition 5 d).

e. Purchases

The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds at any price, in the open market or otherwise. Any purchase shall be made in accordance with applicable laws or regulations, including applicable stock exchange regulations. Such Bonds may be held, resold or, at the option of the Issuer, surrendered to the Principal Paying and Conversion Agent for cancellation in accordance with Condition 5 f) below.

If purchases are made by public tender, such tender must be available to all Holders alike.

Any Bonds, while held by or on behalf of the Issuer, Guarantor or any of their respective Subsidiaries, shall not entitle their Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quota at meetings of the Holders pursuant to Condition 19, except in circumstances where, as a matter of Luxembourg company law, resolutions are required to be approved by the unanimous vote of all Holders, provided all Holders

other than the Issuer, the Guarantor or any of the respective Subsidiaries shall have voted in favour of such resolutions.

f. Cancellation

All Bonds which are converted, redeemed, or surrendered, shall forthwith be cancelled. All Bonds so cancelled by the Principal Paying and Conversion Agent cannot be reissued or resold and shall, in case they have been printed as individually certificated Bonds, be forwarded to the Specified Office.

g. Notice

Where the provisions of this Condition 5 provide for the giving of notice by the Issuer, such notice shall be deemed to be validly given if made in writing with all required information to the Principal Paying and Conversion Agent within the prescribed time limit. Such notices shall be announced to the Holders as soon as practicable pursuant to Condition 13. Such notices shall be irrevocable.

6 Adjustments to the Conversion Price

a. Events leading to Adjustments to the Conversion Price

i) *Increase of capital by means of capitalisation of reserves, profits or premia by distribution of Shares, or division or consolidation of Shares:*

In the event of a change in the Guarantor's share capital as a result of capitalisation of reserves, profits or premia, by means of the distribution of Shares, and in the event of division or consolidation of Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such change by the result of the following formula:

$$N_{\text{Old}} / N_{\text{New}}$$

where:

N_{Old} is the number of Shares existing before the change in share capital; and

N_{New} is the number of Shares existing after the change in share capital.

Such adjustment shall become effective on the date on which such Shares are distributed or, in the event of division or consolidation of Shares, on the first day the Shares are traded on the new basis on the Relevant Exchange.

ii) *Issues of Shares or Other Securities by way of conferring subscription or purchase rights:*

If (a) the Guarantor grants to holders of Shares any rights or options, warrants or other rights per Share to subscribe for or acquire Shares, Other Securities or securities convertible or exchangeable into Shares or Other Securities or (b) any third party with the agreement of the Guarantor issues to holders of Shares any rights, options or warrants to purchase any Shares, Other Securities or securities convertible or exchangeable into Shares or Other Securities (the rights referred to in (a) and (b) collectively and individually being the "**Purchase Rights**"), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the result of the following formula:

$$(P_{\text{cum}} - R) / P_{\text{cum}}$$

where:

P_{cum} is the Closing Price of one Share on whichever is the later of (x) the last Trading Day preceding the date on which the Shares are first traded ex-Purchase Rights on the Relevant Exchange or (y) the Trading Day when the price for the Purchase Right is announced, or, if the day the subscription or purchase price is announced is not a Trading Day, the next following Trading Day; and

R is the value of the Purchase Right relating to one Share or Other Security, such value to be calculated as follows:

(A) in the event the Purchase Rights relate to Shares:

$$R = P_{cum} - TERP$$

where:

$$TERP = (N_{old} \times P_{cum} + N_{new} \times (P_{rights} + Div)) / (N_{old} + N_{new})$$

and:

TERP is the theoretical ex-Purchase Rights price; and

N_{old} is the number of Shares existing before the change in share capital; and

N_{new} is the number of Shares being newly issued; and

P_{rights} is the price at which one new Share can be subscribed, exercised or purchased; and

Div is the amount (in CHF), if any, by which the dividend entitlement per existing Share exceeds the dividend entitlement per new Share, (x) if dividends have already been proposed to the general meeting of shareholders but not yet paid, based on the proposed dividend amount, or (y) if dividends have not yet been proposed based on the last paid dividend;

provided, however, that no such adjustment shall be made if the subscription or purchase price at which one new Share can be subscribed or purchased is at least 95 percent of the Closing Price of one Share on whichever is the later of (x) the last Trading Day preceding the date on which the Shares are first traded ex-Purchase Rights on the Relevant Exchange or (y) the Trading Day when the price for the Purchase Right is announced, or, if the day the subscription or purchase price is announced is not a Trading Day, the next following Trading Day;

(B) in the event the Purchase Rights relate to Other Securities or to securities convertible or exchangeable into Shares or Other Securities and where such Purchase Rights are traded on a regulated stock exchange in Switzerland, the European Union, the United States of America, Canada or Japan:

$$R = N_{rights} \times P_{rights}$$

where:

N_{rights} is the number of Purchase Rights granted per Share; and

P_{rights} is the average of the last paid prices on the Relevant Exchange (or, if no dealing is recorded, the arithmetic mean of the bid and offered prices) on a spot basis of the Purchase Rights on each Trading Day during the time period the Purchase Rights are traded, but not longer than the first ten (10) Trading Days.

(C) in all other cases where neither of the previous paragraphs (A) or (B) is applicable:

R will be determined by a Common Expert.

Such adjustment shall become effective

(i) in the case of Condition 6 a) (ii) (A), on the first day on which the Shares are traded ex-Purchase Rights on the Relevant Exchange;

- (ii) in the case of Condition 6 a) (ii) (B), 5 (five) Trading Days after (x) the end of the period during which the Purchase Rights are traded or (y) the 10th (tenth) Trading Day of the subscription or purchase period, whichever is sooner; and
- (iii) in the case of Condition 6 a) (ii) (C), on the date determined by the Common Expert.

iii) *Spin-offs and capital distributions other than Cash Distributions:*

If, in respect of a spin-off or a capital distribution, other than Cash Distributions as referred to in Condition 6 a) (iv) below, the Guarantor shall issue or distribute to holders of its Shares any assets, evidence of indebtedness of the Guarantor, shares (including Shares), put options or other rights per Share (other than as referred to in Condition 6 (a) (ii) above) (the “**Distribution**”), the Conversion Price shall be adjusted as follows:

- (A) in case the Distribution (x) consists of securities that are traded on a regulated stock exchange in Switzerland, the European Union, the United States of America, Canada or Japan or (y) has otherwise a value which is determinable by reference to a stock exchange quotation or otherwise, by multiplying the Conversion Price in force immediately prior to such issue or distribution by the result of the following formula:

$$(P_{\text{cum}} - D) / P_{\text{cum}}$$

where:

P_{cum} is the Closing Price of one Share on the last Trading Day preceding the date on which the Shares are first traded ex-Distribution on the Relevant Exchange following the relevant Distribution; and

D is the value of the Distribution (in CHF) on the Trading Day immediately following the date in respect of which P_{cum} has been determined, as determined by the Principal Paying and Conversion Agent based, in principle, on the closing price on the Relevant Exchange in case of iii) (A) (x) or by a Common Expert in case of iii) (A) (y);

- (B) in all other cases and where there is one (but not more) Distribution on a given Trading Day, by multiplying the Conversion Price in force immediately prior to such Distribution by the result of the following formula:

$$P_{\text{after}} / P_{\text{before}}$$

where:

P_{after} is the current market price per Share after the date such Distribution was made (the “**Distribution Date**”); and

P_{before} is the current market price for a Share before the Distribution Date;

whereby for purposes of this provision the current market price per Share shall be deemed to be the average of the Closing Prices, (x) in the case of P_{before} , on the 5 (five) consecutive Trading Days before the Distribution Date, and (y) in the case of P_{after} , on the 5 (five) consecutive Trading Days after the Distribution Date, as determined by the Principal Paying and Conversion Agent. When calculating the average of the Closing Prices, the gross amount, if any, of any dividend paid during either of the above mentioned periods of 5 (five) consecutive Trading Days, shall be added back to the Closing Prices on each of the Trading Days on which the Shares are traded ex-dividend.

- (C) in all other cases where there is more than one such Distribution on a given Trading Day, the Common Expert will determine the necessary adjustment.

Such adjustment shall become effective, in the case of (A), on the date on which the Distribution is made and, in the case of (B) and (C), 5 (five) Trading Days after the Distribution Date.

iv) *Cash Distributions:*

In case of distributions per Share by the Guarantor to holders of its Shares made in cash and charged or provided for in the accounts of the Guarantor (the “**Cash Distributions**”) (including any dividend payments, repayments in part of the nominal amount of the Shares, or repurchases of Shares at a price that exceeds 105 percent of the Closing Price of the Shares on the Trading Day prior to the repurchase) but not including any distributions for which an adjustment is otherwise made according to Condition 6 a) or 6 d) or is excluded in accordance with Condition 6 c) then, the Conversion Price shall be adjusted by multiplying the Conversion Price by the following fraction:

$$(P_{\text{cum}} - D) / P_{\text{cum}}$$

where:

P_{cum} is the Closing Price on the Trading Day immediately preceding the date on which the Cash Distribution is paid; and

D is the amount of the Cash Distributions attributable to one Share (as adjusted for any split or consolidation of the Shares pursuant to Condition 6 a) (i)) paid in such relevant financial year.

Such adjustment shall become effective on the Trading Day on which the Shares are first traded ex-Cash Distribution.

v) *Issues of Shares or Other Securities to third parties at a discount:*

If the Guarantor directly or indirectly shall issue wholly for cash or for no consideration any Share, right, warrant or Other Security (other than in circumstances referred to in para. i) to iv) above) which by its terms of issue carry, directly or indirectly rights of conversion, exchange or exercise into Shares and the consideration per Share is less than 95 percent of the Current Market Price per Share on the Trading Day immediately preceding the date of the announcement of the pricing of such Share, right, warrant or Other Security, the Conversion Price shall be adjusted as follows:

$$((X+(Zxc/P)) / (X+Z)) \times CP$$

where:

X = the number of Shares outstanding immediately prior to the occurrence of such event;

P = the Current Market Price per Share on the date of the pricing of the securities to be sold;

Z = the number of (i) Shares to be issued or sold or (ii) Shares into which such other securities to be sold or issued are convertible, exchangeable or otherwise exercisable;

c = the total consideration per Share of (i) the Shares to be sold or (ii) the securities to be sold, issued or modified that are convertible, exchangeable or otherwise exercisable into the Shares;

CP = the Conversion Price immediately prior to the occurrence of such event.

Such adjustment shall become effective on the Trading Day on which the Shares are first traded ex-rights.

b. *Calculation of Adjustments*

- i) Each adjustment to be made pursuant to Condition 6 a) shall be calculated by the Principal Paying and Conversion Agent and shall (in the absence of manifest error) be binding on all parties concerned. The Principal Paying and Conversion Agent shall for the purpose of the foregoing provisions only be liable for making, or not making, adjustments or taking, or not taking, any other measures in connection with these Bonds, if and to the extent that it fails to act with due care according to established market practice. The Principal Paying and Conversion Agent may engage the advice or services of any Common Expert whose advice

or services it may consider necessary and rely upon any advice so obtained, and the Principal Paying and Conversion Agent shall incur no liability against the Issuer, the Guarantor or the Holders in respect of any action taken, or not taken, or suffered to be taken, or not taken, in accordance with such advice and in exercising due care according to established market practice.

- ii) If in case of any adjustment the resulting Conversion Price is not an integral multiple of CHF 0.01 (one hundredth of a Swiss franc), it shall be rounded to the nearest whole or multiple of CHF 0.01 (one hundredth of a Swiss franc) with 0.005 being rounded upwards.
- iii) The Issuer will procure that a notice is published in the manner described in Condition 13 as soon as practicable after either the date on which any adjustment to the Conversion Price becomes effective or, if no adjustment is required, the date on which it is possible to determine that such is the case.

If the Conversion Date in relation to any Bond shall be after the relevant record date for any issue, sale, grant or offer leading to an adjustment pursuant to Condition 6 a), but before the relevant adjustment to the Conversion Price becomes effective under Condition 6 a), the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the converting Holder such additional number of Shares (if any) as, together with the Shares issued or to be issued on conversion of the relevant Bond (together with any fraction of any Share not so issued), is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had in fact been made and become effective immediately after the relevant record date and prior to the Conversion Date.

c. Events not Giving Rise to Adjustments

No adjustment to the Conversion Price will be made:

- i) as a result of any issue or distribution of Shares or Other Securities if the pre-emptive right (*Bezugsrecht*) in respect thereof has under the Swiss Federal Code of Obligations been validly excluded by a resolution of the general meeting of shareholders or by the board of directors of the Guarantor unless a pre-emptive right in respect thereof is granted indirectly to the shareholders by a third party with the agreement of the Guarantor and save for adjustments in accordance with Condition 6 a) v); or
- ii) as a result of any public issue of bonds convertible or exchangeable into Shares or bonds with options to subscribe for Shares, such issue being in connection with a conditional increase of the share capital of the Guarantor, irrespective of whether in respect of such issue the advance subscription rights to acquire such bonds (*Vorwegzeichnungsrecht*) have been excluded or not, unless advance subscription rights have been granted to the shareholders of the Guarantor and are traded on the Relevant Exchange or on the SWX; or
- iii) if the Guarantor sells any share, right, warrant or other securities representing the same (an **"Interest"**) in any of its Subsidiaries to holders of Shares at fair value, and for this purpose:
 - (A) where such Interest is listed, traded, or dealt in on any stock exchange, the fair value of such Interest shall be at least 95 percent of the average of the last prices paid therefor on such stock exchange (or, if more than one, the principal stock exchange) on each of the 10 (ten) Trading Days commencing on the 20th (twentieth) Trading Day before the day on which the Guarantor officially announces the terms and conditions for such sale, as determined by the Principal Paying and Conversion Agent;
 - (B) where such Interest is not so listed, traded or dealt in, the fair value of such Interest shall be at least 95 percent of the intrinsic value thereof. The Issuer shall, at its own expense, instruct a Common Expert to determine as soon as practicable the intrinsic value of such Interest; or
- iv) if Shares or Other Securities are issued, offered or granted to, or for the benefit of, directors or employees, or former directors or employees or consultants or former consultants of the

Guarantor or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person in any such case pursuant to any employee share or option scheme; or

- v) if an increase in the Conversion Price would result from such adjustment, except in case of an exchange of the Shares for Other Securities or a consolidation of Shares; or
- vi) if the Conversion Price would fall below the nominal value of a Share. In this case, the Conversion Price will be adjusted to the nominal value of a Share and any remaining reduction of the Conversion Price resulting from such adjustment or from any further adjustment will be carried forward and only be applied if and to the extent the nominal value of a Share will be reduced.

d. Other Events

If the Issuer or the Guarantor determines, after consultation with the Principal Paying and Conversion Agent, or the Principal Paying and Conversion Agent determines after consultation with the Issuer and the Guarantor, that notwithstanding Condition 6 a) and Condition 6 c) an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in Condition 6 a) or circumstances including circumstances listed in Condition 6 c) have arisen which have an adverse effect on the right to convert Bonds and no adjustment to the Conversion Price under Condition 6 a) would otherwise arise or is excluded according to Condition 6 c), the Principal Paying and Conversion Agent shall engage the advice or services of a Common Expert to determine as soon as practicable what adjustment, if any, to the Conversion Price or amendment, if any, to the terms of this Condition 6 is fair and reasonable to take account thereof and the date on which such adjustment should take effect. If several events occur which become effective on the same Trading Day and which would lead to an adjustment of the Conversion Price pursuant to Condition 6 a), the decision as to the manner of or calculating the adjustment of the Conversion Price shall be taken by the Common Expert. The decision of the Common Expert shall be binding as set forth in Condition 23. The Principal Paying and Conversion Agent shall have no responsibility to make any inquiries as to whether or not any event has occurred which might require an adjustment to the Conversion Price or amendment, if any, to the terms of Condition 6.

7 Change of Control

A A “**Change of Control**” occurs when:

- a. an offer to acquire Shares, whether expressed as a public takeover offer, a merger or similar scheme with regard to such acquisition, or in any other way, is made in circumstances where (i) such offer is available to (aa) all holders of Shares, (bb) all holders of Shares other than the offeror and any persons acting in concert with such offeror or (cc) all holders of Shares other than persons who are excluded from the offer by reason of being connected with one or more specific jurisdictions, and (ii) such offer having become or been declared unconditional in all respects, the Guarantor becomes aware that the right to cast more than 50 percent of all the voting rights (whether exercisable or not) of the Guarantor has become vested in the offeror and any persons acting in concert with the offeror; or
- b. the Guarantor consolidates with or merges into any other company, save where, following such consolidation or merger, the shareholders of the Guarantor immediately prior to such consolidation or merger, have the right to cast 50 percent or more of the voting rights (whether exercisable or not) of such other company; or
- c. following any issue and/or sale of Shares by the Guarantor, the Guarantor becomes aware that the right to cast more than 50 percent of all the voting rights (whether exercisable or not) of the Guarantor has become vested directly or indirectly in any person (or in persons acting in concert with each other); or
- d. the legal or beneficial ownership of all or substantially all of the assets owned by the Guarantor, either directly or indirectly, are acquired by one or more other persons.

B Change of Control Notice

The Guarantor shall give notice of a Change of Control to the Holders (the “**Change of Control Notice**”) in the manner described in Condition 13. The Change of Control Notice shall:

- a. inform the Holders of their right to either require redemption of the Bonds pursuant to Condition 7(D) or, if applicable, exercise their Conversion Rights for a period of 60 (sixty) Business Days at the adjusted Conversion Price, as further described in Condition 7(C);
- b. specify the date (the “**Change of Control Redemption Date**”), being not more than 80 (eighty) and not less than 60 (sixty) days after giving such notice, on which the Bonds may be redeemed at the option of the Holders pursuant to Condition 7(D);
- c. if Condition 7(C) applies, specify the adjusted Conversion Price applicable as a consequence of the Change of Control; and
- d. provide details concerning the Change of Control.

C Conversion at adjusted Conversion Price prior to Change of Control Redemption Date

If a Change of Control occurs, the Conversion Price for Bonds converted on a Conversion Date on or after the date of publication of the Change of Control Notice but on or before the Change of Control Redemption Date, shall be adjusted as follows:

Conversion Price = $RP \times (1 + (CP \times (1 - c/t)))$ where:

RP = Conversion Price prevailing 5 (five) days before the Change of Control Notice is published, divided by $(1 + CP)$;

CP = 40 percent (expressed as a fraction);

c = the number of days from and including the first day when the adjusted Conversion Price is applicable to but excluding 21 February 2013, calculated on a 30E/360 basis; and

t = the number of days from and including 21 March 2006 to but excluding 21 February 2013, calculated on a 30E/360 basis.

No adjustment pursuant to this Condition 7(C) shall be made for conversions of Bonds effective on a Conversion Date after the Change of Control Redemption Date.

D Early Redemption at the Option of Holders upon Change of Control

Upon the occurrence of a Change of Control, the Issuer will at the option of a Holder, redeem such Bond on the Change of Control Redemption Date at its Accreted Principal Amount plus accrued interest, if any, up to the Change of Control Redemption Date.

To exercise such option, a Holder must present, by not later than 14 (fourteen) days prior to the Change of Control Redemption Date, at the Specified Office a duly completed redemption notice in the form obtainable at the Specified Office of the Principal Paying and Conversion Agent (a “**Change of Control Redemption Notice**”), together with clearing instructions in a form satisfactory to the Principal Paying and Conversion Agent allowing for the transfer of the relevant Bond(s) through SIS to the Principal Paying and Conversion Agent. If individually certificated Bonds have been printed, a Holder must present at the Specified Office the relevant individually certificated Bond(s), by not later than 14 (fourteen) days prior to the Change of Control Redemption Date. No Bond or Change of Control Redemption Notice so deposited may be withdrawn without the consent of the Issuer.

E Conversions after the Change of Control Redemption Date

With respect to the Bonds that remain outstanding after the Change of Control Redemption Date, each of the Issuer and the Guarantor shall (as far as legally possible) use its best efforts to ensure that each Bond shall be convertible into Shares or shares (or other equity securities, including depositary receipts

issued for the same) and any other consideration (including cash) issued or delivered to the holders of the number of Shares into which such Bond could have been converted upon exercise of such Holder's Conversion Rights immediately prior to the date of the Change of Control Notice.

8 Payment of Additional Amounts, Taxation

All payments in respect of the Bonds and all deliveries of Shares by or on behalf of the Issuer, as the case may be, to the Principal Paying and Conversion Agent pursuant to these Terms of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Luxembourg or Switzerland, as the case may be, or any political sub-division thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that any payments or deliveries of Shares by or on behalf of the Issuer to the Principal Paying and Conversion Agent shall be made subject to withholding, deduction or payment for any such relevant taxes, duties, assessments or governmental charges so required by law, such additional amounts (the **"Additional Amounts"**) shall be payable by the Issuer as may be necessary in order that the net amounts received by the Principal Paying and Conversion Agent on behalf of a Holder after such withholding, deduction or payment shall equal the respective amounts which would otherwise have been received by the Principal Paying and Conversion Agent in respect of the relevant Bonds in the absence of such withholding, deduction or payment. However, no such Additional Amounts shall be payable by the Issuer on account of any taxes, duties or governmental charges which:

- a. are payable otherwise than by deduction or withholding from payments or payments in connection with delivery of the Shares under these Terms of the Bonds; or
- b. are payable by reason of a Holder having, or having had, some personal or business connection with Luxembourg or Switzerland and not merely by reason of the holding of the Bonds; or
- c. are payable by reason of a change in law that becomes effective more than 30 (thirty) days after the relevant payment becomes due, or is duly provided for and notice thereof is published in accordance with Condition 13, whichever occurs later.

9 Status and Negative Pledge

- a. The Bonds constitute direct, unconditional, and (subject to Condition 9 b)), unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu* without any preferences or priority among themselves and with all other existing and future senior unsecured and unsubordinated obligations of the Issuer and, as appropriate, the Guarantor, except for such preferences as are provided for by any mandatory applicable provision of law.
- b. So long as any Bond remains outstanding, neither the Issuer nor the Guarantor will, and the Guarantor will procure that no Material Subsidiary of the Guarantor will, create or have outstanding any mortgage, charge, pledge, lien or other form of encumbrance or security interest other than a Permitted Security (as defined below) upon the whole or any part of its assets or revenues, present or future, to secure any Relevant Debt or to secure any guarantee or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Issuer's or, as the case may be, the Guarantor's obligations under the Bonds (in the case of the Issuer) or the Guarantee (in the case of the Guarantor) (i) are secured equally and rateably therewith by such encumbrance or security interest or benefit from a guarantee or indemnity with substantially identical terms or, as the case may be or, (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Holders.

For the purposes of this Condition a **"Relevant Debt"** means any present or future indebtedness in the form of, or represented or evidenced by, notes, bonds, debentures, loan stock or other securities which are, for the time being, or are capable of being quoted, listed or ordinarily dealt with on any stock exchange, over-the-counter or other securities market.

For the purposes of this Condition a **"Permitted Security"** is a security in the form of any mortgage, charge, pledge, lien, or other form of encumbrance or security interest created to secure

Relevant Debt of any company or other entity acquired by the Guarantor or any of its Subsidiaries after the Payment Date which security was created prior to, and not in contemplation of or in connection with, such acquisition.

10 Events of Default

The Bondholder Representative has the right but not the obligation, on behalf of the Holders, to declare all Bonds to be repayable as specified in this Condition 10, at the Accreted Principal Amount plus accrued interest, if any, but only in case of the occurrence of any of the following events (each event an **“Event of Default”**):

- a. There is a failure by the Issuer and the Guarantor (i) to pay the Accreted Principal Amount or the Coupon Amount on any of the Bonds when due or (ii) to deliver Shares and/or to make Cash Payments for Fractions upon Conversion, in each case if and when due and such failure continues for a period of 10 (ten) days; or
- b. a default is made by the Issuer or the Guarantor in the performance or observance of any other covenant, Condition or provision contained in the Terms of the Bonds which is to be performed or observed by the Issuer or the Guarantor and (except where the Bondholder Representative certifies in writing that, in its opinion, such default is not capable of remedy, no such notice or continuation as is mentioned below shall be required) such default continues for the period of 15 (fifteen) days following the service of notice by the Bondholder Representative on the Issuer or the Guarantor, as the case may be, requiring such default to be remedied; or
- c. any other present or future indebtedness of the Issuer or the Guarantor or of any Material Subsidiary for or in respect of monies borrowed is not paid when due or, as the case may be, within any applicable grace period, or becomes due and payable prior to its stated maturity as a result of an event of default (howsoever described), or any security in respect of any such indebtedness becomes enforceable or any guarantee of, or indemnity in respect of, any such indebtedness given by the Issuer or the Guarantor or any Subsidiary is not honoured when due and called upon or, as the case may be, within any applicable grace period, provided that no such event shall be taken into account for the purposes of this paragraph (c) unless the relative indebtedness, either alone or when aggregated with other indebtedness relative to all, shall at any time have an outstanding nominal value of at least CHF 5,000,000 (five million) or its equivalent in any other currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against the CHF as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates), or, if greater, an amount equal to 2 (two) percent of the consolidated shareholders' equity of the Guarantor as set out in the most recently published audited consolidated annual accounts of the Guarantor; or
- d. any mortgage, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any other Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person or other similar event) provided that the aggregate amount of the relevant indebtedness in respect of which such mortgage, lien or other encumbrance was created or permitted to subsist equals or exceeds CHF 5,000,000 (five million) or its equivalent in any other Currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against the Swiss Franc as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates), or, if greater, an amount equal to 2 (two) percent of the consolidated shareholders' equity of the Guarantor as set out in the most recently published audited consolidated annual accounts of the Guarantor, and any such steps taken are not abandoned or discontinued within 30 (thirty) days of being taken; or
- e. the Issuer, the Guarantor or any Material Subsidiary is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes a stay of execution, a postponement of payments (*Stillhaltervereinbarung*), a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium or postponement of payments is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any Material Subsidiary; or

- f. the Issuer, the Guarantor or any Material Subsidiary alters its legal or commercial structure through bankruptcy, liquidation, disposal of a substantial part of its assets, change in the objects of the company and/or commercial activities or merger, in so far as the relevant action has or may have a material adverse effect on the capacity of the Issuer and the Guarantor to meet their obligations in connection with the Bonds now or in the future, unless in the sole opinion of the Bondholder Representative the situation of the Holders as a consequence of the securities created or other steps taken by the Issuer and/or the Guarantor, as the case may be, include adequate protection of the Holders; or
- g. a dissolution of, or merger involving, the Issuer or the Guarantor as a result of which the Issuer or the Guarantor is not the surviving company, unless the successor company assumes all the Issuer's or the Guarantor's liabilities; or
- h. the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

The Issuer has undertaken to inform the Bondholder Representative without delay that any event mentioned under paragraphs b) through h) has occurred and to provide the Bondholder Representative with all necessary documents in connection therewith. The Issuer accepts responsibility for the information contained in those documents.

