Temenos UK Ltd.

"Second Quarter Results 2008"

Conference Call

July 30th, 2008
2:30 p.m. C.E.T.

Moderators:

Mr. Andreas Andreades, Chief Executive Officer
Mr. David Arnott, Chief Financial Officer
Mr. Max Chuard, Director of Corporate Finance and Investor Relations
Mr. Ben Robinson, Investor Relation Manager

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Operator: Good morning and good afternoon. This is the Chorus Call Conference operator. Welcome to the Temenos "Second Quarter Results 2008" Conference Call. As a reminder all participants are in listen-only mode and the Conference is being recorded.

After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the Conference Call they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Ben Robinson, Temenos' Investor Relations. Please go ahead, Sir.

Ben Robinson: Thank you, operator. Hi everyone and thanks for joining us this afternoon to discuss Temenos Q2 '08 Results. With me on the Call are…

The call is interrupted – the following remarks are made off air

(Andreas Andreades, CEO, David Arnott, CFO and Max Chuard, Head of Corporate Finance and Investor Relations.

The presentation to accompany the results can be downloaded from our website. As usual, our prepared remarks will be followed by a Q&A session. However, before I pass you over to the speakers I would just like to draw your attention to the disclaimer statement on Slide 3 of the presentation. Various factors may cause actual results to differ materially from company estimates and indeed may cause company estimates to change. Therefore, undue reliance should not be placed on the forward-looking statements made during this call which reflect the company opinions only as of today.)

Operator: Ladies and gentlemen, Mr. Andreades is again connected. Thank you.

Ben Robinson: I'm not sure at which point we got cut off, so we'll begin with David Arnott, who will give an update on financial performance.

David Arnott: Thank you, Ben. If you turn to slide 5 I'd like to start with a quick look at the second quarter financial highlights, apologizes if you had some of this before, as Ben said we're not quite sure when we got cut off.

So turning to slide 5, we grew license revenues by 16% in the quarter to 34 million Dollars, with T24 license revenues performing very well, growing 37% in the quarter. This is significantly above our medium term trends. If you also note that both the second quarter of 2007 and the second quarter of 2006 included two sizable Tier 1 deals, so this year's second quarter growth is we feel absolutely excellent. It's also further evidence that we've not so far seen any weakness as a result of the credit crisis.

Total revenue grew by 31% for the quarter due to the continued strong operating leverage and good cost control EBIT for the quarter was 10.1 million Dollars, compared to 7.4 in the second quarter of last year, a 36% increase, up from 25% in the first quarter.

Adjusted EPS was 15 cents for the quarter as compared to 11 cents in the second quarter of '07, reflecting our continued strong operating profit performance, a good tax rate and good control of option and financing dilution. As a result adjusted EPS grew by 36% in the quarter.

Slide 6 shows the full P&L and there are a few points I would like to bring out. Firstly, our licensing revenues continued to grow very strongly as a result of better territory coverage, 20% better pricing, larger deals and continued high win rates against competition.

Licensing in the quarter grew by 16% inline with our forecast and expectation as I've already talked about on the last slide. The strong performance brings last 12 months licensing revenues to 161 million Dollars compared 110 in the prior year, an increase of 46%.

We've also improved our phasing, with 37% of this year's licensing revenue delivered already in the first half compared to 35% in the first half of 2007, further underpinning our confidence in our Full-Year forecast.

Maintenance revenues grew to 24 million Dollars in the second quarter of this year, up 46% on the comparable period last year. In the last 12 months we've generated 89 million of maintenance revenues, a 37% year-on-year growth. This results shows strong signing momentum in the last 12 months. Maintenance was slightly lower than Q1 because Q1 had a small amount of maintenance revenue booked on a cash basis but the underlying trend remains a very stable and consistent increase in our maintenance revenues.

We're now rapidly approaching the 100 million Dollar annual maintenance revenue mark for 2008, which along with our significant locked in services revenues give us an excellent forward-looking earnings and cash flow visibility as a Company.

We've got an excess of 95% of our maintenance revenue already locked in for 2008. A point to note in the current inflationary environment is that all of our maintenance agreements automatically CPI adjusted every year.

Service revenues in the quarter were 39 million, a growth of 52% on the prior year. Service revenues lagged licensing growth by about 12 months, so this services growth really reflects our strong licensing performance over the last year.

You can see that our services growth has already started to slowdown from 62% growth in Q1 down to 52% this quarter.