If an Event of Default occurs, the Bondholder Representative has the right but not the obligation to serve a written notice of default upon the Issuer, such notice having the effect that the Bonds shall become immediately due and repayable (or, in connection with the Events of Default listed in Condition 10 a), b) and d), due and repayable after the lapse of any grace period granted thereunder) at the Accreted Principal Amount plus accrued interest, if any, on the day the default notice is given.

Furthermore, a notice of such Event of Default is published in the manner described in Condition 13 as soon as practicable after the Bondholder Representative has served a written notice of default upon the Issuer.

11 Substitution of the Issuer

The Issuer may, upon the decision of the Guarantor but without the consent of the Holders, at any time be substituted in whole in respect of the relevant rights and obligations arising under or in connection with the Bonds by any non-Swiss Subsidiary directly or indirectly held by the Issuer or Guarantor (the **"New Issuer"**), provided that:

- a. the New Issuer is in the opinion of the Bondholder Representative in a position to fulfil all payment obligations arising from or in connection with the Bonds in freely convertible CHF without any need to deduct or withhold any taxes or duties at source and to transfer without restriction all amounts required to be paid under the Bonds to the Principal Paying and Conversion Agent and the interests of the Holders are in the opinion of the Bondholder Representative adequately protected;
- b. the New Issuer shall not be deemed resident in Switzerland for tax purposes; and
- c. the Guarantor has issued an irrevocable and unconditional Guarantee as set forth in Condition 12.

In the event of such substitution, any reference in the Terms of the Bonds to the Issuer shall be deemed to refer to the New Issuer and any reference to Luxembourg (as far as made in connection with the Issuer) shall be deemed to refer to the country in which the New Issuer has its domicile or is deemed resident for tax purposes, as the case requires.

A notice of any such substitution shall be given to the Holders (as soon as practicable after the Bondholder Representative has accepted the New Issuer) in accordance with Condition 13.

12 Guarantee

- a. As security for the Bonds, the Guarantor has issued the following unconditional and irrevocable Guarantee:

Quote

GUARANTEE

(in the meaning of Article 111 of the Swiss Federal Code of Obligations, hereinafter called the “**Guarantee**”)

- a. Being informed that TEMENOS Luxembourg SA, 20, rue Eugène Ruppert, L-2453 Luxembourg (hereinafter called the “**Issuer**”), issued and sold 1.5 percent convertible bonds (hereinafter called the “**Bonds**”) in the aggregate principal amount of CHF 132,250,000 due 2013, TEMENOS Group AG, c/o lic. iur. Hansjürg Rhyner, Rechtsanwalt, 8750 Glarus, Switzerland (hereinafter called the “**Guarantor**”), herewith irrevocably and unconditionally guarantees to the holders of the Bonds (hereinafter called the “**Holders**”) in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Bonds, the Bond Purchase Agreement and the Paying and Conversion Agency Agreement (hereinafter called the “**Agreements**”) and waiving all rights of objection and defence arising from the Bonds and the Agreements, the due payment of the amounts payable by the Issuer under and pursuant to the terms and conditions annexed to the Bond Purchase Agreement (the “**Terms of the Bonds**”) (including, without limitation, any Additional Amount) or, upon conversion of the Bonds pursuant to the Terms of the Bonds, the due delivery of the Shares and/or any Cash Payment for Fractions. Accordingly, the Guarantor agrees to pay or deliver to Bank Sarasin & Co. Ltd, Loewenstrasse 11, 8022 Zurich, Switzerland (hereinafter called “**Sarasin**”) in its role as Principal Paying and Conversion Agent in respect of the Bonds, on behalf of the Holders, within 7 (seven) days after the receipt by the Guarantor of the Principal Paying and Conversion Agent’s first written demand for payment and the Principal Paying and Conversion Agent’s confirmation in writing that an amount has become due and payable under the Bonds which is equivalent to the amount claimed under the Guarantee and has remained unpaid on the due date, or that as a result of the conversion of the Bonds, Shares were required to be delivered but were not delivered on the due date for such delivery, any amount due and payable and/or any number of Shares to be delivered by the Issuer under and pursuant to the Terms of the Bonds.
- b. All payments in respect of the Bonds by the Guarantor under this Guarantee to the Principal Paying and Conversion Agent acting on behalf of the Holders shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Switzerland, as the case may be, or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that any payments by or on behalf of the Guarantor to the Principal Paying and Conversion Agent shall be made subject to withholding or deduction for any such relevant taxes, duties, assessments or governmental charges so required by law, such additional amounts (the “**Additional Amounts**”) shall be payable by the Guarantor as may be necessary in order that the net amounts received by the Principal Paying and Conversion Agent on behalf of a Holder after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable by the Principal Paying and Conversion Agent in respect of the relevant Bonds in the absence of such withholding or deduction.

However, no such Additional Amounts shall be payable on account of any taxes, duties or governmental charges which:

- i) are payable otherwise than by deduction or withholding from payments under this Guarantee; or
- ii) are payable by reason of a Holder having, or having had, some personal or business connection with Luxembourg or Switzerland and not merely by reason of the holding of the Bonds; or

- iii) are payable by reason of a change in law that becomes effective more than 30 (thirty) days after the relevant payment becomes due, or is duly provided for and notice thereof is published in accordance with Condition 13 of the Terms of the Bonds, whichever occurs later.
- c. The Guarantee constitutes a direct, unconditional, unsecured and unsubordinated obligation of the Guarantor and ranks and will rank *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor except for such preferences as are provided by any mandatory applicable provision of law.
- d. So long as any Bond remains outstanding, the Issuer and the Guarantor will not, and will procure that no Material Subsidiary (as defined below) will create or have outstanding, any mortgage, charge, pledge, lien or other form of encumbrance or security interest, other than a Permitted Security (as defined below), upon the whole or any part of its assets or revenues, present or future, to secure any Relevant Debt (as defined below) or to secure any guarantee or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Issuer's or, as the case may be, the Guarantor's obligations under the Bonds (in the case of the Issuer) or the Guarantee (in the case of the Guarantor) (i) are secured equally and rateably by such encumbrance or security interest or benefit from a guarantee or indemnity with substantially identical terms or as the case may be, (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Holders.

For the purposes of this Guarantee, "**Relevant Debt**" means any present or future indebtedness in the form of, or represented or evidenced by, notes, bonds, debentures, loan stock or other securities which are, for the time being, or are capable of being, quoted, listed or ordinarily dealt with on any stock exchange, over-the-counter or other securities market.

For the purposes of this Guarantee a "**Permitted Security**" is a security in the form of any mortgage, charge, pledge, lien, or other form of encumbrance or security interest created to secure Relevant Debt of any company or other entity acquired by the Guarantor or any of its Subsidiaries after the Payment Date which security was created prior to, and not in contemplation of or in connection with, such acquisition.

For the purposes of this Guarantee, "**Material Subsidiary**" means any operating Subsidiary of the Guarantor whose assets, net revenues, operating profit or profit after tax at any time, represent 5 percent or more of the consolidated assets, the consolidated net revenues, the consolidated operating profit or consolidated profit after tax, as the case may be, of the Guarantor and its consolidated Subsidiaries at any time, ascertained by reference to (aa) the financial statements of such Subsidiary at the date to which the last audited consolidated financial statements of the Guarantor and its consolidated Subsidiaries have been prepared, or (bb) if such corporate body becomes a Subsidiary of the Guarantor after that date, the latest financial statements of such Subsidiary adjusted to take into account subsequent acquisitions and disposals or other changes in circumstances.

For the purposes of this Guarantee, "**Subsidiary**" of the Issuer or of Guarantor means a company whose financial statements are, in accordance with applicable law or generally accepted accounting principles, consolidated with those of the Issuer or the Guarantor (as the case may be).

- e. Payments under the Guarantee shall be made in freely disposable Swiss francs. The Guarantor undertakes to pay to Sarasin in its role as Principal Paying and Conversion Agent on behalf of the Holders without costs to be borne by the Principal Paying and Conversion Agent, without any restrictions, and whatever the circumstances may be, irrespective of nationality or domicile of the beneficiary of such payments and without requiring any affidavit or the fulfilment of any other formality, any sums due pursuant to the Guarantee.

The receipt by the Principal Paying and Conversion Agent of funds in Swiss francs in Switzerland from the Guarantor shall release the Guarantor from its obligations under this Guarantee to the extent of the amounts received by the Principal Paying and Conversion Agent.

Any transfer tax, which might possibly be imposed on the transfer of such funds to the Principal Paying and Conversion Agent shall be borne by the Guarantor.

- f. The Guarantee shall give rise to a separate and independent cause of action of the Principal Paying and Conversion Agent acting on behalf of the Holders against the Guarantor and shall apply irrespective of any indulgence granted to the Issuer by the Principal Paying and Conversion Agent or any Holders from time to time and shall continue in full force and effect notwithstanding any judgment or order against the Issuer and/or the Guarantor.
- g. The Guarantee shall be governed by and construed in accordance with the substantive law of Switzerland.
- h. Any dispute regarding the Guarantee which may arise between the Lead Manager, the Principal Paying and Conversion Agent or the Bondholder Representative on the one hand, and the Guarantor, on the other hand, shall fall within the exclusive jurisdiction of the Commercial Court of the Canton of Zurich (*Handelsgericht des Kantons Zürich*) the place of jurisdiction being Zurich 1 with reserve of appeals to the Swiss Federal Supreme Court (*Schweizerisches Bundesgericht*). The Guarantor hereby irrevocably submits for any such action or proceeding to the jurisdiction of the aforesaid courts.
- i. Terms and expressions not otherwise defined in the Guarantee shall have the same meaning as defined in the Agreements and the Terms of the Bonds.

Unquote

- b. The Principal Paying and Conversion Agent undertakes to call on the Guarantor and to claim from the Guarantor pursuant to the Guarantee any unpaid amount or any Shares not delivered by the Issuer. Upon receipt, the Principal Paying and Conversion Agent undertakes to forward such amount or such Shares to the Holders, waiving all rights of set off with respect to such Holders. The Principal Paying and Conversion Agent is, however, entitled to deduct from the received amount all costs and expenses related to the collection of said amount, including court fees and legal fees.

13 Notices

All notices to Holders regarding the Bonds shall be published by the Principal Paying and Conversion Agent on behalf of, and in accordance with directions by, and at the expense of, the Issuer in due time and shall be valid as soon as published electronically on the internet website of the SWX (www.swx.com) in accordance with applicable regulations. In addition, all notices in respect of this Condition 13 may be published in two daily newspapers nationally circulated in Switzerland, expected to be the "Neue Zürcher Zeitung" and "L'Agefi".

14 Listing

The Issuer will have the Bonds listed on the SWX on the main segment or any Relevant Exchange and will maintain such listing during the whole life of the Bonds. The Guarantor will maintain a listing for all the issued Shares on the SWX or any other Relevant Exchange during the whole life of the Bonds.

15 Currency Indemnity

If any payment obligation of the Issuer in favour of the Holders under these Terms of the Bonds has to be converted by law from CHF into a currency other than CHF (to obtain a judgment, execution, or for any other reason), the Issuer undertakes as a separate and independent obligation to indemnify the Holders for any shortfall caused by fluctuations of the exchange rates applied for such conversions. The rates of exchange to be applied in calculating such shortfall shall be the Principal Paying and Conversion Agent's spot rates of exchange prevailing between CHF and the currency other than CHF on the date on which such conversions are necessary.

16 Replacement of Individually Certificated Bonds (if such are printed)

In case individually certificated Bonds have been printed, any individually certificated Bonds which are mutilated, stolen, lost or destroyed may be replaced at the Specified Office and against payment by the Holder of such costs as may be incurred in connection therewith and on such terms as to evidence (including, in the case of stolen, lost or destroyed individually certificated Bonds, surrender of a copy (certified in a manner satisfactory to the Issuer and the Principal Paying and Conversion Agent) of the final and conclusive judgment of cancellation from the competent courts as specified in Condition 18 below) and such guarantee as the Issuer and the Principal Paying and Conversion Agent may require and, in the case of mutilation, upon surrender of the mutilated individually certificated Bonds.

17 Statute of Limitations

Claims for payment of the Principal Amount and for Cash Payments for Fractions, respectively, cease to be enforceable by legal action in accordance with the applicable Swiss statute of limitations, presently after 10 (ten) years in case of claims for the Principal Amount and/or Cash Payments for Fractions from their relevant due dates for payment. Claims for payments of Coupon Amounts cease to be enforceable by legal action in accordance with the applicable Swiss statute of limitations, presently after 5 (five) years from their relevant due dates for payment.

18 Governing Law and Jurisdiction

The Bonds, these Terms of the Bonds, and the Permanent Global Certificate and any individually certificated Bonds (if such are printed) shall in every respect (including without limitation questions of form, content and interpretation) be governed by and construed in accordance with the substantive laws of Switzerland. The provisions of Articles 86 to 94-8 of the Luxembourg law of August 10, 1915 on commercial companies, as amended, are not applicable to the Bonds.

Any dispute which may arise between Holders on the one hand and the Issuer and/or the Guarantor, on the other hand, regarding the Bonds, these Terms of the Bonds, the Permanent Global Certificate and/or any individually certificated Bonds (if such are printed) shall fall within the exclusive jurisdiction of the Commercial Court of the Canton of Zurich (*Handelsgericht des Kantons Zürich*) the place of jurisdiction being Zurich 1 with reserve of appeals to the Swiss Federal Supreme Court (*Schweizerisches Bundesgericht*). For any such disputes the Issuer designates TEMENOS Group AG as its representative for the service of judicial documents pursuant to paragraph 30 of the Rules of Civil Procedure of the Canton of Zurich (§30 *Zivilprozessordnung des Kantons Zürich*), and elects as special domicile pursuant to Article 50 of the Swiss Act of Debt Enforcement and Bankruptcy the offices of TEMENOS Group AG, TEMENOS headquarters, Legal Department, 18, Place des Philosophes, 1205 Geneva, Switzerland.

The Issuer shall be discharged by and to the extent of any payment or delivery of Shares made in respect of any Bonds to a person recognised as a creditor by an enforceable judgment of a Swiss court or any court charged to adjudicate pursuant to the following paragraph.

The Holders are also at liberty to enforce their rights against the Issuer and to take legal action against the Issuer before the competent courts of Luxembourg, or the country of domicile of the New Issuer or any other competent court or authority, in which case Swiss law shall be applicable as provided for in the first paragraph of this Condition 18.

19 Holders' Meetings

The provisions of Articles 86 to 94-8 of the Luxembourg law of August 10, 1915 on commercial companies as amended are not applicable to the Bonds.

- a. The Bondholder Representative or the Issuer and/or the Guarantor may at any time convene a meeting of the Holders (a "**Holders' Meeting**").

If an Event of Default is continuing and as long as the Bondholder Representative has not exercised its rights under Condition 10 above, the Holders who wish that a Holder's Meeting

should be convened and who represent at least 10 percent of the aggregate Principal Amount of the Bonds then outstanding and who are entitled to participate and to vote in accordance with paragraphs (f) and (h) below may at any time require the Bondholder Representative to convene a Holders' Meeting and the Bondholder Representative shall convene such a meeting as soon as commercially possible upon receipt of such request.

- b. The costs for such Holders' Meeting shall be borne by the Issuer or, in the event that the Issuer is prohibited by law to pay these costs, by the Holders convening such meeting (each of these Holders shall bear such costs in relation to its respective holding of Bonds at the time of such Holders' request to the Bondholder Representative to convene a Holders' Meeting).
- c. A Holders' Meeting may consider any matter affecting the interests of the Holders (other than matters on which the Bondholder Representative has previously exercised its rights contained in Condition 10 above and Condition 20 below), including any modification of, or arrangement in respect of, the Terms of the Bonds.
- d. Notice with respect to the convening of a Holders' Meeting shall be given at least 20 (twenty) days prior to the proposed date thereof. Such notice shall be given in accordance with Condition 13 above, at the expense of the Issuer. It shall state generally the nature of the business to be transacted at such meeting. If an Extraordinary Resolution (as defined below) is being proposed, the wording of the proposed resolution or resolutions shall be indicated. The notice shall specify the day, hour and place of the meeting and also the formal requirements referred to in paragraph (f) below. The Issuer (at its head office) and the Principal Paying and Conversion Agent (at the Specified Office) will make a copy of such notice available for inspection by the Holders during normal business hours.

Notice of any resolution passed at a Holders' Meeting will be published by the Bondholder Representative on behalf and at the expense of the Issuer in compliance with Condition 13 above not later than 10 (ten) days after the date of the meeting. Any failure to publish such notice shall not invalidate such resolution.

- e. All Holders' Meetings shall be held in Zurich or a place designated by the Bond Representative. A chairman (the "**Chairman**") shall be nominated by the Bondholder Representative in writing. If no person has been so nominated or if the nominated person shall not be present at the Holders' Meeting within 30 (thirty) minutes after the time fixed for holding the meeting, the Holders present shall choose the Chairman.

The Chairman shall lead and preside over the Holders' Meeting. One of the Chairman's duties shall be to determine the presence of persons entitled to vote and to inquire if the necessary quorum (as set forth below) is present. He shall instruct the Holders as to the procedure of the Holders' Meeting and the resolutions to be considered. He shall sign the minutes referred to in subparagraph (l) below.

In the case that the number of votes for and against any resolution is equal, the Chairman shall have a casting vote.

A declaration by the Chairman that a resolution has been passed or supported by a particular majority in accordance with paragraphs (g) and (i) below or lost or not supported by a particular majority in accordance with paragraphs (g) and (i) below shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

- f. Each person who presents one or more Bonds or a certificate by a bank in respect of such Bonds is entitled to attend the Holders' Meeting and to vote on the resolutions proposed at such Holders' Meeting. Bank certificates shall be dated before the date of the Holders' Meeting and confirm that the relevant Bonds are deposited with that bank and will remain deposited with it until and including the date of the Holders' Meeting and that it has not issued any other such certificate with respect to such Bonds.

- g. The presence quorum necessary in order to vote on resolutions proposed at a Holders' Meeting shall be persons entitled under paragraph (f) above and (h) below holding or representing in the aggregate (or more than):

Ordinary Resolution: 25 percent
Extraordinary Resolution: 66 percent

of the aggregate Principal Amount of all outstanding Bonds.

If within 30 (thirty) minutes after the time appointed for any Holders' Meeting a sufficient quorum is not present, the meeting shall be dissolved.

- h. Holders' voting rights shall be determined according to the Principal Amount of outstanding Bonds held. Each Bond shall be entitled to one vote.

Bonds held by or on behalf of the Issuer and/or the Guarantor or any other natural person or legal entity,

(aa) which directly or indirectly owns or controls more than 50 percent of the equity share capital of the Issuer and/or the Guarantor, or

(bb) of which in the case of a legal entity more than 50 percent of the equity share capital is directly or indirectly controlled by the Issuer and/or the Guarantor, or

(cc) where the Issuer and/or the Guarantor is in a position to exercise, directly or indirectly, a control over the decisions or actions of such natural person or legal entity or representative thereof, irrespective of whether or not the latter is affiliated to the Issuer and/or the Guarantor,

shall not be entitled to vote at such Holders' Meeting, except in circumstances where, as a matter of Luxembourg company law, resolutions are required to be approved by the unanimous vote of all Holders, provided all Holders other than the Issuer, the Guarantor or any of the natural persons or legal entities referred to in (aa) to (cc) above shall have voted in favour of such resolutions.

- i. A resolution shall be validly passed if approved by the following percentages (or more) of votes cast at a duly convened Holders' Meeting held in accordance with this Condition 19:

Ordinary Resolution: more than 50 percent
Extraordinary Resolution: 66 percent

Every proposal submitted to a Holders' Meeting shall be decided upon a poll.

- j. Any resolution which is not an Extraordinary Resolution in accordance with paragraph (k) below shall be deemed to be an Ordinary Resolution.

- k. An Extraordinary Resolution shall be necessary to decide on the following matters at a Holders' Meeting:

- to postpone the maturity beyond the Maturity Date; or
- to change the Principal Amount or to change the Coupon Amount or the method of computation of such amount on any Bonds; or
- to change any provision for payment contained in the Terms of the Bonds (including a change of the Coupon Amount Payment Date); or
- to amend or modify or waive the whole or any parts of Conditions 7, 9 or 10 above or paragraphs (f), (g), (h), (i) or (k) of this Condition 19; or
- to amend or modify any provision in the Terms of the Bonds relating to the conversion of the Bonds into Shares; or
- to change the choice of law and the jurisdiction clause contained in Condition 18 above.

The above-mentioned list of issues for which an Extraordinary Resolution shall be necessary is exclusive.

- I. Any resolution approved at a Holders' Meeting held in accordance with this Condition 19 shall be conclusive and binding on the Issuer and the Guarantor and on all present or future Holders, whether present or not, regardless whether such Holders have approved such resolution. The Holders shall not be entitled to any improvement of their position vis-à-vis the Issuer or the Guarantor pursuant to a resolution approved at a Holders' Meeting without prior written approval of the Issuer or, as the case may be, the Guarantor.

Minutes of all resolutions and proceedings at a Holders' Meeting shall be made and signed by the Chairman.

- m. If no Holder or an insufficient number of Holders shall attend a Holders' Meeting, the right to decide on any measures to protect the interests of the Holders shall revert to the absolute discretion of the Bondholder Representative. Any such decision of the Bondholder Representative shall be final and binding upon the Issuer and the Holders. Notice of any such decision shall be published in accordance with Condition 13 above.
- n. Any resolution approved at a Holders' Meeting as well as any resolution based on Condition 19 (m) in the discretion of the Bondholder Representative which increased the obligations of the Issuer under the Terms of the Bonds shall become effective only after written approval of the Issuer and the Guarantor.

20 Amendment to the Terms of the Bonds

The Terms of the Bonds may be amended from time to time by agreement between the Issuer, the Guarantor and the Bondholder Representative, acting on behalf of and with effect for all present and future Holders, provided that in the sole opinion of the Bondholder Representative such amendment is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Holders. Furthermore, an amendment to the terms of Condition 6 may be made in accordance with Condition 6 d).

Notice of any such amendment shall be published in accordance with Condition 13 above.

Any such amendment shall be binding on the Issuer, the Guarantor, the Bondholder Representative, the Lead Manager, the Principal Paying and Conversion Agent and the Holders in accordance with its terms.

21 Role of Lead Manager and of Principal Paying and Conversion Agent

ML will act as Lead Manager. Sarasin will act as Principal Paying and Conversion Agent of this Bond issue and will or may also act as Bondholder Representative, but only in the cases stated explicitly in these Terms of the Bonds. In any other cases, neither the Lead Manager nor Sarasin is obliged to take or to consider any actions on behalf or for the benefit of the Holders.

22 Severability

If at any time any one or more of the provisions of the Terms of the Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

23 Definitions

- 1 **"Accreted Principal Amount"** in respect of each Bond means (i) in the case of a redemption on the Maturity Date, CHF 5,778, being 115.56 percent of such principal amount and (ii) in any other case the amount which represents for the Holder thereof on the relevant date for determination of the accreted principal amount (the **"Determination Date"**) a gross yield to maturity identical to that applicable in the

case of redemption on the Maturity Date, being 3.50 percent per annum (calculated on an annual basis) and shall be calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided, that if the Determination Date is one of the dates set out below, the Accreted Principal Amount shall be as set out in the table below in respect of such date):

$$\text{Accreted Principal Amount} = \text{Previous Accreted Principal Amount} \times ((1 + r)^{d/p})$$

where:

Previous Accreted Principal Amount = The Accreted Principal Amount on the Interest Payment Date immediately preceding the Determination Date as set out below (or, if the Determination Date is prior to the first such date, CHF 5,000)

<u>Interest Payment Date</u>	<u>Accreted Principal Amount</u> (CHF)
21 March 2007	5,100.00
21 March 2008	5,203.50
21 March 2009	5,310.50
21 March 2010	5,421.50
21 March 2011	5,536.00
21 March 2012	5,655.00
21 March 2013	5,778.00

r = 1.50 percent expressed as a fraction;

d = the number of days (on a 30E/360 basis) from but excluding the immediately preceding Interest Payment Date (or, if the Determination Date is on or before the first Interest Payment Date, the Payment Date) to and including the Determination Date; and

p = the number of days (on a 30E/360 basis) from but excluding the immediately preceding Interest Payment Date (or, if the Determination Date is on or before the first date, the Payment Date) to and including the next following Interest Payment Date.

If the Accreted Principal Amount payable in respect of any Bond upon its redemption pursuant to Condition 5 or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Accreted Principal Amount due and repayable in respect of such Bond shall be the Accreted Principal Amount of such Bond as described above, except that such Conditions shall have effect as though the reference therein to the date fixed for redemption or, as the case may be, the date on which the Bond becomes due and repayable, had been replaced by a reference to the Relevant Date (as defined below). The calculation of the Accreted Principal Amount in accordance herewith will continue to be made (as well after as before judgment) until the date on which any Additional Amounts shall become payable pursuant to Condition 8 (the “**Relevant Date**”), unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be CHF 5,778 together with interest thereon at the rate of 1.50 percent per annum from and including the Maturity Date to but excluding the Relevant Date.