Total operating costs in second quarter increased by 30% to 86 million Dollars again a slowing down in growth compared to Q1, which grew at 49% as we adjusted our cost base towards our medium-term growth rate and these costs represent 21% of revenues inline with our current target model.

On an underlying basis R&D grew by 36%, as you can see in the appendices. Our services costs have grown in proportion to services revenue. The margin of 3% is a factor of seasonality in the use of more expensive third-party external consultants to delivery our above trend services revenue. Let me explain that a bit more fully.

We recruit consultants to deliver on medium-term growth of 20 to 25% and above that level of growth we use temporary contractors who we can let go at the end of projects. This is inline with our own internal forecasts.

We've already started to see a reduction in our externals into Q3 and we expect this trend to continue for the rest of the year. We remain on course to achieve our 10 to 15% net services margin for 2008.

Sales and marketing costs growth is starting to slow as we leverage our original management structure. Note that sales and marketing is marginally down on Q1 driven by 1.6 million higher third-party agents costs in Q1 than in the second quarter. This is one question that has come up on a couple of Conference Calls of this morning. So if you like underlying sales and marketing costs are people related, variable related costs are like-for-like.

On G&A we continue to demonstrate excellent leverage with costs in the quarter at 11.5 million compared to 11.9 in Q2 of last year, as we now really have our G&A functions which includes finance, legal and IT in place across the Group.

Following slide shows our revenues adjusted both acquisitions and the impact of Forex within the quarter. The quarter on the left and the last 12 months on the right, on a like-for-like basis our revenues have grown by 25% in the quarter and 37% in the last 12 months.

Like-for-like adjustments the costs are becoming non material and reported costs will trend towards like-for-like during the rest of 2008. Therefore you'll see that we've dropped the like-for-like cost analysis from this slide although we have left a couple of slides in the back for specific items that we felt needed explaining.

With external consultant costs coming down in the second half and having already made the majority of our 2008 investment, we feel confident with our Full-Year outlook for operating costs.

EBIT has grown by 36% in the quarter and 67% in the last 12 months. Slide 8 explains the below the line P&L items. In the quarter we've grown adjusted EPS by 36% in the last 12 months by 87%. Adjusted EPS has now reached 1.12 Dollar a share. This results from continued strong operating performance helped by favorable tax and financing structures and good management of stock and bond option dilution.

A quick point on FX, we've got a good structural match that covers the majority of our net- non Dollar exposure, in the residual exposure we've fully hedged with derivative instruments for the rest of 2008, which means that our operating profit is fully protected from the impact of a volatile Dollar.

For 2009 we expect an even stronger structural match and more of our revenues come across in non-Dollars, with approximately 70% natural hedge for 2009 and out of the residual we've hedged 40% and will hedge the remainder of our non hedged either structurally or instrument hedged exposure for 2009 between now and the end of the year on dips in the Dollar.

Slide 9 shows our DSOs for the past two years. The trend in DSO remains firmly down but in line with our outlook statement based on shorter projects and better payment terms. On average deals signed in the first half of 2008 have 60% cash up front and 20% on fixed dates and 20% on milestones in the future, which will drive further DSO reduction and also give us visibility into cash flows for the second half.

I wanted to spend a bit more time on this because it's clearly known this concerned people this morning. We are a fast growing Company, which is gaining market share and signing large deals. As a result DSOs can be lumpy. For example last September, if you look at the slide, there are 184 days compared to 167 in March the quarter before and 172 the quarter after in December.

For a business with annual revenues of 380-400 million, every million Dollars of cash that comes in, it represents one day of DSOs. We're collecting about 400 million of cash this year and the impact of a few million coming in one side of the quarter end, well now that can easily swing DSOs by 5 to 10 days and operating cash flow by 5 to 10 million even though the long-term trend is clear when you put it on a graph as we've done over the last three years.

Just to give you an example of that we signed a deal this June, June the 20th and we sent out the invoice, we chased it through the finance department, the person who should have been paying the invoice is on holiday. We found somebody else to pay they found somebody to approve and we finally got the payment on the 3rd of July. So you have just one invoice from a Tier 1 bank, 4 million Dollars, a pure cut-off which is four days of DSOs in formally operating cash flow.

It can work easily the other way as well, you go back to last June if you remember, last June we happened to be very, very good at collecting two or three very large invoices, around the second-third week of June we signed two significant deals. We managed to collect 14 million of cash just on three large accounts, just by good execution, chasing it through the finance departments and therefore we could easily have not got that 15 million until the first working day of July because banks also manage cut-off.

So you can just take four examples, four invoices there out of hundreds that we've sent out giving you a 20 million working capital swing in one quarter. So this personally doesn't keep me awake at night, it will be nice to collect it in the quarter and show clear trends but a very important factor and it only really comes up when we look at it externally is the long-term trend.

We don't get hung up on where the cash comes in either side of the quarter and therefore it can be lumpy that's very important. Just wanted to give you a couple of anecdotal examples if you like of how it works in the real world. And I'll come back to talk about linking this to clients and prospects and projects in a second.

So just for example we collected about 7 million of cash just in the first week of July this year, which represents about 5 or 6 days of DSOs. Again, another example, second quarter of last year was very strong in terms of operating cash flow largely driven by the cash we collected that we talked about, but the third quarter was very weak and if you remember the time we said it, we've been really good at cut off in the second quarter and therefore Q3 wasn't an issue for us.

This year our first and third quarters are going to be very strong as well obviously the fourth quarter when we collect most of our maintenance.

Probably one very important point, our own forecast for Q3 taking all of these cut offs and underlying trends into consideration, it's for an improvement of the third quarter LTM operating cash flow, in other words the number we'll be showing at the end of September when you put in this Q3 and take out last year's quite weak Q3 and just that swing by one quarter is going to increase LTM operating cash flow by about 20 million, which if you do the maths gives you an EBITDA conversion at the end of September over already high than we need to deliver for the Full-Year and again it's just an example of how lumpy it can be.

So the reason we don't guide quarterly for the cash flow is it's a bit lumpy, it's difficult to predict and therefore it's difficult for you to come to a decent cash flow forecast number on a quarter. And hopefully I've explained a little bit now about what's driven these in the quarter as we've done last year when we had the same issues.

Our Full-Year outlook's unchanged from previous guidance, we've done a bottom up forecast as we do every month and that reconfirms our Full-Year outlook and I'd like to reconfirm that for the last three years we've delivered on our cash flow commitment.

I'd like to make a further comment on some rumors we have heard in the market today that our cash flow was bad because some of our larger customers aren't happy and aren't paying their bills. I'd like to be absolutely categorical with our clients, the banks, they do pay and are paying and I'll leave Andreas to talk about the projects themselves.

In response to the question we've had a few times this morning, note that deferred revenue decreases during the second quarter as the majority of our clients pay their maintenance in the fourth quarter and we therefore deplete deferred revenues throughout the year and replenish them in the fourth quarter. This has been the case for many years and this is the same for most software companies. Deferred revenues are up 51% year-on-year, which is excellent.

Our second cash flow slide, slide 10 shows that our EBITDA conversion also tracks within the range of around 70 to 75 percentage as a trend line, again we've cut off volatility. We continue to target a 75% EBITDA conversions for the Full-Year, which is inline with our run-rate.

Slide 11 talks about our buyback. We believe it is accretive to shareholders to return cash through a buyback program. In 2008 we've got takeover board approval to buyback a total of 60 million Dollars worth of shares and we've executed half of this buyback already, buying back for an average price of 23.9 Swiss Francs.

We will execute the remainder during the second half of 2008 and in fact have started the second half buyback early this morning to take advantage of the lower share price.

My last slide talks about our balance sheet and our available finance. At the end of 2007 we had 93 million of cash on our balance sheet. During 2008 we will generate approximately 60 million Dollars of free cash flow which we'll return to shareholders leaving us with about 93 million of cash at the end of the year.

In addition to this we put in place an acquisition facility for 175 million Dollars of which you can see the very favorable terms at the bottom of the slide. Out of this we'll be using 75 million for financial objects and Informer leaving us with 105 million Dollars for future acquisitions. In addition to this we've got 45 million Dollars of additional working capital facilities giving us a total of 240 million for Company funding at the end of the year.

We continue to prefer debt to equity where possible for acquisition financing because the PE of our debt is lower than our 2009 equity PE.

That ends the financial update part of the presentation. So now I'd like to have you over to Max for an acquisitions update.