- 2 “**Additional Amounts**” has the meaning given to it in Condition 8;
- 3 “**Bond**” has the meaning given to it in Condition 1 a);
- 4 “**Bondholder Representative**” shall mean Sarasin in its function as representative of the bondholders;
- 5 “**Bonds**” has the meaning given to it in the Preamble;
- 6 “**Business Day**” means any day (other than Saturday or Sunday) on which banks are open for the whole day for business in Zurich;
- 7 “**Cash Distribution**” has the meaning given to it in Condition 6 a) iv);

- 8 **"Cash Payment for Fractions"** has the meaning given to it in Condition 3 a) iii);
- 9 **"Chairman"** has the meaning given to it in Condition 19 e);
- 10 **"Change of Control"** has the meaning given to it in Condition 7;
- 11 **"Change of Control Notice"** has the meaning given to it in Condition 7 (B);
- 12 **"Change of Control Redemption Date"** has the meaning given to it in Condition 7 (B);
- 13 **"Change of Control Redemption Notice"** has the meaning given to it in Condition 7 (D);
- 14 **"CHF"** has the meaning given to it in the Preamble;
- 15 **"Closing Price"** means, in respect of any Trading Day, the last officially published price of the Shares by the Relevant Exchange on that Trading Day;
- 16 **"Common Expert"** means an independent investment bank of international reputation or an independent law firm or an accounting firm of international reputation (an "Expert") selected and instructed by the Issuer and the Principal Paying and Conversion Agent by mutual agreement. If the Issuer and the Principal Paying and Conversion Agent do not mutually agree on an Expert within 7 (seven) days from the beginning of the appointment process, each of the Issuer and the Principal Paying and Conversion Agent shall select an Expert, whereby the so elected Experts shall select together a third Expert. In case the two selected Experts do not mutually agree on a third Expert within 7 (seven) days after being appointed, each of them shall select another Expert, whereby a Swiss Notary Public appointed by the Principal Paying and Conversion Agent will pick one of these two Experts as a third Expert by drawing lots. In the case of the appointment of three Experts references in the Terms of the Bonds to a Common Expert shall be deemed to refer to these three Experts, deciding by majority decision. Decisions of the Common Expert shall be final and binding on the Issuer, the Guarantor, all present and future Holders, the Lead Manager and the Principal Paying and Conversion Agent. The Principal Paying and Conversion Agent shall incur no liability against the Issuer or the Guarantor or the Holders in respect of any action taken, or suffered to be taken, in accordance with such decision and in good faith. The fees and costs of the Common Expert shall be borne by the Issuer, failing whom the Guarantor;
- 17 **"Condition"** has the meaning given to it in the Preamble;
- 18 **"Conversion Date"** has the meaning given to it in Condition 3 b) i);
- 19 **"Conversion Notice"** has the meaning given to it in Condition 3 b) i);
- 20 **"Conversion Period"** means the period during which a Holder may exercise the Conversion Rights at his option, such period commencing on 2 May 2006 up to and including 21 February 2013 or in case of early redemption of the Bonds pursuant to Conditions 5 and 7 up to and including such earlier date which is 5 (five) Business Days prior to the date fixed for early redemption;
- 21 **"Conversion Price"** means CHF 18.06 subject to adjustments in accordance with Condition 6;
- 22 **"Conversion Ratio"** means the number of Shares to be delivered upon conversion of one Bond as determined pursuant to Condition 3;
- 23 **"Conversion Right"** means the right of a Holder to request conversion of any Bond into Shares in accordance with the provisions of these Terms of the Bonds;
- 24 **"Coupon Amount"** has the meaning given to it in the first paragraph of Condition 2;
- 25 **"Coupon Amount Payment Date"** means 21 March in each year from and including 21 March 2007 to and including the Maturity Date;
- 26 **"Currency"** means any currency freely convertible into CHF such as Euro or US Dollars;

- 27 **“Current Market Price”** means, in respect of a Share at a particular date, the arithmetical mean of the Closing Prices for the Shares for the 5 (five) consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said 5 (five) day period the Shares shall have been quoted cum-dividend and during some other part of that period some Shares shall have been quoted ex-dividend then:
- (a) if the Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share;
 - (b) if the Shares to be issued do rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Share, and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend the quotations on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.
- 28 **“Determination Date”** has the meaning given to it in the definition of Accreted Principal Amount;
- 29 **“Distribution”** has the meaning given to it in Condition 6 a) iii);
- 30 **“Distribution Date”** has the meaning given to it in Condition 6 a) iii);
- 31 **“Effective Conversion Price”** means the Conversion Price multiplied by the Accreted Principal Amount and divided by CHF 5,000.
- 32 **“Event of Default”** has the meaning given to it in Condition 10;
- 33 **“Expert”** shall have the meaning given to it in the definition of Common Expert;
- 34 **“Extraordinary Resolution”** shall have the meaning given to it in Condition 19 k);
- 35 **“Guarantee”** means the guarantee issued by the Guarantor pursuant to Condition 12;
- 36 **“Guarantor”** has the meaning given to it in the Preamble;
- 37 **“Holder”** means a holder of a co-ownership interest in accordance with Condition 1 b) or, in case of the printing of individually certificated Bonds, the holder of individually certificated Bonds;
- 38 **“Holders’ Meeting”** has the meaning given to it in Condition 19 a);
- 39 **“Interest”** has the meaning given to it in Condition 6 c) iii);
- 40 **“Issuer”** has the meaning given to it in the Preamble;
- 41 **“Lead Manager”** shall mean ML;
- 42 **“Material Subsidiary”** means the Issuer and any operating Subsidiary of the Guarantor whose assets, net revenues, operating profit or profit after tax at any time, represent 5 percent or more of the consolidated assets, the consolidated net revenues, the consolidated operating profit or consolidated profit after tax, as the case may be, of the Guarantor and its consolidated Subsidiaries at any time, ascertained by reference to (aa) the financial statements of such Subsidiary at the date to which the last audited consolidated financial statements of the Guarantor and its consolidated Subsidiaries have been prepared, or (bb) if such corporate body becomes a Subsidiary of the Guarantor after that date, the latest financial statements of such Subsidiary adjusted to take into account subsequent acquisitions and disposals or other changes in circumstances;
- 43 **“Maturity Date”** means 21 March 2013;

- 44 **"ML"** has the meaning given to it in the Preamble;
- 45 **"New Issuer"** has the meaning given to it in Condition 11;
- 46 in respect of the Bonds **"Ordinary Resolution"** has the meaning given to it in Condition 19 j);
- 47 **"Other Securities"** means equity securities of the Guarantor other than Shares;
- 48 **"Payment Date"** means 21 March 2006;
- 49 **"Permanent Global Certificate"** means the permanent global certificate documenting the Bonds and all rights in connection therewith;
- 50 **"Permitted Security"** has the meaning given to it in Condition 9 b);
- 51 **"Principal Amount"** has the meaning given to it in Condition 1 a);
- 52 **"Principal Paying and Conversion Agent"** means Sarasin in its function as Principal Paying and Conversion Agent for the Bonds;
- 53 **"Purchase Rights"** has the meaning given to it in Condition 6 a) ii);
- 54 **"Redemption"** has the meaning given to it in Condition 5 a);
- 55 **"Relevant Debt"** has the meaning given to it in Condition 9 b);
- 56 **"Relevant Exchange"** means (i) in the case of Shares, SWX or any successor thereof or, if the Shares are no longer admitted to trading on SWX, the principal stock exchange or securities market on which the Shares are traded, and (ii) in the case of other securities, the principal stock exchange or securities market on which the other securities are traded;
- 57 **"Sarasin"** has the meaning given to it in the Preamble;
- 58 **"SESTA"** shall mean the Swiss Federal Act on Stock Exchanges and Securities Trading of 24 March 1995 as amended;
- 59 **"Shares"** means issued and fully paid registered shares of CHF 5 (five) par value each of the Guarantor (and all other (if any) shares or stock resulting from any subdivision, consolidation or reclassification of such shares) which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor;
- 60 **"SIS"** means SIS SegalInterSettle AG, Baslerstrasse 100, 4600 Olten, Switzerland;
- 61 **"Specified Office"** means Bank Sarasin & Co. Ltd, Loewenstrasse 1, 8022 Zurich, Switzerland;
- 62 **"Subsidiary"** of the Issuer or of the Guarantor means a company whose financial statements are, in accordance with applicable law and/or generally accepted accounting principles, consolidated with those of the Issuer or the Guarantor (as the case may be);
- 63 **"Swiss Federal Stamp Duty"** means (a) the transfer stamp duty that may become due on the transfer of securities if a transfer is made by or through a Swiss Securities Dealer (*Effektenhändler*) being a registered securities dealer within the meaning of the Swiss StampDuty law (*Bundesgesetz über die Stempelabgaben*) and (b) the capital issuance stamp duty becoming due upon the issuance of any new Shares by the Guarantor;
- 64 **"SWX"** means the SWX Swiss Exchange or any successor to the SWX Swiss Exchange;
- 65 **"Terms of the Bonds"** has the meaning given to it in the Preamble;

- 66 **"Trading Day"** means any day (other than a Saturday or Sunday) on which the Relevant Exchange is open for business and Shares may be dealt in.

SECTION 3: INFORMATION ON THE SHARES

The Shares

Upon conversion of the Bonds, if any, the necessary Shares will be delivered out of conditional capital of the Company.

The conditional capital to be listed and the Shares to be issued upon conversion of the Bonds out of the conditional capital shall be based on Article 3^{quater} (2) of the Company's articles of association ("**Articles of Association**"), adopted at the shareholders' meeting of the Company in 2001. The conditional capital of the Company consists of, (i) as reflected in Article 3^{quater} (2) of the Articles of Association, 13,930,680 Shares, and, (ii) as reflected in Article 3^{quater} (1) of the Articles of Association, 12,309,437 Shares reserved for officers, directors and employees of the Guarantor and Group companies.

With respect to the pre-emptive rights and advance subscription rights attached to the Shares, see "Information on the Shares – Description of the Shares – Advance Subscription Rights" and "Information on the Shares – Description of the Shares – Advance Subscription and Pre-emptive Rights", below.

The Shares will be registered shares with a par value of CHF 5.00 each. The Shares will be fully paid-in. By decision of the shareholders' meeting, registered shares may be converted into bearer shares, and bearer shares into registered shares.

The Shares will rank *pari passu* in all respects with each other, including in respect of entitlements to dividends, to a share of the liquidation proceeds in the case of a liquidation of the Company, and to pre-emptive rights.

Only persons registered in the share register are considered as shareholders vis-à-vis the Company.

Each Share will carry one vote at the Company's shareholders' meeting. Voting rights may be exercised only after a shareholder has been recorded in the Company's share register as a shareholder.

Advance Subscription and Pre-emptive Rights

Pre-emptive rights (*Bezugsrechte*) of the existing shareholders to the Shares to be issued in connection with the conversion of the Bonds as well as the advance subscription rights (*Vorwegzeichnungsrechte*) of the existing shareholders to the Bonds are excluded pursuant to Article 3^{quater} of the Company's Articles of Association, adopted by the annual general meeting of shareholders held on 25 June 2004.

Listing

The existing Shares are listed in Switzerland on the main segment of the SWX under the symbol TEMN. Application will be made for the formal listing of 9,000,000 Shares that may be issued upon conversion of the Bonds out of the conditional capital of the Company on the main segment of SWX. In addition, but unrelated to the Bonds, application for the formal listing of 4,400,000 Shares reserved for officers, directors and employees of the Company and Group companies in accordance with Article 3^{quater} (1) of the Articles of Association will be made.

Share Price

Per Share in CHF		2001*	2002	2003	2004	2005	2006**
Prices	Highest	22.00	18.00	8.99	11.85	12.80	14.00
	Lowest	4.90	1.05	1.20	7.86	6.35	11.90
	Closing Price	12.50	1.20	8.90	10.50	12.80	12.45

Source: DATASTREAM

* First day of trading: 26 June 2001

** up to and including 10 March 2006

Security Number and ISIN of the Shares

Swiss security number:	1245391
ISIN number:	CH0012453913
Common Code:	013169144
Reuters:	TEMN.S
Bloomberg:	TEMN SW
Telekurs:	TEMN

Dividends

Over the last five years, the Company has not paid any dividends.

Description of the Shares

Set out below is a brief summary of certain provisions of the Articles of Association and of the Swiss Code of Obligations relating to the Shares. This description does not purport to be complete and is qualified in its entirety by reference to statutory law and the Articles of Association, copies of the latter of which are available at the offices of the Company and on the Company's website at www.temenos.ch.

Shareholders' Meetings

Under Swiss law, the annual general meeting of shareholders must be held within six months after the end of the Company's fiscal year. Annual general meetings of shareholders are convened by the board of directors, or, if necessary, by the statutory auditors, the liquidators or by representatives of bondholders. The board of directors is further required to convene an extraordinary general meeting of shareholders if so requested by one or more shareholders holding in aggregate at least 10 per cent of the Company's nominal share capital. A general meeting of shareholders is convened by publication in the Swiss Official Gazette of Commerce at least 20 days prior to the meeting date.

One or several shareholders whose combined holdings represent an aggregate par value of at least CHF 1,000,000 may request in writing prior to a general meeting of shareholders that specific items be included in the agenda and voted on at the next general meeting of shareholders.

The following powers are vested exclusively in the general meeting of the shareholders:

- adoption and amendment of the Articles of Association;
- election of members of the board of directors and the auditors;
- approval of the annual report and the consolidated statements of account;
- approval of the annual financial statements and decision on the allocation of profits shown on the balance sheet, in particular with regard to dividends;
- granting discharge to the members of the board of directors; and
- passing resolutions as to all matters reserved to the authority of the shareholders' meeting by law or under the Articles of Association.

The Articles of Association do not specify a quorum for the holding of shareholders' meetings.

Decisions by the shareholders' meeting usually require the approval of the majority of the votes cast, i.e., abstentions or invalid votes are not considered.

A resolution passed with a qualified majority of at least two-thirds of the votes represented and the absolute majority of the par value of shares represented at a shareholders' meeting is required for:

- the modification of the Company's purpose;
- the creation of shares with increased voting powers;
- restrictions on the transfer of registered shares;
- an increase of the share capital, authorized or subject to a condition;
- the increase of the capital out of equity or contributions in kind or for the purpose of acquisition of assets;
- the granting of special benefits;
- the restriction or withdrawal of pre-emptive rights;
- the transfer of the Company's registered seat; or
- the Company's dissolution without liquidation.

In addition, Swiss law requires a special quorum to pass certain other resolutions. The abolition of any provision in the Articles of Association providing for a qualified majority must be resolved in accordance with such qualified majority voting requirements.

Net Profits and Dividends

Swiss law requires that the Company retains at least 5 per cent of its annual net profits as general reserves as long as these reserves amount to less than 20 per cent of the Company's paid-in nominal share capital. Any net profits remaining in excess of those reserves are at the disposal of the shareholders' meeting.

Under Swiss law, the Company may pay dividends only if it has sufficient distributable profits from previous business years, or if its reserves are sufficient to allow distribution of a dividend. In either event, dividends may be paid out only after approval by the shareholders' meeting. The board of directors may propose that a dividend be paid out, but cannot itself set the dividend. The auditors must confirm that the dividend proposal of the board of directors conforms to statutory law. In practice, the shareholders' meeting usually approves the dividend proposal of the board of directors.

Dividends are usually due and payable after the shareholders' resolution relating to the allocation of profits has been passed by the shareholders' meeting. Under Swiss law, the statute of limitations in respect of dividend payments is five years. Dividends not collected within five years after their due date accrue to the Company and will be allocated to the Company's general reserves.

Pre-emptive Rights

Shareholders of a Swiss corporation have certain rights to subscribe for new shares issued in connection with capital increases in proportion to the nominal amount of their shares held (pre-emptive rights). A resolution adopted at a shareholders' meeting with a qualified majority of two-thirds of the votes represented and the absolute majority of the par value of shares represented may, however, repeal, limit or suspend (or authorise the board of directors to repeal, limit or suspend) pre-emptive rights for valid reasons. Valid reasons include an acquisition of a business or a part thereof, an acquisition of a participation in a company, or employee participation.

Advance Subscription Rights

Shareholders of a Swiss corporation have an advance subscription right with respect to bonds and other instruments issued in connection with options or conversion rights for shares if such option or conversion rights are based on the corporation's conditional capital. However, the shareholders' meeting can, with a qualified majority of two-thirds of the votes represented and the absolute majority of the par value of shares represented, exclude or restrict (or authorise the board of directors to exclude or restrict) such advance subscription rights for valid reasons.

Borrowing Power

The Articles of Association do not restrict in any way the Company's power to borrow and raise funds. The decision to borrow funds is taken by or under the direction of the board of directors, and no shareholders' resolution is required. Other than as described in this Prospectus, the Articles of Association do not contain provisions concerning borrowing powers exercisable by the board of directors.

Repurchase of Shares

Swiss law limits a corporation's ability to repurchase or hold its own shares. The Company and its subsidiaries may only repurchase Shares if the Company has freely distributable reserves in the amount of the purchase price, and if the aggregate par value of such Shares does not exceed 10 per cent of the Company's nominal share capital. Furthermore, the Company must create a special reserve on its balance sheet in the amount of the purchase price of the acquired Shares. Such Shares held by the Company or its subsidiaries do not carry any rights to vote at shareholders' meetings, but are entitled to the economic benefits applicable to the Shares generally and are considered to be "issued" under Swiss law. In addition, selective Share repurchases are only permitted under certain circumstances; in particular, repurchases of listed shares are subject to certain restrictions promulgated by the Swiss Takeover Board (the regulatory body for takeovers in Switzerland).

Within these limitations, the Company, as is customary for Swiss companies, may purchase and sell its own Shares from time to time in order to meet imbalances of supply and demand, to provide liquidity and to modulate swings in the market price for Shares. Such trading activity also allows for accumulating Shares in treasury to satisfy obligations under management incentive plans and for other corporate purposes.

Transfer of Shares

The Company is permanently dispensed from the obligation to print and supply documents (shares or certificates) to the shareholders, and the shareholders have no right to require the Company to print and supply documents (Shares or certificates). The transfer of such dematerialised Shares is effected by a corresponding entry in the books of a bank or depositary institution following an assignment by the selling shareholder and notification of such assignment to the Company's share register. Dematerialised Shares may only be transferred with the assistance of the bank that administers the book entries of such Shares for the account of the transferring shareholder. Alternatively, dematerialised Shares of the Company and the dematerialised rights deriving from them may be transferred by means of assignment with such assignment being valid only if the Company is notified.

Transfer Restrictions (Article 6 of the Articles of Association)

Only holders of Shares who have been registered in the Company's share register will be recognised by the Company as shareholders for the purposes of the exercise of any shareholder rights. Registration in the share register will be made upon request.

The Company may refuse to register an acquirer of Shares as a shareholder with voting rights if the acquirer does not declare that it has acquired the Shares in its own name and for its own account. The board of directors is further entitled to refuse to register entries into the share register, or to delete entries from the share register with retroactive effect from the date of entry, should there have been or be any misrepresentation in connection with the registration in the share register.

The provisions of Article 6 of the Articles of Association apply also to Shares underwritten or acquired through the exercise of subscription or conversion rights or rights to exercise warrants.

Notices

The Company's official instrument for publications is the Swiss Official Gazette of Commerce. Any and all announcements as well as notices by the Company to shareholders shall be validly made only by publication in the Swiss Official Gazette of Commerce, unless mandatory legal provisions shall require otherwise. Other written communications and notifications by the Company to shareholders may be made in the form of an ordinary letter sent to the last address of the shareholder entered in the share register.

Notices regarding the Shares required under the SWX Listing Rules will be published in two Swiss newspapers with national circulation, one such newspaper being in German and the other in French.

Duration, Liquidation and Merger

The duration of the Company as a legal entity is unlimited. The Company may be dissolved at any time by a shareholders' resolution which must be approved by (1) an absolute majority of the votes cast at the general meeting of shareholders, in the event it is to be dissolved by way of liquidation, or (2) a qualified majority of two-thirds of the shares represented at the general meeting of shareholders and an absolute majority of the par value of the shares represented at such general meeting in other events (e.g., in a merger where it is not the surviving entity). Dissolution by court order is possible, in particular if the Company becomes bankrupt or if shareholders holding at least 10 per cent of the share capital can establish cause for dissolution.

Any surplus arising out of a liquidation of the Company (after the settlement of all claims of all creditors) will be first used to reimburse shareholders in proportion to the paid-up par value of shares held. The payment of any surplus to the shareholders is subject to Swiss withholding tax of 35 per cent (see "General Information – Taxation – Switzerland").

SECTION 4: INFORMATION ON THE ISSUER

General Information

Name, Registered Office, Incorporation, Duration and Legislation

The Issuer is Temenos Luxembourg S.A., *société anonyme*, registered with *Registre de commerce et des sociétés de et à Luxembourg* under number B 28.792, incorporated on 18 August 1988 by a deed of incorporation published in the *Mémorial C, Recueil des Sociétés et Associations* (the “Mémorial C”) number 31 of 25 November 1988 and whose articles of association have been last amended by a deed of 28 June 2002 published in the *Mémorial C* number 1378 of 23 September 2002 and by a deed of 28 February 2006, awaiting publication.

The registered office of the Issuer is at 20, rue Eugène Ruppert L-2453 Luxembourg. The Issuer has been established for an unlimited duration.

Business Purpose and Financial Year

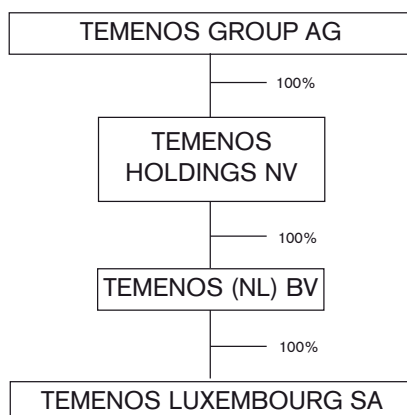
Article 3 of the Issuer’s articles of association states that the Issuer is established for the purposes of: (1) creating, maintaining and distributing computer software for banking, financial, commercial and any other purpose whatsoever, (2) distributing hardware, (3) acting as consultants and advisers on any matters connected with computing and telecommunications and as commercial computer consultants to supply the service of skilled staff and facilities, (4) purchasing, selling or otherwise dealing in computing and data transmission equipment, (5) carrying on any other business which in the opinion of the Issuer may be capable of being conveniently or profitably carried on in conjunction with or subsidiary to any other business of the Issuer and is calculated to enhance the value of the company’s property in the limits of the Issuer’s object, and (6) the Issuer may borrow in any form and proceed by way of private placement or public issue to the issue of bonds, convertible bonds, exchangeable bonds, certificates, debt instruments and debentures of any kind as well as any other type of security or instrument.

The financial year-end of the Issuer is 31 December.

Group Structure

The Issuer is an indirect wholly owned subsidiary of the Guarantor.

A graphical illustration of where the Issuer sits within the Group structure is provided below:



It is the current intention of the Group to effect a re-organisation such that the Issuer will become a direct wholly owned subsidiary of the Guarantor in the near future.

Corporate Information

Board of Directors

The Issuer is managed by a Board of Directors composed of three members. The names and titles of the directors of the Issuer are set out below:

- Mr. George Koukis, Troinex, Switzerland; Chairman of the Guarantor and the Issuer
- Mr. Thierry Champagne, Overijse, Belgium; Senior Vice-President Banking Services
- Mr. Marios Raissis, Hasel, Luxembourg; Non-Executive Director

Auditors

The Issuer's auditors are, and have been for the last three financial years, PricewaterhouseCoopers S.à r.l. (400, route d'Esch B.P. 1443, L-1014 Luxembourg).

Business Activities

Principal Activities

The principal activities of the Issuer are in line with the Issuer's purpose, as described above under "Information on the Issuer – General Information".

Patents, Trademarks and Licenses

The Issuer is not dependent on any patent, license, or commercial contract. It will enter into material financing agreements with or on behalf of certain companies of TEMENOS or with financial institutions in connection with the use of the proceeds from the Bonds.

Legal Proceedings

The Issuer is not involved in any litigation, arbitration or administrative proceedings which are likely to have a material adverse impact on the economic situation of the Issuer, nor are there, to the knowledge of the Issuer, any such proceedings pending.

Principal Establishments and Real Estate

The Issuer does not have establishments other than at its registered office as stated above. It does not own real estate.

Interruption of Business

The Issuer is an operating company and it has not experienced any interruptions of its business since its formation.

Investment Policy

Since the Issuer is an indirect wholly owned subsidiary of the Guarantor, its investment policy is dependent upon the investment policy of the Guarantor, which is determined by the Board of Directors of the Guarantor. As demonstrated by the Group's recent acquisition of the assets of TLC Consulting Limited and the Group's track record of prior transactions, the Group's investment policy targets growth through add-on acquisitions in the Group's core business areas focusing on the following: (i) enhancement of product portfolio; (ii) acquisition of new clients; and (iii) strengthening delivery capability and distribution. The Group maintains a disciplined approach to acquisitions and employs stringent strategic and financial criteria.

Business Outlook

Implementation service revenues for the full year 2006 are expected to be in line with those for 2005. Salaries and other costs are also expected to be in line with those for 2005. The Issuer will continue its strategy of providing mainly implementation services to affiliated entities within the Group.

Net Turnover

For information on the Issuer's net turnover in the last two business years, see "Annex C – Financial Statements of the Issuer".

Capital Structure

As of the date of this Prospectus the share capital of the Issuer is set at one million one hundred eighty-one thousand two hundred fifty euros (1,181,250 EUR) divided into forty-seven thousand two hundred fifty (47,250) shares with a par value of twenty-five euros (25 EUR) each.

Developments since the end of the Financial Year

Since 31 December 2005, there have been no significant changes in the business activities and prospects of the Issuer nor in its assets, liabilities, financial position, or profits and losses other than those that will result from the issuance of the Bonds.

SECTION 5: INFORMATION ON THE GUARANTOR

The Company

General Information

The Guarantor was formed as a corporation (*Aktiengesellschaft*) with limited liability under the laws of Switzerland and has been registered in the Commercial Register of the Canton of Glarus on 7 June 2001 (Reg. No. CH-160.3.003.953-7). The Guarantor has its legal domicile at c/o RA lic. iur. Hansjürg Rhyner, Bahnhof, 8750 Glarus, Switzerland and its corporate headquarters at 18, Place des Philosophes, 1205 Geneva, Switzerland. The duration of the Company is unlimited.

Founding Shareholders

George Koukis (Chairman) and Kim Goodall (then an executive member of the Board of Directors) were the founding shareholders of the Guarantor.