Max Chuard: Thank you, David. Hi there, this is Max, it's nice to finally have my own slot on the Conference Call. First I'd like to mention the recommended cash acquisition of Financial Object on slide 14. Our 60p offer has been put before Financial

Objects shareholders on the 11th of August at an EGM and subject to sufficient take up, we expect the deal to close on the 10th of September. Remember that at the announcement date on the 3rd of July we had received irrevocable undertaking to vote in favor of the transaction by almost 47% of the shareholders. Clearly we are limited in what we can say at this time, but we think that this is an excellent one for our shareholders. Soon after the deal closes, we will be holding a Conference Call to give you more details.

I’d highlight that the two businesses are an excellent strategic fit and have significant opportunity for both costs and revenue synergies. We also announced the acquisition of the core banking asset of Informer Group in July, details on slide 15.

This is also a nice bolt-on acquisition. Informer used to be a system integrator and licenser for Temenos and so we know exactly what we are getting. And in addition to a bigger direct presence in Greece, Eastern Europe, Balkans and the Middle East we gain immediate entry into Romania and Egypt, 100 staff including 60 system implementers and 15 T24/Globus clients with the corresponding maintenance stream.

We expect the deal to be accretive from 2008 and as you will see later in other slides we have updated our outlook to take account of this. The consideration is both cash and shares and we’ve chosen to use some shares in order to align the interest of Informer and Temenos shareholders for at least the first year of integration.

On slide 16, we show our performance so far against our stated acquisition goals. As you can see both acquisition meet all our stated goals. And very importantly neither of them will see Temenos diversify away from our core banking business.

Going forward we reiterate the same target. And on slide 17, we set this out. Future acquisitions will be bolt on acquisitions to boost organic growth, small to medium size acquisitions in the range of 20 to 50 million Dollars revenues, earnings accretive transaction, provide geographic expansion to markets where we are under represented or market penetration through buying out customer base or entering to adjacent markets. We are in a position to evaluate many opportunities and the pipeline of potential deals remains strong.

With this I'll pass you over to Andreas for an update on the strategy.

Andreas Andreades: Thank you, Max. Good afternoon to all. I'll now take you over the business and strategy section, and first I'd like to go onto slide 19. As David has already mentioned having delivered ahead of our forecast for two quarters, we now have more of the year locked in and visibility is up to 77%. For me this represents a very compelling risk reward for a Company that's growing so fast and whose prospects are underpinned by strong fundamentals.

As well as a win rate against competition that continues to be above 80% a host of growth initiatives such as the Metavante partnership, ARC, the replacement of legacy systems from our competitors, a growing distribution network compelling products and product roadmap as well as a demonstrated ability to layer on top of our organic growth accretive bolt-on acquisition transactions.

On slide 20, we'd like to highlight some of the of the more than 150 product enhancements that we announced at our Temenos Clients Forum in Rome. As we grow with R&D at 20% of revenues, for ’08 the amount we spend in absolute terms is now becoming very significant by any measure, that is 85 million for this year. The question I often get from analysts is how Temenos ensures continued high returns on this spend, and I hope that this slide demonstrates that we are still producing really exciting products and that was certainly the feedback from the conference.

Over on slide 21, I would like to give some metrics on license sales. As you can see we are slightly ahead of where we were at the same time last year in terms of new client wins, up at 22 versus 21 in ’07. However the metric that I’d really like to underline is the growth in new name licenses, which is up a massive 75% on 2007 for the first half of the year. This is especially pleasing in this environment as it shows continuous momentum for new deals.

Pricing was up 20% on the previous year demonstrating the increased acceptance of our products in the market and the degree we are getting established as a vendor of choice in our target markets. We are really very excited by both these metrics, which demonstrate the strong growth in our business.

During the quarter we won a number of deals with blue chip banking institutions. We also won two more deals in Germany bringing the total to four since the beginning of the Actis acquisition last year demonstrating good control over the Actis transaction.

Over on slide 22 we offer an update on sales distribution, which still remains the most important growth driver for us. There are around 22’000 banks in the world of which our addressable market is probably around 10’000. Nonetheless our customer base at present stands at around 650. Clearly therefore the potential is huge. But what we need to unlock this potential is a bigger sales organization and our plan is unchanged to get to 60 quota carriers by the end of the year and we are already on course having reached 52 sales people by the end of the second quarter and this compares to the 46 at the end of December ’07.

We also continued to pursue more Metavante type country deals to penetrate those countries that would be too difficult or too slow or too costly for us to enter by ourselves.

Now in terms of the Metavante agreement, we give an update on slide 23. If any of you listened to the Metavante Conference Call on Monday, you will have heard that in spite of the difficult market conditions in the US we are seeing a significant shift in the level of interest in TCB and we are confident that we will sign our first deal this year.

It’s also a testament to the strength of the relationship with Metavante that we have been able to form a joint go-to-market strategy for T24 in the United States and the details for that are on slide 24.

The rationale for this agreement is that we can extend the distribution for T24 in the US by plugging into the Metavante sales force. It also gives us the ability to leverage Metavante’s network of contracts and also the ability to offer T24 on a hosted basis.

The initial phase focus will be on the foreign banking institutions in the US, which number around 120 banks. These are smaller universal banks for which TCB is not the appropriate solution, and as such it represents an incremental revenue stream for us.

Over on slide 25, I'd like to talk about ARC, our front office product which is a key growth initiative for us. So far 42 clients have taken up ARC with 11 in the second quarter. We are really excited by the progress we are making. We've started to target the installed base and take up by existing users has accelerated. Sales to existing customers have reached 55% in the quarter against 34 in the last 12 months. The level of penetration within the existing customer base still remains very low at less than 2%, so there is still a very significant opportunity to grow it.

ARC contributed about 5% of last 12 months licenses meaning that the average bill size is now around 200'000 Dollars. This will grow as customers adopt more modules especially on the CRM side of the business, channel banking is already well established.

As regards to our Misys replacement program we said at the first quarter of last year that we would only give yearly quantitative updates. However, in terms of a qualitative update at this point in time we can report that we have some significant wins during the second quarter also with larger multi-site customers and that the program progresses well.

Over on slide 26 I wanted to give you an update on our services strategy. Services was the fastest growing revenue line and gaining up to 52% year-on-year. With Initiatives like the Model Bank we've reached a truly impressive scale shown by the fact that we have at present 144 active projects.

David has explained the management of margins earlier, so I will not spend more time on it. However, as regards to the revenue mix for the Full-Year, we continue to think that services will be within the 30-35% band albeit at the upper end of this range. We are working towards launching our partner program next year and believe that our business will be of a scale where we can start to attract big implementers.

We'd like to reconfirm the range of services to total revenues to be 30-35%. A number of you asked me this morning regarding progress on our key projects and I would like to say that these are progressing as per plans.

On slide 27, we try to deal with issues that have concerned investors' the most, the economic environment and in particular the banking crisis. Clearly Temenos does not operate in a vacuum and we sell exclusively to banks. Banks are still facing challenging times and I think this is clear to everybody in which even if things have worsened, since we last reported more banks especially Tier 1 have had to recapitalize, so they built their balance sheets and are pursuing strategic reviews.

So, how come we continue reporting good numbers and how long can the situation be sustained in this environment? I'd like to highlight the following points to explain our continued strong performance. Around two thirds of new business for Temenos is coming from emerging markets, which are still showing resilience to the slow down in the United States. We have no exposure to the Investment Banking sector, the minimum revenues from Metavante are contractual and so there is no down side risk from the United States.

And finally core banking replacement is structural; it's not a cyclical activity and represents a strategic area of spending for banks. In fact there is research across the board suggesting that growth could even accelerate over the next three years.

In terms of whether we can sustain this kind of performance, I'd like to offer the following comments about our forecast.

These are based on our sustainable medium term growth rate. They are not aggressive in terms of their assumptions for growth from mature markets, nor do they rely on the mega-deals, which are the deals with banks most at risk of requiring new capital or having been affected by the sub-prime. Our pipeline is building strongly and we monitor that closely and frequently. We are vigilant of course but remain very confident about delivering our numbers for the year, which as you will see on slide 28 we have taken up and this is the 11^{th} quarter in a row that we have raised our outlook.

As you will see, increased visibility together with our performance means that we are increasing our outlook for organic revenue by 10 million Dollars taking the figure to 425 million for the year or 29% up on 2007 and that's before new acquisitions. We are also raising EBIT by 1 million taking the Full-Year figure to 88.5 million or a growth of 42%. Adjusted EPS is US Dollar 1.37 a rise of 33% before acquisitions.

The margin before taking into account the acquisition of Informer is up 20.8 marginally down on the previous outlook but of course over a larger business.