Business Purpose

The purpose of the Guarantor is to acquire, hold, manage and sell participations in other companies and businesses.

Group Structure

The Guarantor is the ultimate holding company of the Group. Other than its Mexican subsidiary, which is 51% owned by the Guarantor, all the Group's subsidiaries are wholly owned. For information on the Group subsidiaries, see page F-18 of this Prospectus.

Auditors

The Guarantor's auditors PricewaterhouseCoopers SA, Avenue Giuseppe Motta 50, 1211 Geneva, Switzerland, were re-elected as statutory and group auditors at the annual general meeting of shareholders of 25 May 2005, for a period of one year and have been the Group auditors since their election at the June 2003 annual general meeting of shareholders.

Business

Business Overview

TEMENOS is a leading provider of integrated core banking software to banks and other financial institutions worldwide. TEMENOS' software enables its clients – including commercial, private and retail banks, asset managers, brokers and other financial institutions – to manage and process in real time all transactions across the business. TEMENOS develops, markets, implements and supports its mission-critical solutions from its headquarters in Geneva and 38 additional offices in approximately 30 countries throughout the world. Its systems are currently installed at more than 600 live sites for more than 500 clients in approximately 110 countries. The ordinary shares of TEMENOS Group AG have been listed on the main segment of the SWX Swiss Exchange since June 2001 under the symbol TEMN.

TEMENOS' products manage key front, middle and back-office activities, including treasury and investment, retail, private, corporate and commercial banking, including e-banking, asset management, trade finance and risk management. The Group's software solutions are designed for flexibility, with architectures that enable clients to purchase additional product modules as their needs evolve. Because it is fully scaleable, TEMENOS' software can be deployed on a site-by-site basis or enterprise-wide. The Group's solutions provide value for customers by enabling them to grow, to control costs and to manage risks.

TEMENOS believes that high quality and long-term client implementation and support services are a critical requirement for continued growth and customer loyalty. TEMENOS supports its clients through its own services organization and through strategic alliances with IT service providers and systems integrators. The Group's services include implementation, development, training and help desk support, as well as the hosting of software for some smaller clients in Mexico under an application services provider (ASP) model.

TEMENOS' clients include banks and other financial institutions of all sizes throughout the world, from "Tier 1" global institutions to small regional banks. Current representative clients include Banco Santander, Bank of Shanghai, Commerzbank International SA Luxembourg, Credit Suisse Private Banking, Industrial Bank of Korea and Rabobank.

Business Outlook

The Guarantor targets an increase of license revenues for 2006 compared with 2005, as the Group continues to execute its strategy of adding new clients and delivering leverage through increased cumulative maintenance. In addition, the Guarantor targets 2006 total operating expenses to be higher than in 2005.

Strategy

TEMENOS seeks to be the leading international banking software provider, focusing on the retail, universal, wholesale and private banking segments. To this end, the Group intends to:

Pursue strategic acquisitions. The Group intends to use a significant portion of the proceeds of this Offering to pursue targeted acquisition opportunities that will allow it to enhance and expand the functionality of TEMENOS products, capture additional clients and/or enhance its delivery, distribution, services and support resources.

Further penetrate global banks and key markets. The Group primarily focuses its sales and marketing efforts on larger global banks. The Group believes this strategy will best increase both the Group's revenues and its brand awareness and reputation. As part of this strategy, the Group intends to continue to focus on its core market, consisting of Europe, the Middle East and Africa (EMEA), the United States and certain Asia/Pacific countries, where many of the world's leading financial institutions are based or have significant operations.

Leverage the Group's existing client base. When making the strategic decision to replace existing banking solutions, financial institutions generally commit significant time and resources to evaluating the available products and testing and benchmarking these products in their own operating environments. Once a product is selected, banks tend to view their purchase as a long-term investment and look to the solution provider as a long-term partner. TEMENOS seeks to leverage the durable relationships it has with its clients to generate additional revenues from them. Many of the Group's clients have deployed TEMENOS products only in specific departments or locations or have licensed only specific modules. The Group seeks to increase revenues generated from its existing clients by licensing TEMENOS products to those clients on an enterprise-wide basis and by licensing additional modules to them.

Expand direct sales and strategic alliances. The Group intends to expand its direct sales team, particularly in Asia and the Americas, and to enter into additional strategic alliances with leading IT service providers and systems integrators in order to more effectively sell TEMENOS products. TEMENOS has formed alliances with leading IT service providers and systems integrators, including IBM, HP, Oracle, Sun and DBS. TEMENOS expects to continue to form such alliances, and believes these alliances will enhance its visibility in the marketplace and provide it with additional marketing resources, service capabilities and distribution channels into global banks.

Increase customer support and implementation capabilities. A high level of customer service is a key element of the Group's strategy, particularly as TEMENOS focuses its sales and marketing efforts on clients who will deploy TEMENOS products on a global basis. TEMENOS will continue to use leading IT service providers and systems integrators to provide implementation services for T24, allowing the Group to focus its resources on enhancing product functionality and keeping pace with developments in the banking industry. The Group's strategy is to develop joint service partnerships with third parties to meet the implementation needs of its clients.

Focus on functionality. TEMENOS intends to leverage its in-depth knowledge of the banking industry to enhance the functional and technical capabilities of its products to meet evolving needs. The Group also works closely with its existing clients and invests significant research and development resources to ensure that its products keep pace with developments in the industry. As part of this strategy, TEMENOS intends to continue to work with individual clients to develop functionality that meets their specific needs and to offer that functionality as part of the standard upgrade available to all of its clients upon the payment of recurring maintenance fees.

Industry Background

The ability of banks and other financial institutions to deliver new financial products quickly, achieve broad geographic reach and provide real-time customer service, all within a rigorous and evolving regulatory environment, requires a constant cycle of technological innovation implemented in a cost-effective manner. As a consequence, high levels of IT spending by banks, including the replacement of legacy IT systems, are being driven by a number of factors, including:

Cost of maintaining legacy systems. Many banks operate on internally developed, non-integrated legacy systems that were developed on an as-needed basis to address newly identified requirements. These legacy systems are often difficult to upgrade and costly to maintain and integrate with other, more advanced banking systems. As a result, a bank's ability to respond to changing customer demands may be hindered, making it more difficult for banks with legacy systems to grow and compete effectively.

Increased competition and a drive to retain customers. In recent years, deregulation, privatization and globalization have fuelled intense competition in the banking industry as insurance companies, brokerage houses and other financial institutions have expanded to provide services that were once within the exclusive domain of banks. Increased competition has put pressure on the profit margins of banks, causing them to seek IT solutions that will enable them to improve customer service and organizational productivity and reduce implementation and maintenance costs.

Consolidation in the industry. As financial institutions seek to achieve economies of scale, the industry has experienced increasing consolidation on a local, regional and global basis through mergers and acquisitions. These mergers and acquisitions have fuelled the demand for integrated and open IT solutions that address the needs of global banks and other financial institutions, including the ability to operate in a multi-currency, multi-lingual and transaction-intensive environment.

Risk management. The globalization of the banking industry has resulted in greater exposure to regional economic instability, increasingly sophisticated leveraged and derivative products and greater volumes of transactions. Accordingly, banks increasingly require real-time solutions to evaluate and monitor their firm-wide risk exposure through improved management of customer and transaction information.

Growth of the Internet. As individuals and companies increasingly seek to manage their financial affairs over the Internet, financial institutions must offer their customers an e-banking alternative to traditional banking in order to remain competitive.

TEMENOS' Products

Product Overview

To meet the IT needs of financial institutions operating in an increasingly competitive and global market, TEMENOS offers two principal product lines:

TEMENOS T24™. T24 is an advanced, comprehensive core banking system offering a broad and mature range of functionality spanning front, middle and back offices, designed principally for the universal, wholesale and private banking segments. Built on the application code for the Group's established TEMENOS GLOBUS™ product, T24 provides in-depth functional coverage across the banking spectrum including retail, private, corporate and treasury, coupled with an ability to support multiple institutions across multiple time zones within a single environment. T24 is a 24-hour real-time banking application that provides multiple application server support to a large number of users. The system also eliminates the need to run end-of-day batch processing. It ties together multiple channels, and provides customer relation management functionality and non-stop processing in a single system. Using a highly parameterized set of business modules and common set of core financial processes T24 allows clients to license a system tailored to their needs. The code allows implementation on multiple hardware and software platforms, including open systems, and is infinitely scalable through the addition of hardware.

TEMENOS™ CoreBanking (or TCB). TCB is a scalable mainframe banking solution designed for the large-scale retail banking segment, designed to handle the high volumes and demanding processing and quality requirements of the very largest global banks.

In addition to these two main products, the Group also actively markets **TEMENOS eMerge**, a pre-packaged T24-based environment designed for smaller retail financial institutions in emerging markets – for example, micro-finance institutions.

The TEMENOS products feature:

An integrated, modular, open architecture. T24 and TCB manage key front, middle and back-office banking functions across the enterprise. The TEMENOS solution provides real-time transaction processing and enables banks to have a unified, consolidated profile of each of their *customers* (rather than only each of their *accounts*) and an integrated view of their business. T24 and TCB are built in separate modules, permitting a client to acquire only those modules necessary to address its particular requirements and facilitating the introduction of additional modules as the client's need for broader functionality develops. Their architecture is based on open systems technologies that provide portability and interoperability across platforms. The T24 and TCB architectures also make them scaleable and therefore capable of processing high volumes of transactions for a large number of users at multiple sites in real-time.

Broad functionality. T24 and TCB provide financial institutions with a comprehensive range of core banking functionality, covering the business-critical aspects of banking operations from retail banking to asset management. In addition, the TEMENOS e-banking solution enables banks to offer comprehensive, real-time Internet-banking services that are fully integrated into their transaction processing and other back-office systems.

High level of service and local support. Reflecting the Group's belief that prompt and effective technical support is an essential element in the TEMENOS solution and a key factor in building the reputation for reliability necessary to compete in the banking software industry, the Group has established local service and support teams in 31 countries and offers help desk services on a 24-hour basis, by telephone, e-mail or over the Internet. In addition to the Group's own support and service staff, TEMENOS has a network of distributors and strategic alliances with IT service providers and systems integrators who offer implementation services.

Rapid implementation and ease of customization and use. Compared with other banking software solutions, TEMENOS believes that its products can be quickly installed, configured, implemented and upgraded. Through the use of parameters and rules, TEMENOS products can easily be customized to meet the specific needs of a client. At the same time, upgrades and maintenance are simplified because the client does not make any modifications to the TEMENOS software code itself, but only to the parameters and rules. The TEMENOS products provide a consistent graphical user interface and employ rule-based workflows and automatic verification of data entries, enabling banks to save money in training and error identification.

The Group believes these factors give its products an attractive total cost of ownership for banks, which is a key selling point for the TEMENOS products.

Specialized Business Modules

Both T24 and TCB offer a suite of specialized business modules built around a basic "core" functionality, common to all TEMENOS installations.

TEMENOS products provide specialized business applications to process accounts, transactions and contracts. Specific modules are typically selected by clients to meet their requirements in six main categories of financial services:

- *Treasury and investment.* T24 provides a bank with real-time information on various aspects of the institution's operations, such as cash flow, foreign exchange positions and interest rate exposure. The treasury function also offers a system of in-depth reporting on contracts, accounts and trading, and portfolio positions in any and all types of financial instruments. These modules also include interfaces with other front-end dealing room systems.
- *Private banking and asset management.* Private banking modules within T24 include asset management and securities custodian modules designed to support the general and specific needs of sophisticated private banks. The asset management module facilitates the order processing, trade, administration, safe custody and settlement of a broad range of securities. Comprehensive reporting and fee and commission structures enable private banks to provide enhanced and differentiated services to their customers.

- *Corporate and commercial banking.* The corporate and commercial banking functions of T24 include modules for managing loans, mortgages, commercial paper, guarantees issued and received, trade finance (including letters of credit and documentary collections) and the tracking and management of non-performing contracts. These are all fully integrated with the system's limits and collateral subsystems and provide full exposure reporting by country, currency and commodity. These features allow the institution to manage the complete workflow and lifecycle of various debt and credit financial instruments. These modules can be combined in various configurations to provide support for the implementation of new and innovative financial products on a timely and cost-effective basis.
- *Retail banking.* Both T24 and TCB support the management of a bank's retail business through modules such as teller services, which combines teller management, transaction processing and administration and the automation of other processes. A full range of retail accounts, savings accounts and lending products is also supported. This retail functionality allows banks to provide their clients with sophisticated banking services over multiple delivery channels, including the Internet and the telephone, in a cost-effective manner. These products also allow for local processing in the event of a communication problem between the branch and central office. Storage and forwarding techniques provide for automatic updating once communication has been re-established.
- *E-banking.* The TEMENOS e-banking solution enables banks to offer comprehensive, real-time Internet-banking services that are fully integrated into their transaction processing and other back-office systems. Unlike some e-banking systems, which essentially collect transaction information over the Internet for later processing in over-night batch runs, T24 and TCB are fully connected to the bank's accounting and transaction management systems and can process all transactions in real-time.
- *Community banking.* TEMENOS eMerge permits micro-finance institutions in emerging markets that ability to implement functionality comparable to that offered by T24, but on a smaller scale and within the constraints of smaller budgets.

Core Functions

Underlying the specific business applications described above is the integrated core system. This core incorporates customer and accounting information with an on-line common risk management sub-system and is fully supported by static tables and powerful end-user utilities. Each TEMENOS client, regardless of which specific business applications it licenses, receives this core system. Features include:

- *Accounting.* The core supports the rapid development and deployment by clients of new account-based products. These products are fully supported by comprehensive interest and charge structures and statement definition and production. The general ledger reporting system is both robust and flexible and provides a wide range of financial reports. These include legal and regulatory reporting in all the countries serviced by TEMENOS in addition to customer, product and departmental profitability reporting. New reports can be easily added, and changes to these structures are easily adopted using the reporting tools, without the need to change the supporting infrastructure.
- *Customer information.* The core's customer-centric architecture allows the creation of detailed profiles of an institution's customers and provides the flexibility to add or modify fields in these profiles. The profiles are stored centrally, allowing the sorting and grouping of customers by selected characteristics. The selective data mining of customer characteristics facilitates a more targeted marketing of products to customers.
- *Static tables.* Static tables allow institutions to set their own parameters and to determine how transactions will be processed. They also allow users to differentiate between products, their characteristics and their accounting rules. For example, fees and commissions are totally flexible and can be set at whatever level is required to attract new customers and retain and service existing customers.
- *Utilities.* Core utilities enable clients to quickly customize the system's output. Banks are able to design rules, defaults and parameters to suit their individual needs. Tools include inquiry designer, report designer, menu designer and customer document templates. These tools allow for multiple entities, languages and data views and permit access to the system via a comprehensive security management system.

- *General support.* TEMENOS' general support capabilities are compatible with leading third-party image management systems, Nostro reconciliation (the system used by banks to reconcile their accounts held at other banks) and the SWIFT messaging and reporting system, and support all major currencies.
- *Settlements/clearing.* The core contains numerous interfaces between individual country clearing systems and widely used reporting packages.
- *Risk management.* TEMENOS provides the tools to manage a bank's risks through real-time monitoring of both the bank's and its customers' positions in a single financial product and across all of the bank's defined financial products.
- *System security management.* The core system monitors in real time compliance of all user activity with the transaction validation and privileged access rules set by the bank.
- *Interface and system functions.* A range of options are supported for interfacing with users and with other systems, including:
 - *General interface.* TEMENOS offers open solutions that can interface with other applications through a variety of tools, including specific interface modules, to ensure that the development and implementation of interfaces is kept as simple and as standard as possible.
 - *Open financial services.* TEMENOS' open financial services function supports multiple delivery channels to the bank's customers for both existing and emerging technologies. These delivery channels include the Internet, automated cash machines, call centers and voice response systems. This function can also export data to external data warehouses.
 - *Information server.* This server exports and updates information from the core database to other database management systems used by the Group's clients, such as Oracle or Sybase.

Revenue Model

TEMENOS earns revenues from initial license fees, recurring maintenance and services.

TEMENOS products are licensed based on the number of modules and the number of concurrent users required by the client. Each client must license the basic, or core, functionality and then need only license the modules needed to meet its requirements. An additional license must be purchased for additional modules or users. TEMENOS licenses are generally for a term ranging from 10 to 50 years. With respect to multi-site implementations, there is generally an up-front initial license fee and additional initial license fees in connection with implementations at individual sites.

TEMENOS requires its T24 clients to sign a non-cancellable recurring annual maintenance agreement at the time of signing the initial license agreement, generally with an initial term of at least five years, automatically renewable annually thereafter. As part of the recurring maintenance fee, each client receives product updates and upgrades for the system core and for those modules that it has licensed, including one major upgrade annually. TEMENOS also provides help desk access, which, for an additional fee, is available on a 24-hour basis.

TEMENOS believes that high quality and long-term client services are a critical requirement for continued growth and increased sales. TEMENOS supports its clients through its own services organization and through strategic alliances with IT service providers and systems integrators. TEMENOS offers its clients a broad range of services, including:

- *Implementation.* Implementation services consist of product parameterization, customization and integration with existing client software systems. TEMENOS provides services to assist its clients in the implementation of TEMENOS products through its support offices throughout the world. As a key element of the Group's business strategy, TEMENOS also draws upon the resources of leading IT service providers and systems integrators to implement TEMENOS software solutions, allowing the Group to focus its resources on enhancing product functionality and keep pace with developments in the financial services industry.

- *Development.* TEMENOS offers software development services for clients with specific requirements. The enhancements resulting from these client-requested development projects become part of the basic T24 and TCB software, which TEMENOS makes available both to new clients and, in the form of regular product updates or upgrades, to all existing clients with recurring licenses. By undertaking these client-requested development projects, TEMENOS is able to:
 - meet increasingly complex client requirements, thereby increasing its ability to serve larger clients with more demanding needs;
 - offer significantly improved functionality to its client base, thereby enhancing client satisfaction; and
 - reduce its development costs by sharing those costs with specific clients.
- *Training.* TEMENOS offers training services to assist its clients in operating and maximizing the benefits received from TEMENOS products. The Group has regional training centers in Geneva, London, Singapore and Miami. In addition to training the Group's clients, these centers are responsible for training the staff of the Group's local distributors and strategic alliance partners to ensure that a consistent level of service is provided to the Group's user base.
- *Help Desk.* TEMENOS has established local service and support teams throughout the world and offer help desk services on a 24-hour basis, by telephone, e-mail or over the Internet.
- *Outsourcing through an application service provider model.* Together with a joint venture partner, TEMENOS currently offers clients in Mexico the opportunity to outsource the hosting and management of their hardware and software systems to TEMENOS under an application service provider (ASP) model. This approach allows smaller institutions to take advantage of the Group's offerings with a smaller investment in hardware and systems personnel.

Alliances and Partnerships

TEMENOS has forged cooperations with major key technology companies and smaller, more regionalized partners in the areas of technology, marketing, sales (including complementary product offerings) and services. These strategic relationships are with business partners that include, for example, IBM, Oracle, HP, BluePhoenix, SoftGen, Unisystems, Thesys, EFS Technology, Mantas, Thales and Bishop Cavanagh.

Sales and Marketing

Sales

The Group sells its products directly through its own sales force and through its strategic alliance partners. The Group's sales cycles typically range between nine and twelve months from the initial contact with a potential client to the signing of a license agreement. TEMENOS has 39 direct sales offices in 31 countries around the world. The principal mission of the direct sales force is to target large global banks.

TEMENOS intends to use its existing relationships, and to develop new relationships, with IT service providers and systems integrators to further penetrate the market of global financial institutions. TEMENOS believes these alliances will continue to enhance its reputation in the marketplace and will provide TEMENOS with additional marketing resources and distribution channels into global banks.

TEMENOS employs a select number of independent distributors and, to a lesser extent, agents who receive referral fees. These distributors are typically responsible for distribution within a specific country or region. The Group's distributors perform marketing, sales, implementation and customer support and training services.

Marketing

TEMENOS believes that its principal marketing tools are its existing clients that act as references. TEMENOS therefore focuses its resources on providing high-quality support services to ensure satisfied clients. The Group makes use of more traditional marketing efforts, such as advertising and participation in trade shows,

only to a limited extent. Each year, TEMENOS attends SIBOS, the IT trade show for the banking industry. TEMENOS also holds an annual user group meeting, which it uses as an opportunity to market new or additional functionality to its existing client base.

Technology

The Group's products are designed for flexibility and their open architecture allows TEMENOS to group specific sets of functions and offer them as discrete modules that can be licensed separately. Because they are fully scalable, the systems can be deployed on a site-by-site basis or enterprise-wide.

Operating systems. T24 is based on open systems and can be operated on any UNIX, Windows NT and IBM AS 400 platform. TCB operates on mainframe systems and, since the conversion of COBOL codes to Java codes, TCB now operates on UNIX. This capability provides the Group's clients with interoperability and portability across different platforms.

Application layer and data engine. The application layer consists of a robust source code that interfaces with the data engine and supports a wide range of functionality. The systems are designed to process high volumes of complex transactions. The data engine provides a master repository for the institution's mission-critical customer, account and transaction information. New functionality can easily be activated at any time after installation using module and application license codes within the product. Upgrades are facilitated by a single replacement of the application layer.

Non-application layer enhancements and customization. T24's and TCB's flexible structure and open architecture allow clients to enhance the functionality of the software in a number of ways, including:

- *Rules and parameters.* Clients are provided with a set of default parameters and rules to accelerate the implementation process. These rules and parameters can easily be customized at any time following installation to meet the client's specific needs, to accommodate its business processes and to enable the client to comply with local regulatory requirements.
- *Application programming interface ("API").* The API allows clients to integrate external packages or internally developed systems with the core platform.
- *Client enhancements.* TEMENOS' development team and its local partners work with the Group's clients to develop enhancements in response to specific client requirements. Specific interfaces or TEMENOS' standard APIs provide the tools to integrate these enhancements.

Software development

The Group's principal software development facilities are located in London, England; Geneva, Switzerland; and Chennai (Madras), India. The Group also has software development facilities in Hemel Hempstead, England, and Madrid, Spain. TEMENOS is committed to a distributed software development organization because the Group believes that this approach allows it to find qualified employees more easily and to minimize costs related to development personnel. All of the Group's development work on TEMENOS products is performed in-house by the Group's own staff. The development of the fundamental systems architecture is undertaken in Europe, while the Group relies on its Indian programming staff primarily for lower-level coding and de-bugging.

TEMENOS has committed, and expects to continue to commit, substantial resources to the development of its software solutions, which were designed after extensive work with potential clients to assess their needs. TEMENOS supplements its software development efforts by reviewing client feedback and by working with clients and potential clients to anticipate future functionality requirements. To that end, the Group has formed a user group, which meets annually at a forum hosted by TEMENOS, to gain regular feedback from a cross-section of its client base. Smaller user groups also meet periodically throughout the year and the Group ensures that a senior TEMENOS employee attends each meeting. The feedback from its user group meetings has enabled TEMENOS to continuously refine its products in response to the changing needs of its clients.

A new version of T24 is released each year and replaces the older version of the application installed on clients' systems. In addition, in order to service the Group's clients with continuing enhancements between version releases, TEMENOS often develops these enhancements to the application layer in response to the request of a particular client. This client pays TEMENOS for the related development costs and TEMENOS makes the enhancement available to all of its clients with recurring licenses.

The Group is currently working on a number of projects to permit T24 to operate on different hardware platforms and to add to the functionality of the product. In February 2006, for example, the Group announced the general availability of a pre-customized version of T24 that allows users of Equation, a retail banking software product from Misys, to replace their system quickly and at a low cost.

Competition

TEMENOS believes that providers of core banking systems compete principally on the basis of the following factors:

- satisfied customers that act as product advocates;
- product quality and reliability;
- breadth of functionality;
- quality of customer service and support; and
- price.

TEMENOS believes that it competes effectively in each of these areas. Nevertheless, the Group's market is intensely competitive and characterized by rapidly changing technology and evolving standards. TEMENOS competes with a variety of institutions, including large software vendors offering financial services solutions, such as Fiserv and SAP (each offering expensive, full-range solutions), and Fidelity Information Services, I-Flex (acquired by Oracle in 2005), Infosys and Misys. The Group also competes with the IT departments of financial institutions that conduct internal development efforts, and smaller independent companies that provide specialized point solutions.

Proprietary Rights

The Group relies primarily on a combination of copyright laws, trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights, particularly in the source code for its software. The Group has no patents or patent applications pending.

The Group routinely enters into confidentiality agreements with its employees and contractors, pursuant to which they agree to maintain the confidentiality of all the Group's proprietary information and to assign to the Group all inventions made during the course of their employment with the Group.

Corporate Restructuring

As of 1 January 2006, the Group effected a corporate restructuring pursuant to which it transferred the ownership of its intellectual property rights, including copyrights and registered and unregistered trademarks, from TEMENOS Holdings, NV, a wholly owned subsidiary registered in the Netherlands Antilles, to several wholly owned subsidiaries registered in Switzerland. As part of this restructuring, the Group also intends to propose to its 2006 annual general meeting of shareholders that the corporate seat of TEMENOS Group AG be moved from the Canton of Glarus to the Canton of Geneva.

Employees

The Group had 1,373 employees at 31 December 2005. The following table presents a geographic and functional breakdown of the Group's workforce as of 31 December 2005:

Location	Number of Employees
Switzerland	115
Other Europe, Middle East and Africa	470
Americas	127
Asia	661

Function	
Software development	511
Services	582
Sales	109
General and administrative	171

None of the Group's employees is covered by a collective bargaining agreement or is represented by a labor union or works council. The Group has experienced no work stoppages and believes that its relationship with its employees is good.

Locations

The Group has offices in the following locations:

Europe

Amsterdam
Athens
Dublin
Geneva/Vésenaz/Zurich
London/Hemel Hempstead
Luxembourg
Madrid
Moscow
Paris
Warsaw

Asia

Bangkok
Chennai/Mumbai
Hong Kong
Jakarta
Kuala Lumpur
Ho Chi Minh City
Manila
Seoul
Shanghai/Beijing
Singapore
Sydney
Taipei
Tokyo

Americas

Quito
Mexico
USA (Orlando, New York and Miami)

Middle East/Africa

Beirut
Dubai
Johannesburg
Riyadh
Teheran

The Group leases all of its office space and does not own any real estate.

Legal Proceedings

The Group is not a party to any court, arbitral or administrative proceedings, the adverse outcome of which the Group expects would, individually or in the aggregate, have a material adverse effect on the Group's business, operating results or financial condition, nor is the Group aware of any such proceedings pending or threatened.

Investments

Investments Made

As a provider of banking software solutions, the Group develops most of its intellectual property in-house and does not have significant capital expenditures. The main investments by the Group since 1 January 2003 are described below:

Investment	Amount	Description
Acquisition of assets of TLC Risk Solutions	Not disclosed	The Group acquired the assets of this provider of Basel II-compliant credit and operational risk banking solutions pursuant to an agreement dated 11 January 2006.
Acquisition of minority interest in TEMENOS Eastern Europe	Approximately USD 15 million	On 6 September 2004, the Group acquired the remaining 49% interest in a subsidiary.
Formation of Fomentto Empresarial de Servicios informaticos S.A. de C.V.	Contribution of license to T24 valued at approximately USD 2 million	The Group formed a joint venture in Mexico in January 2004, taking a 51% stake in exchange for the contribution of license rights to T24.

Current Investments

The Group has no current investments of significance in the context of the Offering as contemplated by the SWX Listing Rules.

Investments planned and already approved

Although the Group intends to use a substantial portion of the proceeds of the Offering to fund acquisitions, it has no already approved investments as contemplated by the SWX Listing Rules.

Management

Board of Directors and Members of the Executive Board

TEMENOS Group AG has a board of directors (the “**Board of Directors**”) composed of five members, three of whom are non-executive. The non-executive members of the Board of Directors have no material business dealings with TEMENOS. The members of TEMENOS' senior management are employed by various subsidiaries and perform managerial functions for the Group as a whole. The current members of the Board of Directors and of the Executive Board of the Group, as well as their ages and positions as of the date of this Prospectus, are:

Members of the Board of Directors

Name	Age	Position
George Koukis	59	Executive Chairman
Paul Selway-Swift ⁽¹⁾⁽²⁾⁽³⁾	61	Non-Executive Vice Chairman
Andreas Andreades ⁽²⁾	40	Director and Chief Executive Officer
Chris Pavlou ⁽¹⁾⁽²⁾⁽³⁾	60	Non-Executive Director
Lewis Polk Rutherford ⁽¹⁾⁽²⁾	61	Non-Executive Director

⁽¹⁾ Member of the audit committee.

⁽²⁾ Member of the nomination committee.

⁽³⁾ Member of the compensation committee.

George Koukis founded TEMENOS in 1993 and has served as Chairman since that time. He received his degree in commerce from the University of Technology in Sydney, Australia and is a registered CPA. Mr. Koukis has been active in the software industry for more than 20 years, having begun at Qantas where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America (MSA) in Australia where he held various management positions, including that of the managing director. As Chairman and founder of TEMENOS, Mr. Koukis manages certain key client relationships and participates actively in the strategy of the Group. Mr. Koukis is a Greek and Australian national and continues to hold positions on the board of directors of a number of operating companies within the Group.

Paul Selway-Swift has many years of experience in the financial services industry with The HSBC Group where he held senior management positions in both Hong Kong and London. He is currently Chairman of SVB Holdings PLC and is also a non-executive director of Alba PLC; both of which are quoted on The London Stock Exchange. He is Chairman of The Atlantis China Fund and a director of Li and Fung Ltd, which is quoted on The Hong Kong Stock Exchange. Mr. Selway-Swift was educated in England and subsequently attended the Massachusetts Institute of Technology Program for Senior Executives. Mr. Selway-Swift is a British national. He holds a small number of Shares in TEMENOS but does not hold share options; he has never held a management position in the TEMENOS Group nor does he have any other business connections with the Group.

Andreas Andreades started his career with KPMG in London in 1988. After spending five years in the accounting profession he joined PepsiCo, where he held a number of strategic, sales and general management positions. Mr. Andreades holds an engineering degree from the University of Cambridge and is a U.K. chartered accountant. He joined TEMENOS in 1999, initially in the position of Chief Financial Officer, before assuming the responsibilities of Deputy Chief Executive Officer and then of Chief Executive Officer. Mr. Andreades is a Cypriot national and holds positions on the board of directors of a number of operating companies within the Group.

Chris Pavlou formerly served as the Treasurer of Barclays Bank in London and New York, of the Hong Kong & Shanghai Banking Corporation in Hong Kong and of HSBC Midland in Tokyo. He was the Asia Pacific Regional Delegate of the International Forex Association. He retired from HSBC in 1998 and currently delivers speeches and writes articles on treasury and foreign exchange operations. Mr. Pavlou is a British national and does not hold share options in the TEMENOS Group. Mr. Pavlou has never held a management position in the Group and has no business connections with the Group.

Lewis Polk Rutherford holds a bachelor's degree in East Asia Studies from Princeton University and an MBA with distinction from Harvard Business School. Mr. Rutherford is co-founder and managing director of Inter-Asia Management, Inter-Asia Venture Management II Partnership and Inter-Asia Capital III. He is a former Governor and Vice President of the American Chamber of Commerce in Hong Kong. He is a co-founder and past chairman of the HK Venture Capital Association. Mr. Rutherford is an American national and does not hold share options in the TEMENOS Group. Mr. Rutherford has never had a managing position in the TEMENOS Group and has no business connections with the Group.

Members of the Executive Board

Name	Age	Position
Andreas Andreades	40	Chief Executive Officer
David Arnott	36	Chief Financial Officer
Max Chuard	32	Corporate Finance & Investor Relations Director
Malou Ducomble	50	Clients and Operations
Guylaine Gaudreau	36	Compensation & Benefits Director
Jean-Michel Hilsenkopf	42	Regional Director, EMEA / Marketing Director
Costa Christodoulou	47	Regional Director, Northern Europe Region
André Loustau	47	Chief Technology Officer
Mark Cullinane	41	Chief Operating Officer
Mark Gunning	43	Group Strategy Director
Alex Groenendyk	49	President Americas
Greg Green	45	Managing Director, TEMENOS CoreBanking

David Arnott has served as the Chief Financial Officer of TEMENOS since 2001. Prior to joining the Group he worked as Chief Financial Officer of Société Européenne de Communication in Luxembourg. From 1996 to 1999 Mr. Arnott held a number of senior finance positions at Anglo-American plc, a mining and precious metals trading company. Mr Arnott holds a BS from the University of Southampton and a Masters Degree from the University of Freiburg. Subsequently Mr. Arnott spent three years with Touche Ross where he qualified as a chartered accountant. Mr. Arnott is a British national. Mr. Arnott holds positions on the board of directors of a number of operating companies within the Group.

Max Chuard joined TEMENOS in 2002, initially with responsibility for acquisitions and special projects and then for Corporate Finance and Investor Relations. Prior to joining TEMENOS Mr. Chuard spent five years in investment banking, initially at JP Morgan and then at SWICORP, a Swiss merchant bank. Mr. Chuard graduated from HEC Lausanne in Switzerland with a degree in business administration and a major in corporate finance. Mr. Chuard is a Swiss national. Mr. Chuard holds positions on the board of directors of a number of operating companies within the Group.

Malou Ducomble holds a Business degree and a Financial Management diploma from New York University. Prior to joining TEMENOS in 1995 she held a number of operating and managerial positions in MPCT Solutions Limited (now Aleri Inc.) and Winter Partners. She was an auditor at First Chicago International Corp. (now BankOne) and an IT Manager with Commerzbank, New York. Mrs. Ducomble has wide-ranging experience in large projects management and multinational account relationships. Mrs. Ducomble is an American national.

Guylaine Gaudreau joined TEMENOS as the Worldwide Compensation & Benefits Director in 2002. Prior to joining the Group she held various positions as consultant and manager for Towers Perrin in Canada, France and Switzerland. Mrs. Gaudreau is an actuary, holds an MBA and is qualified both in Canada (FCIA) and the USA (FSA). Mrs. Gaudreau is a Canadian national.

Jean-Michel Hilsenkopf holds an engineering degree from a French business school and has an MBA (International Marketing) from Geneva University. He started his career as a banking consultant for a large international French bank. Mr. Hilsenkopf joined TEMENOS when it was founded in 1993. His expertise and experience in the sales organisation, and as regional general manager, has given him the vision and understanding of the business and market to drive the marketing efforts forward. Mr. Hilsenkopf is a French national.

Costa Christodoulou joined TEMENOS in January 2006 as Regional Director for Northern Europe including the United Kingdom, Ireland, Netherlands, the Nordic countries, Russia, CIS and the Baltic States. Mr. Christodoulou brings with him 22 years of sales and general management experience in the banking software and financial services IT industry. Prior to joining TEMENOS, Mr. Christodoulou was CEO of City Networks Ltd and prior to this, he carried P/L responsibility for major business units in Misys, Unisys and Alltel Information Services Ltd. Mr. Christodoulou is a British national and holds a degree in Chemical Engineering (BSc Honours) from University of Salford.

Andre Loustau has been with TEMENOS and its predecessor companies since 1984, serving in a variety of positions, including those of Development Manager Project Manager prior to assuming the responsibilities of the Chief Technical Officer. Mr. Loustau is a British national.

Mark Cullinane has over 18 years of experience in the provision of banking solutions internationally. For the past 12 years he has lived and worked in Asia where he has been responsible for the sales, implementation and support of numerous banking solutions. He joined TEMENOS as Regional Manager for Asia Pacific in February 2004 before assuming the role of Chief Operating Officer for the Group in January 2006, based in Geneva. Mr. Cullinane is a British citizen and holds a degree in Business Studies (BA Hons.).

Mark Gunning was educated at the London School of Economics before beginning his employment with Kapiti, a predecessor of the Misys group and the developer of the Equation banking system. He then worked for 9 years for HSBC in various capacities involving international IT. These included long-term assignments in New York, Paris and Jersey. He joined TEMENOS in 1993 and has worked in Development, Client Services and Sales, and as General Manager for North America. Mr. Gunning is a British citizen.

Alex Groenendyk joined TEMENOS in May 2005 as President for the Americas. Prior to joining TEMENOS, Mr Groenendyk served as President of Fiserv CBS Worldwide, a supplier of financial solutions to mid and large tier banking organizations. Mr. Groenendyk was also responsible for both the delivery of these solutions on a license and outsourcing basis. Mr. Groenendyk is a Dutch national.

Greg Green joined TEMENOS in May 2005 as SVP of Operations in the Americas before assuming the responsibilities of Managing Director TCB in January 2006. Mr. Green has 20 years experience in the Information Systems industry. Prior to joining TEMENOS, he was Chief Operating Officer for Fiserv CBS Worldwide, directly responsible for all aspects of domestic operations, as well as operations around the globe. Mr. Green is an American national.

The Board of Directors

The Articles of Association of TEMENOS Group AG provide that the Board of Directors may consist of five or more members. Pursuant to Swiss law, each director must hold at least one qualifying share. Directors are elected and removed by shareholders' resolution. The Articles of Association provide for three-year terms of office for the directors, with no limitations on re-election. Directors may be removed by the shareholders at any time without cause.

The Board of Directors is ultimately responsible for and supervises the management and policies, and appoints the members of the Executive Board and authorized signatories. Further, the Board of Directors is entrusted with the preparation of shareholders' meetings and the carrying out of shareholders' resolutions.

The directors and senior officers of a Swiss corporation are bound, as specified in the Swiss Code of Obligations, to perform their duties with all due care, to safeguard the interests of the company in good faith, and to extend equal treatment to shareholders in like circumstances.

The Swiss Code of Obligations does not specify what standard of due care is required of the directors of a corporate board. It is generally held in Swiss doctrine and jurisprudence, however, that the directors must have the requisite capability and skill to fulfill their function, and must devote the necessary time to the discharge of their duties. Moreover, the directors must exercise all due care that a prudent and diligent director would exercise in like circumstances. Finally, the directors may not take any actions that may be harmful to the company.

Audit Committee

The audit committee is required to meet at least twice a year to consider the Group's public reports, to liaise with the external auditors, and to review the Group's internal controls, compliance with corporate governance rules and any other matter that may be brought to its attention by the internal and/or external auditors. The external and internal auditors are systematically invited to the audit committee meetings.

Compensation Committee

The Group reviews on an ongoing basis, the compensation of its employees worldwide, by reference to the prevailing market norms, at each of the locations in which it operates.

At least twice a year, the compensation committee reviews, approves and makes recommendations on compensation practices and policies designed to help develop a competitive, equitable and performance based package allowing TEMENOS to attract and retain top talent within the Group. The compensation committee also reviews, approves and makes recommendations on compensation packages concerning the executive members of the Board of Directors and members of the Executive Board and seeks to confirm that such compensation is in line with market norms.

Nomination Committee

A nomination committee of three members has been set up by the Board of Directors in December 2004. The main duties of this committee are (i) to annually review the structure, size and composition required of the Board of Directors and make recommendations to the Board of Directors with regard to any changes, (ii) to establish qualification criteria for a membership on the Board of Directors and (iii) to give full consideration to succession planning for both members of the Board of Directors and members of the Executive Board.

Compensation of Directors and Members of the Executive Board

The total 2005 compensation granted to members of the Board of Directors and members of the Executive Board, as at 31 December 2005, amounted to USD 5,506,289. Out of this total USD 5,326,289 was paid to executive members of the Board of Directors and members of the Executive Board, and USD 180,000 to the non-executive directors. The emoluments of the non-executive directors are quantified by reference to the time spent on board and committees matters. No severance payments were made to persons whose duties on the governing bodies had come to an end during the financial year 2005.

Share Option Plan

The TEMENOS Group Employee Share Options Scheme became effective in September 1997. Under this plan, TEMENOS Holdings NV, now a wholly owned subsidiary of TEMENOS Group AG and formerly the ultimate parent company of the Group, has granted options to group employees to purchase its common shares. In connection with its formation, TEMENOS Group AG granted to TEMENOS Holdings NV an option that permits the shares in TEMENOS Holdings NV issued upon exercise of these options to be exchanged for an equivalent number of registered shares in TEMENOS Group AG. Those shares of TEMENOS Group AG are then delivered to the optionee.

Only employees of Group companies are eligible to participate in the option plan. The Board of Directors has discretion in determining the exercise price applicable to any option grant.

Under the option plan, a total of 12.3 million common shares of TEMENOS Holdings NV (exchangeable into an equivalent number of shares of TEMENOS Group AG) have been reserved for issuance. As of 31 December 2005, there were outstanding options to purchase common shares of TEMENOS Holdings NV that may be exchanged for an aggregate of 11,628,353 shares of TEMENOS Group AG, at a weighted average exercise price of USD 6.21 per share.

Loans granted to corporate officers

As of 31 December 2005, the Company has outstanding loans in the total amount of CHF 94,882 to two members of the Executive Board. These loans bear preferential interest in accordance with applicable tax laws and will be fully repaid in 2006.

Employment Agreements

Group companies have entered into employment agreements with all of the members of the Executive Board and senior management. These agreements contain terms regarding the protection of confidential information, the disclosure and assignment of intellectual property to TEMENOS, and general terms of employment. Each agreement provides that either the employer or the employee may terminate the employment relationship upon a certain period of notice, generally ranging from one to six months although in limited circumstances this notice period is 12 months. Some of the agreements also contain covenants pursuant to which the employee agrees that, after the termination of employment with TEMENOS and without the Group's consent, he or she will not solicit employees or customers of TEMENOS for a certain period of time, generally six to twelve months. Each agreement provides for remuneration and benefits commensurate with the employee's position and experience and in line with current market practice.

Capital Structure

Capital

As of 10 March 2006, the ordinary capital amounted to CHF 285,252,630, consisting of 57,050,526 registered shares, each with a par value of CHF 5.00. All the shares are fully paid-in. Each Share entitles its holder to one vote.

Authorised and conditional capital

Authorised capital

Pursuant to Article 3^{ter} of the Articles of Association, the Board of Directors is authorised to increase the share capital by a maximum aggregate amount of CHF 132,551,215 through the issuance of a maximum of 26,510,243 fully paid-in registered shares with a par value of CHF 5.00 per share. An increase in partial amounts is permitted. This power expires on 27 June 2006.

The Board of Directors shall determine the date of issue of such new shares, the issue price, type of payment, conditions of exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board of Directors may issue new shares by the means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares. The Board of Directors may allow the expiry of pre-emptive rights which have not been exercised or it may place these rights as well as shares, the pre-emptive rights for which have not been exercised, at market conditions.

The Board of Directors is authorised to restrict or withdraw the pre-emptive and the advance subscription rights of existing shareholders and allocate them to third parties if (i) the shares are to be used for the takeover of another company or enterprise, of parts of an enterprise or of participations or for the financing of such transactions; or if (ii) the shares are to be used for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchanges.

Conditional capital for employee participation

Pursuant to Article 3^{quater} (1) of the Articles of Association, the Company's share capital shall be increased by a maximum aggregate amount of CHF 61,547,185, through the issuance of a maximum of 12,309,437 registered shares, which shall be fully paid-in, with a par value of CHF 5.00 each, through TEMENOS Holdings N.V., a subsidiary of the Company (the "**Subsidiary**") or through the Company itself, to officers, directors and employees at all levels of the Company and Group companies. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

The issue of shares or respective option rights through the Subsidiary or through the Company, to officers, directors and employees of the Company and Group companies, is subject to one or more regulations to be issued by the Board of Directors on the basis of the following general rules: (i) new shares may only be issued to the Subsidiary or to the Company for purposes of distribution to directors, officers or employees of the Company and Group companies; (ii) new shares to be issued through the Subsidiary or through the Company to employees of the Company or Group companies shall be issued against payment of the par value of CHF 5.00 per each share in cash.

Conditional capital for financial instruments

Pursuant to Article 3^{quater} (2) of the Articles of Association, the share capital may be increased by an amount not exceeding CHF 69,653,400 by issuing up to 13,930,680 registered shares – to be fully paid-in with a par value of CHF 5.00 each – through the exercise of conversion and/or option rights which are granted in connection with bonds or similar debt instruments of the Company or one of its Group companies.

The conditions of the option rights, including the exercise period and the exercise price, are to be determined by the Board of Directors whereby the exercise price may be fixed at a price lower than the market or intrinsic value. The pre-emptive rights, as well as the right for advance subscription of existing shareholders, are precluded.

Shares

All equity securities of TEMENOS Group AG are in the form of registered shares, each with a par value of CHF 5.00. Each share confers the right to one vote at the annual general meeting of shareholders and all shares are fully entitled to receive dividends.

Treasury Shares

As of 28 February 2006, the Guarantor held 40,084 Shares in treasury.

Profit sharing certificates

The Company does not currently issue such equity securities.

Limitations on transferability and nominee registrations

There are no restrictions on the transfer of Shares.

Only shareholders entered in the share register as shareholders or as usufructuaries may exercise the voting rights linked to the Shares or the other rights connected with these voting rights. The Company shall recognise only one representative for each Share. Nominee registrations are permitted.

Principal Shareholders

The following table sets forth information as of 10 March 2006 with respect to the ownership of the Company's share capital by (1) each holder of 5% or more of the Company's share capital, (2) the members of the Board of Directors as a group and (3) the members of the Executive Board as a group. Each Share carries one vote.

The following table reflects the sale by Mr. Koukis of approximately 4.2 million Shares and by funds managed by Global Finance SA of approximately 2.8 million Shares pursuant to Accelerated Global Tender agreements between each of them and Merrill Lynch International, dated 1 March 2006. The Shares were sold at a price of CHF 12.90 per Share and the transactions closed on 6 March 2006. The sale price in these transactions was used as the reference price for the pricing of the Bonds.

Name of Owner	Shares Owned	
	Number	Percent
George Koukis ⁽¹⁾	9,752,064	17.5%
Funds managed by Global Finance SA ⁽²⁾	2,779,384	4.98%
Schroders plc ⁽³⁾	3,211,528	5.8%
All directors as a group (except Mr. George Koukis)	–	less than 1%
All members of the Executive Board as a group (12 persons)	0	0

⁽¹⁾ Mr. Koukis is the Chairman of the Board of Directors (The figures do not take into account the sale by Mr. Koukis of up to 1,050,000 Shares in connection with the exercise of an over-allotment option granted by Mr. Koukis to the Lead Manager in connection with a share sale that was completed on 6 March 2006. The over-allotment option exercise period runs for 30 days following 6 March 2006.)

⁽²⁾ Beneficially owned by Mr. Angelos Plakopitas.

⁽³⁾ As of 31 December 2005.

Options held as of 31 December 2005 by all members of the Board of Directors and members of the Executive Board were as follows:

Total number of options	5,896,100
Weighted average price ⁽¹⁾	CHF 9.013
Earliest exercise date	1 December 2002
Latest exercise date	11 October 2015

⁽¹⁾ Using the exchange rate of USD/CHF 1.3159 as of 30 December 2005

The Company did not allocate stock options or other kinds of options to non-executive members of the Board of Directors during 2005. Each option entitles the holder to purchase one registered share of the Company. Options granted prior to 2004 have vesting periods of 3 to 5 years and exercise periods from 5 to 7 years. Options granted in 2004 and 2005 have vesting periods of 0 to 4 years and exercise periods from 6 to 10 years.

Indebtedness

In March 2005, TEMENOS Group AG (as guarantor) and its wholly owned subsidiary TEMENOS Holdings N.V. (as borrower) entered into a USD 20 million Revolving Credit and Guarantee Facilities Agreement with Deutsche Bank Luxembourg SA (the “**DB Facility**”). At the same time, TEMENOS Group AG (as guarantor) and its wholly owned subsidiary TEMENOS UK Limited (as borrower) entered into a separate USD 20 million Facilities Agreement with the Royal Bank of Scotland plc (the “**RBS Facility**”).

DB Facility

The DB Facility currently provides for a three-year multicurrency revolving credit facility in the aggregate amount of up to USD 5 million, a two-year multicurrency revolving credit facility in the aggregate amount of up to USD 5 million, and guarantee facility in the aggregate amount of up to USD 5 million. An additional 364-day facility expired in March 2006. The facilities are unsecured.

The DB Facility contains customary financial and negative covenants, undertakings, mandatory prepayment provisions (including certain changes in the Group’s management team) and events of default. Certain events of default are outside of the Group’s control. For instance, it is an event of default under the DB Facility if any party (other than George Koukis) was to acquire 25 per cent or more of the issued Shares. In addition, it requires that the Group obtains the prior written consent of the lenders (which consent is to be granted or refused based on credit considerations only) prior to acquiring any company, business, assets (other than in the ordinary course), revenues or undertakings where the aggregate purchase price that is payable in cash of all such acquisitions is (a) in excess of USD 5 million in any calendar year or (b) (in case the Consolidated Cash (as defined therein) less Consolidated Debt (as defined therein) immediately prior to such acquisition

exceeds USD 50,000,000) in excess of USD 25,000,000 in any calendar year; or (c) (in case the Consolidated Cash less Consolidated Debt immediately prior to the respective acquisition exceeds USD 75,000,000) in excess of USD 50,000,000 in any calendar year.

The Group has obtained the necessary consents and waivers under the DB Facility in connection with the offer and sale of the Bonds.

RBS Facility

The RBS Facility provides for a three-year revolving loan facility currently in the aggregate amount of up to USD 10 million (reduced from USD 15,000,000 on the first anniversary of signing, in March 2006 and subject to a further reduction to USD 5,000,000 on the second anniversary of signing, in March 2007), and a guarantee facility in the aggregate amount of up to USD 5,000,000. The facilities are unsecured.

The RBS Facility contains customary financial and negative covenants, undertakings and events of default. Certain events of default are outside of the Group's control. For instance, certain changes in the Group's management team or losses of key customers may trigger an event of default under the RBS Facility. In addition, the RBS Facility requires that the Group obtains the prior written consent of the lenders prior to acquiring any business, assets or any interest in any other business or company where the consideration that is payable in cash of all such acquisitions is (a) in excess of USD 5,000,000 in any calendar year or (b) (in case the Cash (as defined therein) less Consolidated Debt (as defined therein) immediately prior to such acquisition exceeds USD 50,000,000) in excess of USD 25,000,000 in any calendar year; or (c) (in case the Consolidated Cash less Consolidated Debt immediately prior to the respective acquisition exceeds USD 75,000,000) in excess of USD 50,000,000 in any calendar year.

The Group has obtained the necessary consents and waivers under the RBS Facility in connection with the offer and sale of the Bonds.

Interruption of Business

The Guarantor has not experienced any interruptions of its business since its formation.

Public Tender Offers

There is no duty to make an offer to acquire Shares other than according to the applicable provisions of the Swiss Federal Act on Stock Exchanges and Securities Trading.

Developments since the End of the Financial Year

Other than as described in this Prospectus, since 31 December 2005, there were no significant changes in the business activities and prospects of the Company or of the Group, including in their assets, liabilities, financial position, or profits and losses.