Taking account of Informer our Full-Year adjusted EPS rises to US Dollar 1.59 and that's a growth of 35% over the 2007 numbers. Importantly even with the extra revenues and the consolidation of numbers from Informer we still expect Group margins up 20.5% so that's nearly 200 basis points higher than in the prior year and again that's on a much larger business.

On slide 29 you will see that we have also revised our assumptions for 2009. We continue to target organic revenue growth of between 20 and 25% and between 200 and 300 basis points improvement on EBIT compared to 2008 but now of course off a higher base.

The implied guidance for ’09 equates to an ’06 to ‘09 revenue CAGR of 37% and an ’06 to ‘09 earnings CAGR of 50%. Clearly this growth is very impressive and with the extra visibility we now have as well as the strong fundamentals underpinning the growth, we are very confident that we will continue to deliver.

With that I would like to open the Call to Q&A, please.

Q&A

Operator: Excuse me. This is the Chorus Call Conference operator. We will now begin the Question and Answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone.

If you change your mind and you wish to remove yourself from the question queue then you may press * and 2.
Anyone who has a question may press * and 1 at this time.

The first question is from Mr. Joseph Bori from Deutsche Bank. Please go ahead Sir.

Joseph Bori: In the pipeline you’ve provided very helpful comments, you’ve mentioned that the outlook is well covered by those in the pipeline. Are you in a position to elaborate a bit further on how well covered you are? I remember you making comments earlier about like the pipeline covering to two to three times the guidance for the year, are you able to reiterate that or giving some additional color?

Andreas Andreades: Hi, Joseph. This is Andreas. The pipeline has continued building strongly. We have given in the past the metric which says that we target to be three times the level of activity that we target to close in the following 12 months and this certainly remains the case at the end of the second quarter. So we are pleased with how it has developed, the metrics continue to work.

Joseph Bori: Okay, excellent. And if I may add a second question just a technical clarification on the guidance for fiscal year ’09, and you are indicating on slide 29 that the 20-25% growth is organic. So, are you applying that to the 433 for outlook for fiscal year ’08 or just the 425 excluding Informer? I mean if the answer is that you are applying to 433 you are basically giving an outlook for ’09 or for 520 to (521) excluding financial objects right?

Andreas Andreades: The 20 to 25% is on the organics so that’s excluding Informer. Informer has its own ’09 numbers which we have already communicated on the transaction. If you recall on the transaction we put out a table in the press release, which gave revenue and I’ve got it in front me its got the revenue for ’09 of 20 million US and an EBITDA of 6.5 adjusted EPS of 8 cents. So the mathematics would go, you do 20 to 25 on the 425 plus Informer for ’09 and clearly from the Temenos perspective we do not have the Financial Objects numbers either in ’08 or in ’09.

Joseph Bori: Okay excellent. Thank you very much for the clarification.

Operator: The next question is from Mr. Panagiotis Spiliopoulos from Bank Vontobel. Please go ahead Sir.

Panagiotis Spiliopoulos: Yes, good afternoon Gentlemen. Three questions if I may. Number 1, Andreas you mentioned that 77% is locked in for the Full-Year. Is this on total Group sales? Is this is on licenses? I think you mentioned 95% of maintenance. Can you qualify the same for services and license?

And then one for David, where you had higher amortization costs this quarter? Which would run above the, I'd say run rate for the Full-Year. Can you give us an update on what here the target is for this and next year?

And then a third one to really clarify or I'd say avoid any misunderstanding. You stated in your press release, you say that banks are facing challenges and if anything, these are getting worse. Is that your way of warning us that things are slowing down? Thanks.

Andreas Andreades: I'll take the first one on the visibility then David will take the amortization and I'll come back and take the - the question on banks. 77% locked in revenue is across the groups revenues, inevitably this is much higher on the maintenance where close to 95% of revenue is already locked in, it's a very high number on the services clearly as only if you like deals to be signed during the third quarter would contribute to incremental services revenue for the year and its lower on the licensing, but overall at 77 its where we want to be at this point in the year.

Linked to that, I'd like to mention that this year we've improved the licensing mix and David mentioned this on his presentation. The license mix in the first half is 37% compared to the Full-Year and that compares to 35% for the prior year. So we are improving the license mix and we have the level of visibility that we are targeting for the year. David?