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Annex A:

**TEMENOS Group AG: Consolidated Financial Statements as of 31 December 2005 (compared to 2004)
and Report of Auditors**

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**TEMENOS Group AG
Glarus**

**Report of the Group Auditors
to the General Meeting on the
Consolidated Financial Statements 2005**

1 March 2006/FMI/jaf

Report of the group auditors
to the general meeting of
TEMENOS Group AG
Glarus

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) on pages F-6 to F-35 of TEMENOS Group AG for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

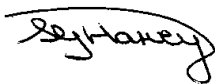
In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



M. Foley



S. Harvey

Geneva, 1 March 2006

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

 consolidated income statement
for the year ended 31 December

	2005	2004 restated
Revenues		
Software licensing	64,374	62,829
Maintenance	46,776	39,806
Services	57,502	50,940
<i>Total revenues (note 19)</i>	<u>168,652</u>	<u>153,575</u>
Operating costs and expenses		
Cost of sales	3,978	6,091
Services	61,557	47,958
Software development and maintenance	23,923	28,249
Sales and marketing	29,381	27,455
General and administrative	27,066	32,023
<i>Total operating costs and expenses</i>	<u>145,905</u>	<u>141,776</u>
Other operating income	-	1,020
Operating profit	<u>22,747</u>	<u>12,819</u>
Other income (expenses)		
Profit on disposal of available-for-sale investment (note 8)	-	2,100
Interest expense	(805)	(350)
Interest income	238	254
Fair value loss from financial instruments, net (note 23)	(736)	(20)
Financial instrument related expenses (note 23)	(260)	(406)
Foreign exchange (losses) gains, net	(948)	694
<i>Total other income (expenses)</i>	<u>(2,511)</u>	<u>2,272</u>
Profit before taxation	20,236	15,091
Taxation (note 11)	(2,328)	(3,041)
Profit for the year	<u>17,908</u>	<u>12,050</u>
Attributable to:		
Equity holders of the Company	18,257	12,862
Minority interest	(349)	(812)
	<u>17,908</u>	<u>12,050</u>
Earnings per share (in US\$) (note 24):		
basic	0.33	0.23
diluted	0.32	0.22

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

consolidated balance sheet

as at 31 December

	2005	2004 restated
Assets		
Current assets		
Cash and cash equivalents (note 6)	15,584	30,788
Trade and other receivables (note 7)	107,730	76,966
Prepayments and other assets	4,492	6,751
<i>Total current assets</i>	<u>127,806</u>	<u>114,505</u>
Non-current assets		
Property, plant and equipment (note 9)	9,402	10,394
Intangible assets (note 10)	36,937	33,133
Trade and other receivables (note 7)	3,565	2,637
Guarantees and restricted bank deposits	1,160	1,207
Deferred tax assets (note 11)	2,500	2,174
<i>Total non-current assets</i>	<u>53,564</u>	<u>49,545</u>
<i>Total assets</i>	<u><u>181,370</u></u>	<u><u>164,050</u></u>
Liabilities and equity		
Current liabilities		
Trade and other payables (note 12)	37,542	34,346
Deferred revenues	33,596	34,626
Income taxes payable	3,357	2,397
<i>Total current liabilities</i>	<u>74,495</u>	<u>71,369</u>
Non-current liabilities		
Long-term payables	5,568	8,274
Liabilities under finance leases (note 14)	280	224
<i>Total liabilities</i>	<u>80,343</u>	<u>79,867</u>
Capital and reserves attributable to the Company's equity holders		
Share capital (note 15)	159,009	157,454
Treasury shares (note 15)	(196)	(124)
Share premium and capital reserves (note 16)	(63,973)	(67,357)
Fair value and other reserves (note 17)	(963)	4,991
Retained earnings	6,753	(11,504)
	<u>100,630</u>	<u>83,460</u>
Minority interest	<u>397</u>	<u>723</u>
<i>Total equity</i>	<u>101,027</u>	<u>84,183</u>
<i>Total liabilities and equity</i>	<u><u>181,370</u></u>	<u><u>164,050</u></u>

TEMENOS GROUP AG
The amounts are expressed in thousands of US dollars
**consolidated cash flow statement
for the year ended 31 December**

	2005	2004 restated
Cash flows from operating activities		
Profit before taxation	20,236	15,091
Adjustments:		
Depreciation and amortisation (note 22)	11,180	13,904
Profit on disposal of available-for-sale investment (note 8)	-	(2,100)
Losses on disposal of assets (note 9)	39	102
Cost of employee share option scheme (note 18)	3,843	2,629
Interest expense - net	567	96
Fair value loss from financial instruments (note 23)	736	20
Financial instrument related expenses (note 23)	260	406
<i>Changes in net working capital</i>		
Increase in receivables, accrued revenues and prepayments	(32,728)	(10,837)
Increase in accounts payable and accrued expenses	2,034	1,065
Decrease in deferred revenues	(1,032)	(3,652)
<i>Cash generated from operations</i>	5,135	16,724
Income taxes paid	(1,470)	(790)
<i>Net cash generated from operating activities</i>	3,665	15,934
Cash flows from investing activities		
Purchase of tangible fixed assets	(3,361)	(3,327)
Disposal of tangible fixed assets	159	304
Purchase of intangible assets	(1,534)	(2,070)
Disposal of intangible assets	-	864
Capitalised development costs (note 10)	(10,841)	(6,558)
Disposal of available-for-sale investment (note 8)	1,800	-
Acquisitions (note 5)	(1,250)	(3,511)
Impact of full consolidation of entity previously under proportionate consolidation	-	864
Contribution of cash from minority interest	-	980
Interest received	247	244
<i>Net cash used in investing activities</i>	(14,780)	(12,210)
Cash flows from financing activities		
Proceeds from issuance of shares, net of related expenses	1,169	833
Acquisition of treasury shares	(88)	(91)
Repayment of short-term borrowings	-	(15,000)
Restricted cash released from a banking institution	-	10,000
Payment of promissory notes	(3,020)	-
Interest payments	(500)	(325)
Settlement of financial instruments (note 23)	-	(20)
Payment of financial instrument related expenses	(666)	(406)
Payment of finance lease liabilities	(169)	(107)
<i>Net cash used in financing activities</i>	(3,274)	(5,116)
Effect of exchange rate changes	(815)	444
Decrease in cash and cash equivalents in the year	(15,204)	(948)
Cash and cash equivalents at the beginning of the year	30,788	31,736
Cash and cash equivalents at the end of the year	15,584	30,788

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

consolidated statement of changes in shareholders' equity

for the year ended 31 December

	Share capital (note 15)	Treasury shares (note 15)	Share premium and capital reserves (note 16)	Fair value and other reserves (note 17)	Retained earnings	Minority interest	Total
Balance at 31 December 2003 as previously reported	155,560	(33)	(69,121)	3,861	(24,110)	38	66,195
Restrospective impact of IFRS 2	-	-	256	-	(256)	-	-
Balance at 31 December 2003 as restated	<u>155,560</u>	<u>(33)</u>	<u>(68,865)</u>	<u>3,861</u>	<u>(24,366)</u>	<u>38</u>	<u>66,195</u>
Cumulative translation adjustment	-	-	-	322	-	-	322
Cash flow hedges, net of tax (note 17)	-	-	-	808	-	-	808
Net income (expense) recognised directly in equity	-	-	-	1,130	-	-	1,130
Profit for the year	-	-	-	-	12,862	(812)	12,050
Total recognised income	-	-	-	1,130	12,862	(812)	13,180
Cost of employee share option scheme	-	-	2,629	-	-	-	2,629
Exercise of share options (note 18)	1,436	-	(633)	-	-	-	803
Shares issued in relation to acquisitions	458	-	(374)	-	-	-	84
Share issuance costs	-	-	(114)	-	-	-	(114)
Acquisition of treasury shares	-	(91)	-	-	-	-	(91)
Business combinations	-	-	-	-	-	1,497	1,497
	<u>1,894</u>	<u>(91)</u>	<u>1,508</u>	<u>1,130</u>	<u>12,862</u>	<u>685</u>	<u>17,988</u>
Balance at 31 December 2004	<u>157,454</u>	<u>(124)</u>	<u>(67,357)</u>	<u>4,991</u>	<u>(11,504)</u>	<u>723</u>	<u>84,183</u>
Cumulative translation adjustment	-	-	-	(2,402)	-	23	(2,379)
Cash flow hedges, net of tax (note 17)	-	-	-	(3,552)	-	-	(3,552)
Net income (expense) recognised directly in equity	-	-	-	(5,954)	-	23	(5,931)
Profit for the year	-	-	-	-	18,257	(349)	17,908
Total recognised income	-	-	-	(5,954)	18,257	(326)	11,977
Cost of employee share option scheme	-	-	3,843	-	-	-	3,843
Exercise of share options (note 18)	1,555	-	(421)	-	-	-	1,134
Shares issued in relation to acquisitions	-	16	(14)	-	-	-	2
Share issuance costs	-	-	(24)	-	-	-	(24)
Acquisition of treasury shares	-	(88)	-	-	-	-	(88)
	<u>1,555</u>	<u>(72)</u>	<u>3,384</u>	<u>(5,954)</u>	<u>18,257</u>	<u>(326)</u>	<u>16,844</u>
Balance at 31 December 2005	<u>159,009</u>	<u>(196)</u>	<u>(63,973)</u>	<u>(963)</u>	<u>6,753</u>	<u>397</u>	<u>101,027</u>

The attached notes form part of these consolidated financial statements

1. General information

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 Group AG have been publicly traded on the SWX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group.

The Company and its subsidiaries (the "TEMENOS GROUP" or "the Group") are engaged in the development and marketing 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 21 February 2006.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial instruments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

In 2005 the Group adopted the IFRS below, which are relevant to its operations. The 2004 financial statements have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 31 (revised 2003)	Interests in Joint Ventures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004)	Share-based Payments
IFRS 3 (issued 2004)	Business Combinations
IFRS 5 (issued 2005)	Non-current Assets Held for Sale and Discontinued Operations
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets

The changes to IAS 1, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33 and 39 and the adoption of IFRS 5 did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interests and the profit attributable to equity holders of the Company.
- IAS 8, 10, 16, 17, 24, 27, 32, 33, 39 and IFRS 5 had no material effect on the Group's policies.
- IAS 21 (revised 2005) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. As a result of this reevaluation the functional currency of TEMENOS (NL) BV has been changed from Euro to US\$ with effect from 1 January 2005. The Group has early adopted the amendment to IAS 21 (Amendment to International Accounting Standard 21 - December 2005).

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004 the provision of share options to employees only resulted in a charge in the income statement if the options were granted at a price lower than the share price. Subsequently the Group charges the fair value as a cost of share options to the income statement (note 2m).

The adoption of IFRS 3, which required simultaneous adoption of IAS 36 (revised 2004) and IAS 38 (revised 2004), resulted in a change in the accounting policy for goodwill. Until 31 December 2004 goodwill was amortised on a straight line basis over a 3 or 5 year period and assessed for an indication of impairment at each balance sheet date. In accordance with IFRS 3 the Group ceased amortisation of goodwill from 1 January 2005 and goodwill is tested annually for impairment as well as when there are indications of impairment. In addition, acquisitions made after 31 March 2004 were not subject to amortisation from the date of acquisition but are instead subject to annual tests for impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- IFRS 2 - retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2004.
- IFRS 3 - prospectively after 31 March 2004.

During the year the Group changed its accounting policy in respect of available-for-sale investments to account for the disposal of available-for-sale investments on trade date rather than settlement date (note 2u). This change in accounting policy is applied retrospectively but has no impact on the net profit for the year as previously reported or opening retained earnings.

The adoption of IFRS 2 impacted on the financial statements as follows:

	2005	2004
Increase in share premium and capital reserves	6,605	2,762
Decrease in retained earnings at 31 December	6,605	2,762
Decrease in opening retained earnings at 1 January	2,762	256
Increase in operating expenses	3,843	2,506
Decrease in basic earnings per share	\$0.07	\$0.05
Decrease in diluted earnings per share	\$0.07	\$0.04
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 but which the Group has not early adopted:		
IAS 19 (revised 2004)	Employee Benefits	
IAS 39 (revised 2005)	Financial Instruments: Recognition and Measurement	
IFRS 1 (revised 2005)	First-time Adoption of International Financial Reporting Standards	
IFRS 6 (issued 2005)	Exploration for and Evaluation of Mineral Resources	
IFRS 7 (issued 2005)	Financial Instruments: Disclosures	
IFRIC 4 (issued 2004)	Determining whether an Arrangement contains a Lease	
IFRIC 5 (issued 2004)	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	
IFRIC 6 (issued 2005)	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	
IFRIC 7 (issued 2005)	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	
IFRIC 8 (issued 2006)	Scope of IFRS 2	
IFRIC 9 (issued 2006)	Reassessment of Embedded Derivatives	

The changes to, and adoption of, IAS 19, IFRS 1, IFRS 6, IFRIC 4, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8 and IFRIC 9 are not expected to result in substantial changes to the Group's accounting policies. The impact of IAS 39 and IFRS 7 is as follows:

- IAS 39 (revised 2005), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of TEMENOS Group AG as well as its subsidiaries.

Subsidiaries are all entities in which the Group has an interest of more than 50% of the voting rights or otherwise has power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. All assets and liabilities as well as expenses and earnings of the Group companies are included effective from the date of acquisition. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement as other operating income.

Associates are entities over which the Group generally has between 20% and 50% of the voting rights or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate.

The Group's interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

(c) Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Group's presentation currency. The Company's functional currency is Swiss Francs.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are taken directly to shareholders' equity as cumulative translation adjustments and are included within "fair value and other reserves".

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented (excluding intragroup balances which are denominated in US dollars and are eliminated on consolidation) are translated at the closing rate at the date of that balance sheet
- the results of operations (excluding intragroup transactions which are denominated in US dollars and are eliminated on consolidation) are translated, on a monthly basis, at the average exchange rates of each monthly period where this represents a reasonable approximation of the exchange rate applicable on the date of the transaction.
- the resulting exchange differences are recognised in shareholders' equity within "fair value and other reserves".

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held with banks with original maturities of three months or less.

(e) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Impairments are recorded against revenue when a credit note will be granted for a disputed receivable and in "sales and marketing" expense when it relates to a collection risk. The amount of the provision is the difference between the carrying amount and the recoverable amount calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(f) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows (in years):

Furniture and fixtures	10
Office equipment	5
Computer equipment	4-5
Vehicles	4

Leasehold improvements are depreciated over the shorter of the lease term and useful life (ten years).

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(g) Intangible assets

Intangible assets consist of: business-related purchased goodwill, quantified as the excess of the cost of acquiring a business over the fair value of the identifiable assets and liabilities so acquired; personnel-related purchased goodwill, representing the consideration paid to secure the services of trained, experienced consultants; purchased copyrights relating to software; and purchased computer software. These assets are stated at cost less accumulated amortisation and accumulated impairment losses.

For goodwill arising on acquisitions prior to the adoption of International Financial Reporting Standards No. 3 Business Combination (IFRS 3) on 31 March 2004 amortisation was calculated and recorded using the straight-line method, over a period of five years in the case of business-related purchased goodwill and over a period of three years in the case of personnel-related purchased goodwill. Following the introduction of IFRS 3, goodwill amortisation ceased at 31 December 2004 and in future accounting periods goodwill will instead be tested annually for impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Amortisation in the case of other intangible assets is calculated using the straight-line method over a period of three, four or five years.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Capitalisation of development costs

The Group follows a strategy of investing a substantial part of its revenues in research and development work which is directed towards the enhancement of its two primary product platforms, TEMENOS T24 and TEMENOS CoreBanking.

The costs associated with the development of new or substantially improved products or modules are capitalised when a project has achieved the stage of technical feasibility, the likelihood of success is probable, costs can be reliably measured and a future revenue stream can be justified. In contrast, the cost of the enhancements effected to TEMENOS T24 or TEMENOS CoreBanking on an on-going basis, as well as the cost of developing products specifically commissioned by clients, is charged to operations in the year in which such costs are incurred.

The capitalised development costs are amortised, using the straight-line method, commencing one month after the product is available for distribution. Development costs related to architecture developments are amortised over a five-year period and development costs related to functional developments are amortised over a three-year period.

(j) Taxation

Current taxation is provided based on the taxable income reported for fiscal purposes in the various tax jurisdictions in which the Group operates. The nominal and effective tax rates applicable vary substantially between jurisdictions.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantially enacted tax rates are used in the determination of deferred income tax. Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are considered to be permanently reinvested.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group incurs withholding tax in various jurisdictions. An assessment is made of the ability to recover these withholding taxes against the normal tax liabilities occurring within the Group, and a provision is made to the extent that withholding tax is considered irrecoverable.

(k) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities in the balance sheet. The interest elements of the lease obligations are charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Fixed assets held under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Employee share options

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value is determined at grant date. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. The impact of the revision of original estimates is recognised in the income statement over the remaining vesting period. The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

(n) Revenue recognition

The Group derives revenues from three primary sources: (1) software licences and the provision of software development services specifically commissioned by clients, which are collectively reflected in the income statement as "software licensing"; (2) software maintenance (help desk services and rights to future product enhancements), which is shown as "maintenance"; and (3) software implementation and support services, which are shown as "services".

While the Group's required basis for revenue recognition is defined under IAS 18 "Revenue", the Group applies the requirements outlined in Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2), issued by the American Institute of Certified Public Accountants, as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions". This US accounting standard offers more detailed guidance for companies in the software industry and corresponds to the general requirements outlined in IAS 18.

The Group recognises revenues when the following conditions exist: (1) there is persuasive evidence that an arrangement exists; (2) delivery of the software or services has occurred; (3) customer payment is deemed fixed or determinable; and (4) collection is probable. Revenue from contracts that include acceptance conditions is only recognised when the conditions have been met, except if the conditions imposed can be met with reasonable ease and certainty.

Software licensing

Software licence revenues represent all fees earned from granting customers licences to use our banking applications software, either through an initial licence or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software licence arrangements that do not require significant modification or customisation of the underlying software, revenue is recognised when the base criteria have been met.

If the software licence arrangement requires significant modification or customisation of the underlying software, the initial software licence revenue is generally recognised together with the services based on percentage-of-completion as defined in IAS 11, "Construction Contracts", and as explained in the description of services below.

Software development services revenue represents fees charged to clients for developing requested additional functionality and is recognised on a percentage-of-completion basis.

Maintenance

Optional software maintenance is included in most software licence arrangements and is generally priced as a percentage of the initial software licence 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 recognised ratably on a straight-line basis over the term of the arrangement.

Services

Software implementation and support services represents income from consulting and implementation services sold separately under services contracts. Service contracts are accounted for on a percentage-of-completion basis in accordance with the rules applicable to long-term contract revenue recognition as defined in IAS 11, "Construction Contracts", whereby revenue and profit recognised during the year is based on project hours incurred as a proportion of total projected hours to complete. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue and profit due to changes in estimates are accounted for in the period in which the change in estimates occurs. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Multiple element arrangements

In many cases, the Group enters into transactions with customers that include both software licence and services revenues. The revenues from these arrangements are generally accounted for separately in accordance with SOP 97-2. The factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e. whether they are essential to the functionality of the software licence), availability of services from other vendors, timing of payments and acceptance criteria on the realisability of the software licence fee.

For arrangements with multiple elements, revenue is allocated to each element of a transaction based upon its fair value as determined by vendor specific objective evidence. Vendor specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately. Revenue is deferred for any undelivered elements, and recognised when the product is delivered or over the period in which the service is performed. To the extent that the initial licensing fee incorporates the provision of unspecified upgrades and help desk support services for an agreed period, the value of these services is recognised ratably over the period.

If fair value cannot be objectively determined for any undelivered element included in bundled software and service arrangements, revenue is deferred until all elements are delivered and services have been performed. When the fair value of a delivered element has not been established, the Group uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognised as revenue.

Payment terms

Payment terms vary according to the individual contracts and may include extended or upfront payments. Management reviews the nature of all extended payment terms to assess whether the fee is considered fixed or determinable. When significant amounts are due outside of normal business practices the revenue is recorded as the amounts become due.

Licensing and service fees that have been invoiced but have not been recognised as revenue are reported on the balance sheet under "deferred revenues" while fees which have been earned but have not been invoiced are reported under "trade and other receivables".

(o) Cost of sales

The direct costs associated with sales contracts, such as sales commissions and third-party licensing costs, are expensed as a "cost of sales" on an accrual basis. Service costs are recognised as incurred and primarily represent payroll costs for implementation support consultants and fees paid to third party consultants. Payments received in respect of out of pocket expenses are netted against the associated cost.

(p) Segment reporting

A business segment is a group of assets and operations engaged in providing licences or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing licences or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(q) Pensions

Group companies operate various pension schemes including both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Under defined contribution plans the relevant contributions are expensed as they accrue. Once the contributions have been paid, the Group has no further payment obligations.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method, however salary increase rates are not applicable to these defined benefit plans. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

(r) Financial instruments and financial risk management

The Group's main financial instruments are cash, short-term receivables and payables, currency hedging instruments, available-for-sale investments, debt and certain other forms of financing, such as finance leases. Currency hedging instruments are carried at fair value. Management believes that the carrying amounts of other financial instruments approximate their fair value because of their short-term nature. Management further believes that the interest rates applicable to its debt and other forms of financing represent fair market rates and, therefore, their carrying value approximates fair value.

Credit risk

Concentration of credit risk is principally associated with account receivable and accrued (unbilled) revenue generated by licensees. This credit risk is, however, mitigated by the fact that the Group's licensees are highly rated financial institutions and the amounts due are spread over a large number of institutions. The Group does not generally require security guarantees to support these financial instruments. The Group does not anticipate non-performance by the counterparties in excess of the recorded impairment provision for receivables which are deemed doubtful of collection.

Foreign exchange risk

As a result of the diverse nature of the business, foreign currency exchange rate fluctuations affect the Group significantly. A significant portion of the Group's revenue and cash in-flows are in US dollars, whereas a large part of the cost base is denominated in Sterling and other currencies. To mitigate this mismatch the Group is making efforts to migrate the revenue streams to currencies that match the cost base and also enters into contracts for derivative financial instruments such as foreign exchange contracts. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units and operates under written guidelines approved by the Board.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets or liabilities other than restricted cash and loans.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

Accounting for derivative financial instruments and hedging contracts

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured at each balance sheet date to their fair value. Changes in the fair value of financial instruments that qualify as cash flow hedges and that are highly effective are recorded in the associated income statement line when the hedged item affects profit or loss. Until the hedged item affects profit or loss the changes in the fair value of these financial instruments are recognised in equity in the line "net fair value gain on cash flow hedge".

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify as hedges under IAS 39 "Financial Instruments: Recognition and Measurement". Changes in the fair value of these derivatives are recognised immediately in the income statement in the line "income from financial instruments" and disclosed separately.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The estimated fair value of the derivative instruments entered into by the Group are provided by an independent third party.

(s) Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of common stock relating to outstanding options to the extent such incremental shares are dilutive.

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(u) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.e).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical accounting estimates and assumptions

Estimated impairment of goodwill

The Group tests annually whether goodwill and other intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 2h. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 10).

If the future sales of the Group's products and the size of the market opportunities are significantly lower than management's estimates the carrying value of goodwill and other intangible assets may need to be reduced accordingly. However, unless any downturn is particularly severe it is unlikely to have a material impact on the carrying value of goodwill and other intangible assets.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- decrease the income tax liability by \$137 thousand and increase the deferred tax asset by \$70 thousand, if favourable; or
- increase the income tax liability by \$137 thousand and decrease the deferred tax asset by \$70 thousand, if unfavourable

Employee share option scheme

The fair value of the employee services received in exchange for the grant of share options is recognised as an expense, whereby the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. Were the actual number of options exercised to differ by 10% from management's estimates, the Group would need to:

- increase retained earnings and decrease share premium by \$56 thousand, if favourable; or
- decrease retained earnings and increase share premium by \$46 thousand, if unfavourable.

Critical judgements in applying the entity's accounting policies

Revenue recognition

As detailed in Note 2n the Group is required to make an assessment for each new software licence contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements. If significant modification or customisation is required the software licence revenue is recognised based on percentage-of-completion. This assessment is made at the outset of the contract.

4. Principal group companies

The consolidated financial statements include the accounts of TEMENOS GROUP AG and the following entities as of 31 December 2005:

Company name	Country of incorporation	Ownership interest
TEMENOS Headquarters SA	Switzerland	100%
TEMENOS Suisse SA	Switzerland	100%
TEMENOS Luxembourg SA	Luxembourg	100%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS France SAS	France	100%
Quetzal Informatique SA	France	100%
TEMENOS Deutschland GmbH	Germany	100%
TEMENOS Hispania SA	Spain	100%
TEMENOS UK Limited	United Kingdom	100%
TEMENOS Systems Ireland Limited	Ireland	100%
TEMENOS USA, Inc.	U.S.A.	100%
TEMENOS (Russia) Limited	Cyprus	100%
TEMENOS Middle East Limited	Cyprus	100%
TEMENOS Singapore Pte Limited	Singapore	100%
TEMENOS Hong Kong Limited	Hong Kong	100%
TEMENOS Software Shanghai Co. Limited	China	100%
TEMENOS India Pte Limited	India	100%
TEMENOS (Thailand) Co. Limited	Thailand	100%
TEMENOS (Malaysia) Sdn Bhd	Malaysia	100%
TEMENOS Philippines, Inc.	Philippines	100%
TEMENOS Mexico SA de CV	Mexico	100%
Fomento Empresarial de Servicios Informaticos S.A. de C.V.	Mexico	51%
TEMENOS Ecuador SA	Ecuador	100%
TEMENOS Japan KK	Japan	100%
TEMENOS Korea Limited	Korea	100%
TEMENOS Australia Pty Limited	Australia	100%
TEMENOS Africa Pty Limited	South Africa	100%
TEMENOS Holdings NV	Netherlands Antilles	100%
TEMENOS Hellas SA	Greece	100%
TEMENOS Eastern Europe Limited	Cyprus	100%
TEMENOS Polska Sp. Zoo	Poland	100%
TEMENOS Vietnam Co. Limited	Vietnam	100%
TEMENOS Software Canada Limited	Canada	100%

In addition to the group companies listed above, some Group subsidiaries maintain branches or representative offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); Moscow (Russia); Kiev (Ukraine); Copenhagen (Denmark); Taipei (Taiwan); and Djakarta (Indonesia).

5. Business combinations

Cash paid during 2005 in respect of acquisitions of US\$ 1,250 thousand relates to the purchase of the GLOBUS related business of the PKTech Group during 2002 for total consideration of US\$ 3,500 thousand.

6. Cash and cash equivalents

The balance in respect of cash and cash equivalents consists of:

	2005	2004
Cash at bank	12,975	18,347
Short term deposits with banks	2,609	12,441
	<u>15,584</u>	<u>30,788</u>

The effective interest rate on short-term bank deposits was 1.87% (2004: 2.28%); these deposits have a weighted average maturity of 8 days (2004: 11 days).

7. Trade and other receivables

	2005	2004
Trade receivables	73,126	52,459
Accrued revenues	34,605	22,614
VAT and other taxation recoverable	2,424	2,070
Other receivables	2,694	3,679
Provision for doubtful debts	<u>(1,554)</u>	<u>(1,219)</u>
	111,295	79,603
Less non-current portion: trade receivables	<u>(3,565)</u>	<u>(2,637)</u>
	<u>107,730</u>	<u>76,966</u>

The fair value of trade and other receivables, based on discounted cash flows, equates to the values given above.

The expense for doubtful debts is recorded in "sales and marketing" and amounts to US\$ 905 thousand (2004: US\$ 1,082 thousand).

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are internationally dispersed.

8. Available-for-sale financial assets

In December 2004 TEMENOS Holdings NV entered into an agreement to sell its 20% equity interest in a private Italian company to the original shareholders for an arms length value of US\$ 2.1 million resulting in the recording of a gain in the 2004 consolidated statement of income. Proceeds of US\$ 1.8 million were received during 2005.

9. Property, plant and equipment

Tangible fixed assets consist of:

	Leasehold improvements	Vehicles	Fixtures fittings & equipment	Total
Cost				
At 1 January 2005	9,401	882	14,209	24,492
Foreign currency exchange differences ⁽¹⁾	(1,102)	(90)	(1,345)	(2,537)
Additions ⁽²⁾	807	1,053	1,345	3,205
Disposals ^{(2) (3)}	(417)	(25)	(1,924)	(2,366)
31 December 2005	8,689	1,820	12,285	22,794
Depreciation				
At 1 January 2005	4,885	397	8,816	14,098
Foreign currency exchange differences ⁽¹⁾	(583)	(34)	(857)	(1,474)
Charge for the year ^{(2) (4)}	1,236	197	1,437	2,870
Disposals ^{(2) (3)}	(406)	(24)	(1,672)	(2,102)
31 December 2005	5,132	536	7,724	13,392
Net book value				
31 December 2005	3,557	1,284	4,561	9,402

Year ended 31 December 2004

Cost				
At 1 January 2004	7,019	860	13,240	21,119
Foreign currency exchange differences ⁽¹⁾	552	56	866	1,474
Additions ⁽²⁾	2,019	328	1,635	3,982
Full consolidation of entity previously under proportionate consolidation	38	36	149	223
Disposals ^{(2) (3)}	(227)	(398)	(1,681)	(2,306)
31 December 2004	9,401	882	14,209	24,492
Depreciation				
At 1 January 2004	3,511	349	8,070	11,930
Foreign currency exchange differences ⁽¹⁾	247	20	535	802
Charge for the year ^{(2) (4)}	1,258	197	1,606	3,061
Full consolidation of entity previously under proportionate consolidation	37	13	98	148
Disposals ^{(2) (3)}	(168)	(182)	(1,493)	(1,843)
31 December 2004	4,885	397	8,816	14,098
Net book value				
31 December 2004	4,516	485	5,393	10,394

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

9. Property, plant and equipment (continued)

(2) Leased assets included in the table above, where the Group is a lessee, comprise mainly of motor vehicles and some office equipment.

	Cost	Depreciation	Net book value
At 1 January 2005	784	(484)	300
Additions	184	(149)	35
Foreign currency exchange differences ⁽¹⁾	(96)	61	(35)
31 December 2005	<u>872</u>	<u>(572)</u>	<u>300</u>

In most cases the assets leased are pledged as collateral against the lease liability.

(3) The loss on the disposals charged to the income statement in 2005 amounted to US\$ 39 thousand (2004: US\$ 14 thousand).

(4) The depreciation charge reported above has been quantified as follows:

	Charge for the year	Currency translation adjustments	Total
<i>Year ended:</i>			
31 December 2005	<u>2,998</u>	<u>(128)</u>	<u>2,870</u>
31 December 2004	<u>2,958</u>	<u>103</u>	<u>3,061</u>

At the balance sheet date the Group was in course of construction of a boat to be used for marketing purposes (included within vehicles). US\$ 1,010 thousand was incurred during 2005 and there is a commitment to incur an additional US\$ 1,430 thousand during 2006.

10. Intangible assets

	Capitalised development costs	Purchased business related goodwill	Purchased personnel related goodwill	Purchased copyrights	Computer software	Purchased maintenance agreements	Total
Cost							
At 1 January 2005	26,784	16,747	1,108	20,783	4,261	2,498	72,181
Foreign currency exchange differences ⁽¹⁾	-	-	-	-	(445)	-	(445)
Additions	10,873	-	-	784	531	-	12,188
Disposals ⁽²⁾	-	-	-	-	(533)	-	(533)
31 December 2005	37,657	16,747	1,108	21,567	3,814	2,498	83,391
Amortisation							
At 1 January 2005	14,302	4,443	863	16,806	2,390	244	39,048
Foreign currency exchange differences ⁽¹⁾	-	-	-	-	(209)	-	(209)
Charge for year ⁽³⁾	3,871	-	-	3,073	559	645	8,148
Disposals ⁽²⁾	-	-	-	-	(533)	-	(533)
31 December 2005	18,173	4,443	863	19,879	2,207	889	46,454
Net book value							
31 December 2005	19,484	12,304	245	1,688	1,607	1,609	36,937
Year ended 31 December 2004							
Cost							
At 1 January 2004	20,226	6,248	1,335	18,663	3,575	-	50,047
Foreign currency exchange differences ⁽¹⁾	-	-	-	-	293	-	293
Additions	6,558	10,499	-	2,120	905	2,498	22,580
Full consolidation of entity previously under proportionate consolidation	-	-	219	-	-	-	219
Disposals ⁽²⁾	-	-	(446)	-	(512)	-	(958)
31 December 2004	26,784	16,747	1,108	20,783	4,261	2,498	72,181
Amortisation							
At 1 January 2004	11,587	3,224	583	11,051	2,133	-	28,578
Foreign currency exchange differences ⁽¹⁾	-	-	-	-	184	-	184
Charge for year ⁽³⁾	-	1,219	468	5,755	545	244	8,231
Full consolidation of entity previously under proportionate consolidation	2,715	-	86	-	-	-	2,801
Disposals ⁽²⁾	-	-	(274)	-	(472)	-	(746)
31 December 2004	14,302	4,443	863	16,806	2,390	244	39,048
Net book value							
31 December 2004	12,482	12,304	245	3,977	1,871	2,254	33,133

(1) The amounts have been restated to reflect the changes in the parity of the functional currencies of the operating entities owning the assets with the US dollar.

(2) The loss on disposals charged to the income statement in 2005 was US\$ nil (2004: US\$ 88 thousand).

(3) See next page.

10. Intangible assets (continued)

(3) The amortisation charge reported above has been quantified as follows:

	Charge for the year	Currency translation adjustments	Total
Year ended: 31 December 2005	8,182	(34)	8,148
31 December 2004	8,231	5	8,231

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units identified according to country of operation or business segment.

A segment-level summary of the goodwill allocation is presented below:

	2005			2004		
	Software licensing	Services	Total	Software licensing	Services	Total
Europe, Middle East and Africa	11,011	84	11,095	11,011	84	11,095
Asia	1,293	122	1,415	1,293	122	1,415
Americas	-	39	39	-	39	39
Corporate	-	-	-	-	-	-
	12,304	245	12,549	12,304	245	12,549

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations over the next two to four years. These calculations use forecasts of contract signings and/or estimates of growth rates related to specific business segments. Forecasts of contract signings are based on an evaluation of the Group's current pipeline. The growth rates used in the calculations for specific business segments are 5%. If a nil growth rate had been used in the calculations this would not have a material impact on the carrying value of goodwill. The discount rate used in the calculations is 15%.

11. Taxation

Tax expense:

	2005	2004
Domestic current income taxes	273	350
Overseas current income taxes, including non-recoverable withholding tax	2,775	2,994
Total current taxes	3,048	3,344
Deferred income taxes	(720)	(303)
Total tax expense	2,328	3,041

TEMENOS Group AG is incorporated in Switzerland but the Group operates in various countries with various tax laws and rates. Consequently, the effective tax rate may vary from period to period to reflect the generation of taxable income in tax jurisdictions. A reconciliation between the reported income tax expense and the amount computed using a basic Swiss statutory corporate tax rate of 25%, is as follows:

	2005	2004
Profit before tax	20,236	15,091
Tax at the domestic rate of 25%	5,059	3,773
Effects of different tax rates	(4,826)	(11,629)
Tax holiday	(1,402)	(671)
Utilisation of previously unrecognised losses	(3,079)	(124)
Current year's losses not utilised	7,152	9,426
Recognition of deferred tax assets on net operating losses brought forward	(1,300)	(303)
Effect of current period adjustment for tax of prior period	(781)	67
Non deductible expenses	865	2,366
Other tax and credits	640	136
Total tax expense	2,328	3,041

11. Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities shown in the consolidated balance sheet are as follows:

	2005	2004
Deferred tax assets	2,500	2,174
Deferred tax liabilities	-	-
Net deferred tax assets	2,500	2,174

The deferred tax assets recognised in the financial statements relate to losses carried forward in certain of the Group's operating subsidiaries. An assessment of the realisability of deferred tax assets is made on a country by country basis, based on the weight of available evidence including factors such as recent earnings history and expected future taxable income. Deferred tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable. The majority of the deferred tax assets are expected to be utilised after more than twelve months.

In addition to the deferred tax assets recognised above, the Group has unrecognised deferred tax assets relating to losses carried forward of US\$ 32,582 thousand (2004: US\$ 25,566), of which US\$ 1,893 thousand (2004: US\$ 2,006 thousand) will expire within five years and the remaining amount thereafter. There are no unrecognised deferred tax liabilities.

The movement in deferred tax assets is as follows:

At 1 January 2005	2,174
Income statement credit	720
Foreign exchange movement on deferred tax assets held in local currencies	(432)
Other	38
At 31 December 2005	2,500

12. Trade and other payables

	2005	2004
Trade payables	16,098	16,810
Accrued expenses	16,665	15,897
Other payables	4,779	1,639
	37,542	34,346

13. Bank loans

On 21 March 2005 the group negotiated financing facilities with two large financial institutions which replace existing financing facilities. The pertinent details of the new facilities are as follows:

Facilities available for general working capital needs:

US\$ 30 million bearing interest at LIBOR/EURIBOR (depending on drawing currency) + 1.5%. This is repayable as follows:

US\$ 10 million repayable in full on 20 March 2008

US\$ 10 million repayable in full on 20 March 2007

US\$ 10 million repayable in full on 20 March 2006

Commitment fees are due at 0.75 % of the margin on the above facilities.

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

US\$ 10 million repayable in full on 20 March 2008. No commitment fees are due on this facility. Instead, industry standard guarantee setup fees are applied to any usage of this facility.

Under the arrangements entered into, the Group is restricted from becoming further indebted to financial institutions. The facilities granted are subject to various financial covenants, which are based on conservative projections of the Group's results.

As at 31 December 2005 and 31 December 2004 the facilities were not drawn upon.

14. Liabilities under finance leases

	2005	2004
Obligations under finance leases:		
repayable within one year	172	136
repayable between two and five years	120	161
	292	297
Finance charges allocated to future accounting periods	(12)	(21)
	280	276

15. Share capital

As at 31 December 2005, the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 55,305,850 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2005, are summarised below:

	number	Nominal value in CHF in US\$	
Issued, as at 31 December 2003	54,472,469	272,362	155,560
Shares issued as part of the consideration paid for the acquisition of Integrated Core Technologies Participations SA in 2001	118,136	591	458
Shares issued on exercise of employee share options	361,830	1,809	1,436
Total number of shares issued, as at 31 December 2004	54,952,435	274,762	157,454
Shares issued on exercise of employee share options	397,757	1,989	1,555
Total number of shares issued, as at 31 December 2005	55,350,192	276,751	159,009
Treasury shares	(44,342)	(208)	(196)
Total number of shares outstanding, as at 31 December 2005	55,305,850	276,543	158,813

As at 31 December 2005 the number of treasury shares held by the Group amounted to 44,342 (2004: 19,647). 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 27 June 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,309,437
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

The share capital of all subsidiaries has been eliminated on consolidation.

In the year ended 31 December 2001, 344,826 share options were allotted to the ex-shareholders of Integrated Core Technologies Participations SA when the company was acquired by the TEMENOS GROUP. As at 31 December 2005, 4,258 of these share options were outstanding (2004: 8,295). These options are fully vested. A warranted share subscription reserve was established at the time of the transaction, and the exercise of these share options will reduce this reserve accordingly (note 16).

15. Share capital (continued)

Based on the average market value of the shares of TEMENOS Group AG for each quarter, and the vested portion of the potentially dilutive options as at 31 December 2005, the dilution effect of the latter has been quantified as follows:

	Common shares outstanding	Weighted average number of common shares	Employee share options outstanding	Share warrants outstanding	Equivalent potentially dilutive common shares
31 December 2005	55,305,850	55,024,848	11,628,353	4,258	2,774,271
31 December 2004	54,932,788	54,736,636	6,757,736	8,295	3,129,750

16. Share premium and capital reserves

	Share premium	Warranted share subscription reserve	Employee share options reserve	Discount on shares issued to employees	Negative premium arising on creation of Temenos Group AG	Total
Balance at 31 December 2003 as previously reported	3,719	402	2,166	(6,952)	(68,456)	(69,121)
Retrospective impact of IFRS 2	-	-	256	-	-	256
Balance at 31 December 2003 as restated	3,719	402	2,422	(6,952)	(68,456)	(68,865)
Cost of employee share option scheme	-	-	2,629	-	-	2,629
Exercise of share options (note 18)	258	-	-	(891)	-	(633)
Shares issued in relation to acquisitions	-	(374)	-	-	-	(374)
Share issuance costs	(114)	-	-	-	-	(114)
Balance at 31 December 2004	3,863	28	5,051	(7,843)	(68,456)	(67,357)
Cost of employee share option scheme	-	-	3,843	-	-	3,843
Exercise of share options (note 18)	404	-	-	(825)	-	(421)
Shares issued in relation to acquisitions	-	(14)	-	-	-	(14)
Share issuance costs	(24)	-	-	-	-	(24)
Balance at 31 December 2005	4,243	14	8,894	(8,668)	(68,456)	(63,973)

Share premium

The share premium account reflects the premium on issuance of new shares at a price above their par value or negative premium when issued at a discount.

Reserve for treasury shares

Under Swiss law a legal reserve must be established for an amount equal to the cost of treasury shares held by the Group. This reserve is included within share premium. As at 31 December 2005 the cost of treasury shares held by the Group was US\$ 196 thousand (2004: US\$ 124 thousand).

Warranted share subscription reserve

The balance under this reserve represents the estimated fair market value, at the time of the transaction, of the share options granted in the context of an acquisition of a subsidiary which had not been exercised by the aforesaid dates. The warranted share subscription reserve was credited with the approximate fair value of the options on issuance.

Employee share options reserve

As detailed in note 18, the Group operates an employee share options scheme. The excess of the market price over the grant price is charged to personnel costs over the period during which the options vest, with a corresponding credit made to the employee share options reserve.

Discount on shares issued to employees

Under the terms of the employee share options scheme the Group issues shares to employees at option prices ranging from US\$ 0.005 to US\$ 15 per share. To the extent that shares are issued at a value that is lower than the nominal value of CHF 5 per share, this amount is allocated to discount on shares issued to employees.

16. Share premium and capital reserves (continued)**Negative premium arising on creation of TEMENOS Group AG**

TEMENOS Group AG was incorporated on 7 June 2001. The issued and outstanding shares of TEMENOS Holdings NV were exchanged shortly before the initial public offering for TEMENOS Group AG shares, thus rendering TEMENOS Holdings NV a wholly owned subsidiary of TEMENOS Group AG. The number of shares acquired was 40,104,336 which prior to the exchange had a nominal value of US\$ 0.001 per share, totalling US\$ 39 thousand. The new shares in TEMENOS Group AG were issued at nominal value of CHF 5 which resulted in a negative premium of US\$ 113,538 thousand. Expenses related to the initial public offering of TEMENOS Group AG, and share premium items arising prior to the creation of TEMENOS Group AG, were recorded against this account.

A deficit of US\$ 62,277 thousand was recorded to share premium on the cancellation of shares repurchased in 2000. This was transferred into "negative premium arising on creation of TEMENOS Group AG" during the period ended 31 December 2001.

17. Fair value and other reserves

Included within fair value and other reserves are the following:

Cumulative translation adjustment

The cumulative translation adjustment represents the foreign exchange gains and losses resulting from the translation of the subsidiaries' assets, liabilities and results of operations from their functional currency into the Group's reporting currency (US\$).

Fair value gains on cash flow hedges

The fair value reserve on cash flow hedges represents the fair value gain on forward foreign currency exchange contracts that were outstanding at the end of the reporting period that qualify as cash flow hedges.

	Fair value gains		
	Cumulative translation adjustment	(losses) on qualifying cash flow hedges	Total
Balance at 31 December 2003	2,463	1,398	3,861
Currency translation differences	322	-	322
Transfers to net profit	-	(2,325)	(2,325)
Net fair value gain on cash flow hedge, net of tax (note 23)	-	3,133	3,133
Balance at 31 December 2004	2,785	2,206	4,991
Currency translation differences	(2,402)	-	(2,402)
Transfers to net profit	-	(205)	(205)
Net fair value gain on cash flow hedge, net of tax (note 23)	-	(3,347)	(3,347)
Balance at 31 December 2005	383	(1,346)	(963)

18. Employee share options

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

The cumulative options granted under this plan as at 31 December 2005, net of cancellations, were 14,918,915 shares (as at 31 December 2004: 9,650,541) with option prices ranging from US\$ 0.005 to US\$ 15.00 per share. The vesting period ranges from one to five years and the options expire ten years after the grant date. The cumulative options exercised under the plan as at 31 December 2005 amounted to 3,290,563 shares (period ended 31 December 2004: 2,892,806).

A summary of the movements on the stock option plan for the two years ended 31 December 2005 is set out below:

	2005		2004	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding at the beginning of the year	6,757,736	\$ 4.63	5,790,645	\$ 3.61
Options granted during the year	5,724,550	\$ 7.87	1,500,000	\$ 6.94
Options cancelled during the year	(456,176)	\$ 4.60	(162,803)	\$ 5.62
Options exercised during the year	(397,757)	\$ 2.97	(370,106)	\$ 2.25
Options outstanding at the end of the year	<u>11,628,353</u>	<u>\$ 6.21</u>	<u>6,757,736</u>	<u>\$ 4.63</u>

Of the 11,628,353 outstanding options (2004: 6,757,736), 2,851,543 options (2004: 1,988,714) were exercisable at the balance sheet date. The options exercised during the year had a weighted average share price at the time of exercise of US\$ 8.23 (2004: US\$ 8.56).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Exercise price	Number of shares		Weighted average remaining contractual life (years)	
	2005	2004	2005	2004
\$0.01-\$0.35	623,300	795,134	2.47	3.59
\$0.99-\$1.37	1,815,400	1,917,700	7.05	8.00
\$2.28-\$2.50	29,500	52,100	4.31	4.96
\$4.10-\$6.09	1,498,476	1,736,299	6.03	6.95
\$6.47-\$7.96	3,250,550	1,482,600	8.66	9.01
\$8.25-\$9.33	3,861,051	190,076	9.50	5.67
\$10.00-\$15.00	550,076	583,827	5.93	6.95
	<u>11,628,353</u>	<u>6,757,736</u>		

As at 31 December 2005 2,004,200 (2004: 1,014,200) of these outstanding share options were held by executive members of the Board of Directors of TEMENOS Group AG, at exercise prices ranging from US\$ 0.93 to US\$ 15.00 per share. During 2005 executive members of the Board of Directors of TEMENOS Group AG of the holding Company were granted 1,000,000 options at a weighted average exercise price of US\$ 8.05 per share (2004: 400,000 options at an exercise price of US\$ 6.80 per share).

Fair value of stock options

The fair value of options granted during the period determined using the Black-Scholes valuation model was US\$ 12,835 thousand (2004: US\$ 3,021 thousand). The significant inputs into the model were weighted average share price at grant date of US\$ 7.80 (2004: US\$ 7.15), weighted average exercise price of US\$ 7.87 (2004: US\$ 6.94), standard deviation of expected share price returns of 37% - 38% (2004: 40%), weighted average option lives of 3.52 years (2004: 2.56 years) and weighted average annual risk-free interest rate of 0.87% (2004: 0.35%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the relevant historical period. Where there is no relevant historical period the standard deviation of expected share price returns is based on calculations derived from a relevant peer group.

The cost of employee share options, including the amount in respect of key management, is disclosed in note 20.

Prior to the adoption of IFRS 2 the cost of the scheme was calculated as the difference between the exercise price and the market price at the time of grant, and was charged to operations over the vesting period. US\$ 123 thousand was charged to operations in respect of this during 2004.

19. Segmental reporting

Segment information of the TEMENOS GROUP is based on two segment formats. The primary reporting segment format consists of the two distinct business activities: software licensing; and services. The secondary reporting segment format consists of the major geographical regions in which the Group operates. The company's internal organisational structure and internal financial reporting address both segments.

(a) Primary reporting format - business segments

The Group is organised into two main business segments:

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

	2005			2004		
	Software licensing	Services	Total	Software licensing	Services	Total
Segment revenues	111,150	57,502	168,652	102,635	50,940	153,575
Segment operating result	83,249	(4,055)	79,194	69,315	2,982	72,297
Unallocated operating costs			(56,447)			(59,478)
Operating profit			<u>22,747</u>			<u>12,819</u>
Other income (expenses)						
Reversal of impairment of available-for-sale investment			-			2,100
Interest expense			(805)			(350)
Interest income			238			254
Income (loss) from financial instruments			(736)			(20)
Financial instrument related expenses			(260)			(406)
Foreign exchange (losses) gains, net			(948)			694
<i>Total other income (expenses)</i>			<u>(2,511)</u>			<u>2,272</u>
Profit before taxation			20,236			15,091
Taxation			(2,328)			(3,041)
Profit for the year			<u>17,908</u>			<u>12,050</u>
Attributable to:						
Equity holders of the Company			18,257			12,862
Minority interest			(349)			(812)
			<u>17,908</u>			<u>12,050</u>
Assets						
Segment assets	114,427	24,449	138,876	86,523	21,140	107,663
Unallocated assets			42,494			56,387
Total assets			<u>181,370</u>			<u>164,050</u>
Liabilities						
Segment liabilities	(31,340)	(2,101)	(33,441)	(32,094)	(2,532)	(34,626)
Unallocated liabilities			(46,902)			(45,241)
Total liabilities			<u>(80,343)</u>			<u>(79,867)</u>

19. Segmental reporting (continued)**(a) Primary reporting format - business segments (continued)****Other segment items (not including unallocated items)**

	2005			2004		
	Software licensing	Services	Total	Software licensing	Services	Total
Capital expenditure	10,841	-	10,841	6,558	-	6,558
Depreciation and amortisation	11,180	-	11,180	9,710	469	10,179

There are no transactions between the segments. However, revenues for software licensing and services from multi-element contracts are reallocated between the segments based on the fair value of the contract elements as a result of the application of SOP 97-2.

Unallocated operating costs represent sales and marketing expenses, administrative expenses and goodwill amortisation as these are not separately identifiable to either business segment.

Segment assets consist primarily of receivables, accrued revenue and intangible assets. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets to business segments.

Segment liabilities comprise of deferred revenues. Management do not consider it appropriate to allocate accounts payable, accrued expenses and loans to business segments.

(b) Secondary reporting format - geographical segments**Revenue by region of destination of product or service**

	Asia	Americas	Europe, Middle East and Africa	Total
Year ended 31 December 2005	27,930	37,618	103,104	168,652
Year ended 31 December 2004	23,781	20,031	109,763	153,575

Assets by region**Year ended 31 December 2005**

Segment assets	24,289	9,121	83,958	117,368
Unallocated assets				64,002
Total assets				181,370

Year ended 31 December 2004

Segment assets	16,074	3,757	71,367	91,198
Unallocated assets				72,852
Total assets				164,050

Segment assets consist primarily of receivables and accrued revenue. The majority of intellectual property is considered a corporate asset. Management do not consider it appropriate to allocate cash, deferred expenses and tangible fixed assets by geographical segment.

Capital expenditure, depreciation and amortisation are not allocated to segments.

20. Personnel costs and numbers

Total personnel costs and the total number of the employees of the Group as at 31 December 2005 and 2004, are set out below (in thousands of US dollars except for staff numbers):

By region where employees are based

Number of persons employed (including external consultants):

	average for year 2005	31 December 2005	31 December 2004
Europe, Middle East and Africa	581	585	551
Asia	600	661	555
Americas	100	127	73
	<u>1,281</u>	<u>1,373</u>	<u>1,179</u>

Personnel costs

	2005	2004
Salary, bonuses and commissions	64,878	58,514
Termination payments	681	582
Social charges	7,091	6,248
Defined contribution and defined benefit pension costs (note 21)	3,166	3,098
Cost of employee share option scheme	3,843	2,629
Other personnel costs	<u>4,320</u>	<u>3,395</u>
	<u>83,979</u>	<u>74,466</u>

Included in the personnel costs shown above, are the following amounts in respect of remuneration for key management personnel:

	2005	2004
Key management personnel of Temenos Group AG		
- short-term employee benefits	5,107	4,868
- post-employment benefits	219	218
- share-based payment	<u>2,148</u>	<u>1,392</u>
	<u>7,474</u>	<u>6,478</u>
Non-executive directors		
- short-term employee benefits	<u>180</u>	<u>100</u>

21. Pensions

Throughout the world the Group maintains defined contribution plans for its employees under which the relevant contributions are expensed as they accrue. The aggregate cost of these plans - many of which are state-sponsored - in the year 31 December 2005, amounted to US\$ 2.6 million (2004: US\$ 2.4 million). Generally, the Group does not maintain, nor is it committed to support, any defined benefit plans for its current or former employees.