David Arnott: Okay, let me take the quick one Takis, on amortization. In Q1 of this year total depreciation and amortization was 4.8, now it's about 5.4. It does go up slightly in steps as things start hitting the criteria for amortization for example you build a bunch of capitalized developments, as soon as you get into live production for example what you really saw at TCF you start amortization, so it's up and in line with our expectations probably the best way of looking at it is on a Full-Year basis we've guided in the past the amortization of capitalized development will be about 16, so about the same as the capitalization, and then your total D&A, which includes other amortization, beyond capitalized development is about 21, 22 and within that obviously you get a slight step up within the quarters. And then Andreas…

Andreas Andreades: Okay, let me take the question, is there a slow down in banks. And the answer from our perspective is clearly no. We fully if you like know there is a change in analysis as to what is happening in terms of the broader banking landscape.

It is true that banks are facing more difficult times than they were facing last year. A lot of the bigger banks had to raise a lot of capital and probably have to raise more capital. They have to be doing strategic reviews, however we have been very clear to differentiate the Temenos client base from this, even in the press release and hopefully in my presentation earlier that the Temenos client base and two thirds of it is coming from emerging markets, as I said we do not have any exposure to Investment Banking.

We do not have any downside exposure today in United States through our distribution agreement with Metavante. So, and ultimately from a business perspective software spending for strategic projects continues to get approved and we will continue to commit to projects. If there was a slow down in our markets we would clearly not be growing new client licenses by 75%. We would clearly not be able to raise pricing by 20 points and we would also clearly not be in a position to command 60% upfront cash on our licenses for the first six months. So altogether that makes me feel very comfortable and confident about the year, and about the projections we have - we are putting there. So does that answer the question?

Panagiotis Spiliopoulos: Yes, many thanks.

Operator: The next question is from Mr. Michael Studer from Bank am Bellevue. Please go ahead Sir.

Michael Studer: Yes, hi guys. This is Michael. I have three questions, first on the services margin actually it was a bit lower than I expected although on the top line that was exactly what I expected, but could you give me there a hint how the mechanics work, are you still ramping up and therefore we can see some much improvement in the quarters going forward as you say that the services margin, the services portion should stay between 30 and 35% long-term right. Did I get this right? So you might work on that a bit.

And then general administration; I've just a question why it has come down from Q1 not proportionally but also in absolute numbers?

And then the third question besides some clients actually came up with questions that directors have sold their shares today, could you give there some hints? Thanks.

David Arnott: Okay, let me take the first two. This is David here. Services margin, there are really two drivers provided for the services margin. One is the entry year so while it's gonna get that prior the year and the one is compared to the prior year. We've always seen, if you look back over Temenos over the last three or four years, a strong seasonality in the margin based on better utilization, better visibility we have higher margins in the second half and in particular the fourth quarter. And that's been in our forecast for the whole of this year and it's very consistent with everything we've done.

Overlaying that this year, you've got the points that both Andreas and I talked about in our presentations, which is the fact that we've grown so strongly licensing in the last year, year and half. So what we do is we recruit for what we believe is our medium term growth rate and therefore you pay salaries to the people. However beyond that it doesn't make sense to bring people in, train them and so for growth that may only be turn out to be temporary; so for that we use more expensive external consultants that you pay a daily rate and at the end of the project you send them away again.

That is a trend that we've seen over the last three or four quarters increasing as we've gone through such unbelievably strong growth on the licensing. I think it's the right thing to do because you can quickly retrench if you return to normalized growth. What we are starting to see and obviously therefore that drove it a bit of margin because you are paying them 1,200 Dollars a day instead of a salary.

And what that does in terms of the second quarter it means that our margin hasn't improved on the second quarter of last year but it's a temporary thing and to answer your question on what's happening now, the externals are coming down. They're already started to come down in the beginning of the third quarter.

Our forecast has now continued to come down steadily and we model that by project, by person, so is not a hope it's planned and partly that's being the work that those people are doing is being done by people we've been bringing on board, our own people, either who've been recruited and are now coming available to work on projects off the bench or through less work on projects (to a similar shorter projects) with Model Bank and so on.

And therefore obviously if you've got those two things together where we are able to reconfirm our 10 to 15% margin for the Full-Year and we are happy to be reconfirming that today.

In terms of G&A purely and I've said this to a few people this morning G&A will leverage more than any other line. We've got the large fixed cost functions in place, financially relate to our IT and so on, occasionally we add one or two but it's much less than the total revenue growth. We are guiding for example in terms of modeling for this year we are looking at very low double-digit G&A growth.