TEMENOS Headquarters SA and TEMENOS Suisse SA each have a funded contributory defined benefit pension plan covering their employees. The pertinent details relating to these pension plans are set out below:

The amounts recognised in the balance sheet at 31 December are as follows:

	2005	2004
Present value of funded obligations	6,822	6,710
Fair value of plan assets	(7,737)	(6,820)
	(915)	(110)
Unrecognised actuarial gains	671	-
Assets not recognised	29	-
Net asset in the balance sheet	(215)	(110)
Amounts in the balance sheet:		
liabilities	-	-
prepaid asset	215	110
Net asset in the balance sheet	215	110

The amounts recognised in the income statement as of 31 December are as follows:

	2005	2004
Current service cost	632	703
Interest on obligation	197	176
Expected return on plan assets	(222)	(190)
Assets not recognised	29	-
Total costs included in personnel costs	636	689
Actual return on plan assets	662	235

Movements in the net asset recognised in the balance sheet at 31 December are as follows:

	2005	2004
Net asset at the beginning of the year	(110)	(59)
Net expense recognised in the income statement	636	689
Contributions	(764)	(730)
Benefits paid	-	-
Exchange differences	23	(10)
Net asset at the end of the year, included within trade and other receivables	(215)	(110)

Principal weighted average actuarial assumptions at the balance sheet date:

	2005	2004
Discount rate at 31 December	3.25%	3.00%
Expected return on plan assets at 31 December	3.25%	3.00%

22. Expenses by nature

	2005	2004
Third party licences and commissions	3,978	6,091
Personnel costs and external consultants	99,818	82,981
Depreciation and amortisation	11,180	13,904
Travel expenses	17,669	16,355
Rent and other occupancy costs	9,175	11,976
Marketing and other professional costs	5,591	7,111
Other costs	9,335	9,916
Capitalised expenditure	(10,841)	(6,558)
	<u>145,905</u>	<u>141,776</u>

The depreciation and amortisation charge is analysed as follows:

	Depreciation of tangible fixed assets (note 9)	Amortisation of purchased business- related goodwill (note 10)	Amortisation of purchased personnel- related goodwill (note 10)	Amortisation of other intangible assets (note 10)	Amortisation of capitalised development costs (note 10)	Aggregate amount charged to operations
Year ended:						
31 December 2005	<u>2,998</u>	<u>-</u>	<u>-</u>	<u>4,311</u>	<u>3,871</u>	<u>11,180</u>
31 December 2004	<u>2,958</u>	<u>1,219</u>	<u>468</u>	<u>6,544</u>	<u>2,715</u>	<u>13,904</u>

The amortisation charge for purchased goodwill is included on a separate line on the face of the income statement. The amortisation charge for purchased copyrights and capitalised development costs is included in the profit and loss statement in the line "software development". The depreciation charge for tangible fixed assets and the amortisation charge for computer software is allocated to the respective operating costs in the profit and loss statement based on headcount.

23. Financial instruments**Derivative financial instruments**

The Group entered into forward foreign currency exchange contracts during the year to hedge a portion of the Group's operating costs. The profit on contracts that qualified as cash flow hedges under IAS 39 generated profits for the year of US\$ 156 thousand (2004: US\$ 2,325 thousand). This profit has been offset against operating expenses. The loss on contracts that did not qualify as hedges under IAS 39 is recorded as "fair value loss from financial instruments" and amounts to US\$ 736 thousand (2004: US\$ 20 thousand).

The fair value contracts outstanding at 31 December 2005 are as follows:

	Liabilities
Forward foreign currency exchange contracts for 2006	<u>1,346</u>

The net fair value gain on open forward foreign exchange contracts which mostly hedge anticipated future foreign currency operating costs will be transferred from reserves to the income statement in the period these costs are incurred, on a monthly basis between January and December 2006.

Financial instrument related expenses

In March 2005 an arrangement was signed with a major international bank for a loan facility (as described in note 13). Legal and set up fees relating to the arrangement of US\$ 260 thousand have been expensed in 2005.

24. Earnings per share calculations

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

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 (share options). A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the rights attached to outstanding share options.

The inputs into the earnings per share calculation are as follows:

	2005	2004
Profit attributable to equity holders of the Company	18,257	12,862
Weighted average of common shares outstanding during the year (in thousands) (note 15)	55,025	54,737
Equivalent common shares relating to outstanding share options and share warrants (in thousands) (note 15)	2,774	3,130
Aggregate number of equivalent common shares for purposes of calculating the diluted earnings per share (in thousands)	57,799	57,867

25. Commitments and contingencies

The Group has obligations under operating leases relating to office premises and leased equipment. Operating lease expenses relating to office premises for the year ended 31 December 2005 amounted to US\$ 7.6 million (2004: US\$ 10.8 million) and operating lease expenses relating to leased equipment were US\$ 1.6 million (2004: US\$ 1.1 million).

As at 31 December 2005, the future minimum lease payments to which the Group was committed under non-cancellable operating leases were as follows:

	Office premises	Equipment	Total
2006	7,242	1,012	8,253
2007	5,845	775	6,620
2008	4,246	167	4,413
2009	3,865	43	3,908
2010	3,740	5	3,745
Thereafter	8,349	-	8,349
Total	33,285	2,002	35,287

The Group has contingent liabilities in respect of bank and other guarantees and is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with personnel litigation, tax claims and contractual disputes. Management believes that these contingencies will not have a material adverse effect on the business, financial condition or results of the Group. Information relating to provisions recorded in the financial statements is included in note 26.

At the end of the year the Group was in the course of construction of certain assets. The commitments in respect of these assets are disclosed in note 9.

26. Provisions for liabilities and charges

	Legal claims	Onerous lease	Total
At 1 January 2005	268	1,068	1,336
Charged to income statement	148	(447)	(299)
Foreign currency exchange differences	(7)	(68)	(75)
Used during the year	(215)	(431)	(646)
31 December 2005	194	122	316

Provisions for liabilities and charges are included within trade and other payables.

Legal claims

The amounts represent provisions for certain legal claims brought against the Group. The outcome of the legal disputes, and the timing of any payments, is uncertain. In the directors' opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2005.

Onerous lease

During 2004 one of the Group's subsidiaries sublet a property to a third party. The difference between the amount that will be received from the tenant, and the amount that will be paid to the landlord, has been fully provided. The provision will be utilised during the next 6 years.

27. Related party transactions and balances

Remuneration of executive and non-executive directors is described in note 20. Equity compensation for executive and non-executive directors granted in the form of stock options is described in note 18.

In December 2003 an office building that is leased by TEMENOS Headquarters SA was acquired by one of the directors and major shareholders of TEMENOS Group AG. The annual rent payable in respect of this lease is CHF 475 thousand, and the terms and conditions of the lease agreement conform to standard market practices.

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

There were no other large or significant transactions with related parties during the year ended 31 December 2005.

28. Post balance sheet events**Acquisition of business and assets of TLC Consulting Limited**

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.

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

The transaction will be accounted for using the provisions of International Financial Reporting Standard 3, Business Combinations (IFRS 3). As a result of the provisions of IFRS 3 goodwill under this transaction will not be amortised, but will be reviewed annually for impairments.

Group restructure

On 1 January 2006 the Group completed an internal restructuring to transfer the intellectual property of the Group's software to TEMENOS Headquarters SA and three newly created Swiss entities. As a consequence the functional currency of TEMENOS Headquarters has changed to US\$ with effect from 1 January 2006.

Issue of convertible bond

The Group has announced on 1 March 2006 that it is issuing a convertible bond for up to CHF 132.25 million with a coupon rate of 1.50%.

Annex B:

**TEMENOS Group AG: Statutory Financial Statements as of 31 December 2005 (compared to 2004) and
Report of Auditors**

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**TEMENOS Group AG
Glarus**

**Report of the Statutory Auditors
to the General Meeting
on the Financial Statements 2005**

1 March 2006/FMI/jaf

PricewaterhouseCoopers SA
Avenue Giuseppe-Motta 50
Case postale 2895
1211 Genève 2
Phone +41 58 792 91 00
Fax +41 58 792 91 10

Report of the statutory auditors
to the general meeting of
TEMENOS Group AG
Glarus

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages F-40 to F-43 of TEMENOS Group AG for the year ended 31 December 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

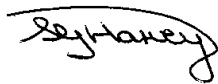
In our opinion, the accounting records and financial statements comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



M. Foley



S. Harvey

Geneva, 1 March 2006

TEMENOS GROUP AG*The amounts are expressed in thousands of Swiss Francs*balance sheet
as at 31 December

	2005	2004
Assets		
Current assets		
Other receivables	14	7
Treasury shares	186	105
Liquid funds	62	166
<i>Total current assets</i>	<u>262</u>	<u>278</u>
Non-current assets		
Investments in, and advances to, subsidiaries (note 2)	458,248	449,675
Receivable from other Group entities	2,248	-
<i>Total non-current assets</i>	<u>460,496</u>	<u>449,675</u>
<i>Total assets</i>	<u>460,758</u>	<u>449,953</u>
Liabilities and shareholders' equity		
Current liabilities		
Trade payables	36	-
Accrued expenses	26	26
Tax payable	6	-
<i>Total current liabilities</i>	<u>68</u>	<u>26</u>
Non-current liabilities		
Payable to other Group entities	8,573	150
<i>Total non-current liabilities</i>	<u>8,573</u>	<u>150</u>
Shareholders' equity		
Share capital (note 3)	276,751	274,762
Share premium (note 4)	175,326	174,888
Reserve for treasury shares (note 4)	208	146
Retained deficit	(168)	(19)
<i>Total shareholders' equity</i>	<u>452,117</u>	<u>449,777</u>
<i>Total shareholders' equity and liabilities</i>	<u>460,758</u>	<u>449,953</u>

TEMENOS GROUP AG*The amounts are expressed in thousands of Swiss Francs*income statement
for the year ended 31 December

	2005	2004
Expenses associated with the maintenance of the Register of Shareholders and other related costs	<u>(149)</u>	<u>(70)</u>
Net loss before and after taxation	(149)	(70)
Retained deficit at beginning of year	<u>(19)</u>	<u>51</u>
Retained deficit at end of year	<u>(168)</u>	<u>(19)</u>

1. Legal status and principal activities

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 Group AG have been publicly traded on the SWX Swiss Exchange.

TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group but is not otherwise engaged in trading, financing, investing activities, except as the holder of all the issued and outstanding shares of TEMENOS Holdings NV, TEMENOS Headquarters SA, TEMENOS Suisse SA and IT Services Limited.

2. Investments in, and advances to, subsidiaries

The investments of TEMENOS Group AG represent the shares of its four wholly owned subsidiary companies, as follows:

	2005	2004
TEMENOS Holdings NV, Netherlands Antilles (holding and licensing company)		
40,105 shares of a nominal value of US\$ 1 each, at cost	200,522	200,522
Advances for the acquisition of new shares	249,052	249,052
TEMENOS Headquarters SA, Switzerland (management company)		
1,000 shares of a nominal value of CHF 100 each, at cost	5,625	-
TEMENOS Suisse SA, Switzerland (services company)		
15,000 shares of a nominal value of CHF 500 each, at cost	2,948	-
I.T. Services Limited, Cyprus (dormant)		
100 shares of a nominal value of CYP£1 each, at cost	101	101
	<u>458,248</u>	<u>449,675</u>

3. Share capital

As at 31 December 2005 the issued and outstanding shares of TEMENOS Group AG, the ultimate holding company of the TEMENOS GROUP, comprised 55,350,192 common shares of a nominal value of CHF 5 each.

The changes in the number of issued and outstanding shares, in the year ended 31 December 2005, are summarised below:

	2005		2004	
	Nominal value		Nominal value	
	number	in CHF	number	in CHF
Authorised share capital issued	51,473,309	257,366	51,473,309	257,366
Conditional or contingent capital issued	<u>3,876,883</u>	<u>19,385</u>	<u>3,479,126</u>	<u>17,396</u>
Total number of TEMENOS Group AG shares issued, as at 31 December	<u>55,350,192</u>	<u>276,751</u>	<u>54,952,435</u>	<u>274,762</u>

The shares issued by the Company during the year are set out below:

	2005	2004
	number	number
Total number of TEMENOS Group AG shares issued, as at 1 January	54,952,435	54,472,469
Shares issued and allotted in relation to acquisitions	-	109,841
Shares issued and allotted on exercising of employee share options	397,757	361,830
Shares issued held as Treasury stock by Temenos Holdings NV	<u>-</u>	<u>8,295</u>
Total number of TEMENOS Group AG shares issued, as at 31 December	<u>55,350,192</u>	<u>54,952,435</u>

It should be noted that the above tables includes treasury shares which had not been allotted to third parties. As at 31 December 2005 the number of treasury shares held by the Group amounted to 44,342 (2004: 19,647). 4,258 (2004: 8,295) of these treasury shares are held by TEMENOS Holdings NV (a wholly owned subsidiary of TEMENOS Group AG) and will be allotted to members of the TEMENOS Employee Share Option Scheme at the time that they exercise their options. A reserve has been created for these Treasury shares. 40,084 of the treasury shares are held for resale. During the year the company acquired 83,732 shares at market value and disposed of 55,000 shares at market value.

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

authorised shares that may be issued in the context of acquisitions (available to the Board until 27 June 2006).	26,951,327
conditional shares that may be issued on the exercise of employee share options.	12,309,437
conditional shares that may be issued in conjunction with financial instruments.	13,930,680

The only holdings of 5% or more in the issued share capital of the Company are as follows:

George Koukis	25.2%
Global Capital Investors	10.0%
Schroders plc	5.8%

4. Share premium

The share premium is reported after:

- deduction of expenses, amounting to CHF 28 thousand (2004: CHF 146 thousand), which were incurred in conjunction with the issuance of new shares
- deduction for reserve for treasury shares of CHF 208 thousand (2004: CHF 146 thousand).

5. Treasury shares

TEMENOS Group AG holds 40,084 shares at 31 December 2005 intended for resale (2004: 11,352).

6. Contingent liabilities

TEMENOS Group AG has provided certain guarantees to third parties, primarily in favour of TEMENOS Holdings NV, in the context of credit facilities placed at the disposal of the latter for a total of US\$ 40 million. Management believes that these guarantees are unlikely to be activated.

Annex C:

TEMENOS Luxembourg SA: Financial Statements as of 31 December 2005 (compared to 2004) and Report of Auditors

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Temenos Luxembourg S.A.
(formerly Temenos Systems Luxembourg S.A.)
Société Anonyme

Audited annual accounts
for the year ended December 31, 2005

20, rue Eugène Ruppert
L-2453 Luxembourg
R.C.S. Luxembourg : B 28 792

Report of the Independent Auditor

To the Shareholders of
Temenos Luxembourg S.A.

We have audited the annual accounts of Temenos Luxembourg S.A. ("the Company") for the year ended December 31, 2005. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Temenos Luxembourg S.A. as of December 31, 2005 and of the results of its operations for the year then ended.

PricewaterhouseCoopers S.à r.l.
Réviseur d'entreprises
Represented by

Luxembourg, February 28, 2006



Luc Henzig

Temenos Luxembourg S.A.

Balance sheet as at December 31, 2005 (expressed in euro)

	Note(s)	31.12.2005 EUR	31.12.2004 EUR
ASSETS			
Fixed assets			
- Tangible assets	3		
. Other fixtures and fittings, tools and equipment		156 540	239 051
- Financial assets	4		
- Shares in affiliates undertakings		<u>1</u>	<u>4 822 334</u>
		1	4 822 334
Current assets			
- Debtors			
. Trade debtors			
Becoming due and payable within one year		261 276	235 286
. Amounts owed by affiliated undertakings			
Becoming due and payable within one year	5	5 547 958	6 499 222
. Other debtors	6		
Becoming due and payable within one year		82 325	29 645
Becoming due and payable after more than one year		75 449	95 814
- Cash at bank and in hand		<u>86 845</u>	<u>107 761</u>
		6 053 853	6 967 728
Prepayments and accrued income		698	685
Total Assets		<u>6 211 092</u>	<u>12 029 798</u>

The accompanying notes form an integral part of these annual accounts.

Temenos Luxembourg S.A.

Balance sheet as at December 31, 2005 (expressed in euro)

	Note(s)	31.12.2005 EUR	31.12.2004 EUR
LIABILITIES			
Capital and reserves			
- Subscribed capital	7	1 181 250	1 181 250
- Legal reserve	8	32 979	32 979
- Profit brought forward	9	102 567	809 009
- Loss for the financial year		<u>(91 928)</u>	<u>(706 442)</u>
		1 224 868	1 316 796
Provisions for Liabilities and charges			
- Other provisions	10	<u>150 000</u>	<u>-</u>
		150 000	-
Creditors			
- Trade creditors			
Becoming due and payable within one year		60 482	92 435
- Amounts owed to Affiliated undertakings			
Becoming due and payable within one year	12	4 438 438	10 299 342
- Tax and social security debts			
. Tax debts		-	64 331
. Social security debts		46 081	24 812
- Others Creditors	11		
Becoming due and payable within one year		<u>168 196</u>	<u>126 485</u>
		4 713 197	10 607 405
Accrual and deferred income	13	<u>123 027</u>	<u>105 597</u>
Total Liabilities		<u>6 211 092</u>	<u>12 029 798</u>

The accompanying notes form an integral part of these annual accounts.

Temenos Luxembourg S.A.

Profit and loss account for the year ended December 31, 2005 (expressed in euro)

	Note(s)	2005 EUR	2004 EUR
CHARGES			
Other external charges	16	1 141 525	1 369 756
Staff Costs	14		
- Wages and salaries		1 109 686	1 357 337
- Social security costs accruing by reference to wages and salaries		114 922	129 642
Value adjustment in respect of tangible fixed assets	3	84 541	98 135
Foreign exchange losses		635 046	-
Extraordinary charges	18	3 014 919	-
Income tax	15	43 587	177 235
Total Charges		<u>6 144 226</u>	<u>3 132 105</u>
INCOME			
Net Turnover	17		
- from third parties		199 185	332 573
- derived from affiliated undertakings	16	<u>2 159 850</u>	<u>1 694 583</u>
		2 359 035	2 027 156
Other operating income		144 320	58 050
Other interest receivable and similar income		1 595	72
Foreign Exchange gain		-	320 482
Extraordinary income	18	3 547 348	19 903
Loss for the financial year		91 928	706 442
Total Income		<u>6 144 226</u>	<u>3 132 105</u>

The accompanying notes form an integral part of these annual accounts.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 1 - General

Temenos Luxembourg S.A. (the “Company”), was incorporated on August 18, 1988 as “Société à responsabilité limitée” under the law of Luxembourg for an unlimited period. On August 18, 1994, the Company changed its legal form to a “Société Anonyme”.

On October 24, 2000, the name of the Company has changed from Temenos Systems Luxembourg S.A. to Temenos Luxembourg S.A..

The registered office of the Company is established in Luxembourg.

The Company’s financial year starts in January 1 and ends on December 31 of each year.

The principal activity of the Company is to maintain and distribute computer software for the financial service sector.

The Company is wholly owned subsidiary of Temenos (NL) B.V., Netherlands. Temenos Luxembourg S.A. does not establish consolidated annual accounts in accordance with article 316 of the law of August 10, 1915. The annual accounts of Temenos Luxembourg S.A. and its affiliated companies are integrated in the consolidated annual report of the parent company, Temenos Group AG, Switzerland. The consolidated accounts may be obtained from the parent company.

Note 2 - Summary of significant accounting policies

The annual accounts are prepared in accordance with the Luxembourg legal and regulatory requirements.

The comparatives for the year ending December 31, 2004 were modified where necessary to make them comparable to the disclosures for the year ending December 31, 2005.

The significant accounting policies are as follows:

2.1 Tangible assets

In the course of the year 2005, the Company decided to change the depreciation period of purchased software and computers to comply with Group policies. At closing, the Company depreciates purchased software and computers over four years whereas previously depreciated over three years.

This change had a positive effect on the result of EUR 382 in 2005. If the same principle had been applied in 2004, the 2004 result would have been increased by EUR 2 264.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

2.1 Tangible asset (foll.)

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The Company depreciates machinery and equipment and leasehold improvements over five years, furniture and fixtures over ten years.

2.2 Financial assets

Financial assets are composed of participations. Participations are carried at their acquisition cost less provision for permanent diminution in value as considered necessary in the opinion of the directors. Dividend income is recorded when received.

Deposits are carried at nominal value.

2.3 Foreign currency translation

The accounts of the Company are expressed in euro (EUR). Transactions in foreign currencies are translated into EUR at the rates of exchange, which approximate the actual rates prevailing on the dates of the transactions. Fixed assets acquired in other currencies are carried in EUR at the historical exchange rate. Other assets and liabilities denominated in foreign currencies are translated into EUR at the balance sheet date exchange rate. Realised and unrealised exchange gains and losses are reflected in the profit and loss account.

2.4 Valuation of debtors

Debtors are stated at nominal value.

Value adjustments for doubtful debts are assessed by the management on the basis of the latest available information, taking into consideration all foreseeable risks.

2.5 Revenue recognition

The Company recognizes revenue and expenses from software license and maintenance fees. Services and services support fees are recognized over the time such services are rendered. Maintenance revenue is recognized as earned during the period to which the maintenance contract relates.

2.6 Provisions for liabilities and charges

Provisions for liabilities and charges are intended to cover losses or debts the nature of which is clearly defined and which, at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 3 - Fixed Assets

	Office Equipment EUR	Leasehold improvements EUR	Total EUR
Cost			
At December 31, 2004	355 796	340 188	695 984
Acquisitions	2 030	-	2 030
Disposals	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2005	<u>357 826</u>	<u>340 188</u>	<u>698 014</u>
Accumulated depreciation			
At December 31, 2004	(264 675)	(192 258)	(456 933)
Charges for the year	(16 503)	(68 038)	(84 541)
Depreciation on disposals	<u>-</u>	<u>-</u>	<u>-</u>
At December 31, 2005	<u>(281 178)</u>	<u>(260 296)</u>	<u>(541 474)</u>
Net book value at December 31, 2005	<u>76 648</u>	<u>79 892</u>	<u>156 540</u>
Net book value at December 31, 2004	<u>91 121</u>	<u>147 930</u>	<u>239 051</u>

Note 4 - Financial assets

The financial assets are composed of:

	2005 EUR	2004 EUR
Temenos Suisse S.A., Switzerland	-	4 759 872
Temenos Headquarters S.A., Switzerland	-	62 461
Temenos Holdings NV. Netherland Antiguas	<u>1</u>	<u>1</u>
Cost at the end of the year	<u>1</u>	<u>4 822 334</u>

The Company held 100% of interests in Temenos Headquarters S.A., Switzerland and Temenos Suisse S.A., Switzerland.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 5 - Amounts owed by affiliated undertakings

	2005	2004
	EUR	EUR
Temenos Group AG	5 501 512	-
Temenos (NL) B.V., Netherlands	-	2 330 027
Temenos (UK) Ltd, United Kingdom	-	1 052 836
Temenos Iberia S.L., Spain	-	614 374
Temenos Suisse S.A., Switzerland	-	1 344 306
Temenos Deutschland G.m.b.H, Germany	-	244 724
Temenos Singapore PTE Ltd, Singapore	-	289 958
Temenos (Thailand) Co. Limited, Thailand	46 446	40 324
Temenos Hong Kong Ltd, Hong Kong	-	50 682
Temenos USA Inc., United State of America	-	530 057
Temenos Philippines Inc, Philippines	-	1 847
Temenos USA Inc., United States of America	-	87
	<u>5 547 958</u>	<u>6 499 222</u>

Note 6 - Other debtors

The balance becoming due and payable within one year is mainly composed with VAT claimable. The balance becoming due and payable after more than one year is mainly composed with a loan granted to an employee, amounting to EUR 54 624 as at December 31, 2005 and bearing 1,5% interest per year.

Note 7 - Subscribed capital

As at December 31, 2005, the subscribed capital is fixed at 1 181 250 EUR represented by 47 250 shares with a par value of 25 EUR, fully paid.

Note 8 - Legal Reserve

In accordance with Luxembourg company law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 9 - Profit brought forward

	EUR
Profit brought forward at the beginning of the year	809 009
Loss for year 2004	(706 442)
Affectation to the legal reserve	<u>-</u>
Profit brought forward at the end of the year	<u>102 567</u>

Note 10 - Provisions for liabilities and charges

The provisions for liabilities and charges are mainly composed with termination payments.

Note 11 - Others creditors

All creditors are due after less than 5 years and no creditors are secured by a lien on assets.

The balance is mainly composed with other external charges and accrued bonuses to be paid.

Note 12 - Amounts owed to affiliated undertakings

	2005 EUR	2004 EUR
Temenos Holdings N.V., Netherlands Antilles	4 299 566	9 384 099
Temenos Headquarters S.A., Switzerland	136 164	236 105
Temenos Ireland Ltd, Ireland	-	17 743
Temenos India PTE Ltd, India	2 708	1 930
Temenos Middle East Ltd, Arabian Emirates	-	289 582
Quetzal Informatique S.A., France	-	114 992
Temenos Africa Pty Ltd, South Africa	-	10 238
Temenos Middle East Ltd, Lebanon	-	119 370
Temenos France S.A.S., France	-	93 423
Temenos Hispania S.A., Spain	-	31 860
	<u>4 438 438</u>	<u>10 299 342</u>

Note 13 - Accrual and deferred income

Deferred revenue is mainly composed with revenue to be recognized within one year.

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 14 - Staff costs

The Company employed an average of 15 full time persons during the financial year ending December 31, 2005 (2004: 17).

Note 15 - Taxation

The Company is subject in Luxembourg to the tax regulations applicable to all companies.

Note 16 - Transactions with related parties

The main transactions with related parties are summarized below:

	2005 EUR	2004 EUR
Income		
Other income	2 159 850	1 694 583
Charges		
Externals charges	342 742	341 450

Note 17 - Net turnover

The net turnover is broken down by category of geographical market as follows:

	2005 EUR	2004 EUR
Luxembourg	636 469	334 867
<i>of which derived from affiliated undertakings</i>	<i>451 484</i>	<i>218 942</i>
Europe	1 361 745	1 218 943
<i>of which derived from affiliated undertakings</i>	<i>1 347 545</i>	<i>1 188 899</i>
World (excluding Europe)	360 821	473 347
<i>of which derived from affiliated undertakings</i>	<i>360 821</i>	<i>286 742</i>

Temenos Luxembourg S.A.

Notes to the annual accounts as at December 31, 2005

Note 18 - Extraordinary Income and Charge

In the opinion of the Management, the value of shares sold was calculated at fair market value.

The extraordinary income and charges have been mainly involved by the sale of the participations held in Temenos Headquarters S.A. and in Temenos Suisse S.A. as detailed below:

	Booked cost in	Sale Price in	Gain / (loss)
	EUR	EUR	on sale in
			EUR
Temenos Headquarters S.A.	62 461	3 609 809	3 547 348
Temenos Suisse S.A.	4 759 873	1 891 703	(2 868 170)



TEMENOS™