Now we never said it will be mathematically flat. For example in the first and second quarter you get slight timing differences on bonuses when people hit their criteria and so on, but you are talking 3- 400'000 of swing on a 50 million Dollar G&A. So it's just slight lumpiness, that's all. But I can give you a clear confirmation that it will leverage very strongly and we are looking at low double-digit growth for this year, for total G&A. Is that okay on the first two? If it is I'll hand it over to Ben to pick up the point about director selling.

Ben Robinson: Hi Michael, Ben here and yeah, I'd heard the same rumor. I can confirm that no insider disposals have been reported in the company. In fact the only recent transaction was one that was reported on the SWX this morning which was Andreas who purchased 35'000 shares this morning.

Michael Studer: Okay. Thanks a lot.

Operator: The next question is from Mr. Rajesh Bala from Credit Suisse. Please go ahead.

Rajesh Bala: Hi and thanks for taking my questions. This is on your services relationship. You've said you would likely enter into a partnership next year. Have you already setup a pipeline or are you in talks with anybody?

And two on the services capability issue, you're clearly saying that using external capacity now - hello, did you hear the first half of my question?

David Arnott: We can still hear you.

Rajesh Bala: Okay. Sorry, okay there was some music in the middle I'm sorry about that.

Okay, I'll carry on speaking because I guess there is some interruption on the line. There seems to be a contradictory signal here. You're saying that you would look to expand services capacity with some systems integrator whereas you've already decided to external subcontracting for your own services. So why is that? Why can't you expand service capacity till you sign a partnership and avoid the whole external contract problem?

Andreas Andreades: This is Andreas. In any services business you need acceptance for semi-flexibility to run capacity up or down according to demand. So the model that we have operated has been one where we invest for the medium term growth of 20 to 25% revenue growth and any excess we supplement through contractors. The contractors they are not if you like system integrators, they are consultants that contract directly with us. They clearly have a higher cost than our own employees, but it is temporary. So what David is saying is that as we normalize the growth the margins will return to the 10 to 15% what we've - we've guided is - is the number for the year.

The system integration initiative is a very different initiative, its a strategic initiative, which is designed over the medium and the long-term to give us a more services capacity as T24 and TCB are becoming products of choice it is inevitable that the world will demand more services on these products than the ratio of maybe 2 to 1, twice the two - two services, one licensing that - that is probably today.

So, you could get to anything as high as maybe 5 or 6 times to one but both services are clearly services that from a Temenos perspective if we were to cut share organically in house, we would be changing the model to that of a services company which is clearly not what we want to do.

So, the partner initiative is designed to achieve that. It's also designed to give us a more sales capability, a more engagement at the senior level within banks and clearly most of these organizations are quite large and connected at both levels. So these are the two objectives out of that in answer to your question, yes we are having discussions with a number of system integrators, some of them more advanced than others and we believe we'll start executing as communicated previously.

We'll start seeing in 2009 an uptake from these organizations. So we are quite comfortable with the plans as far this is concerned.

Rajesh Bala: Thank you.

Operator: The next question is from Mr. Roger Steiner from Landsbanki Kepler. Please go ahead.

Roger Steiner: Yeah good afternoon, Gentlemen. Two questions from my side. The first on the project that you mentioned in your press release with Standard Bank in Africa, I just wonder whether you could give some more details on the projects in terms of what country it is and how that sort of links or competes with the upcoming bank fusion projects on that client?

And the second question on ARC I just wonder whether you could give some more details on sort of how many live sites you already have on Oracle, when you think that will start of ramping up that you can use them as references for future prospects and clients?

Andreas Andreades: Okay, Roger let me take the Standard Bank question. Unfortunately we cannot give more flavor on the project, just let me say that Standard Bank has been a client of Temenos for quite a few years and we are extending that relationship in a significant way.

So that's on Standard Bank; on ARC, I'd like to say that we are starting, we've got the first live side, so on the channel banking, on internet banking already in Q2 we'll have over the next couple of quarters some significant live sites also with a number of Tier 1 banks that are going through implementation, which will definitely be quite instrumental in demonstrating the

- the product and being a reference. So we already - as I've said we already have the first live sites and the number is going up over the next few quarters.

Roger Steiner: Would you expect to have a life site on ARC in Singapore, still this year?

Andreas Andreades: I expect to have a life site actually in Switzerland this year, which is not far more prominent than Singapore.

Roger Steiner: Excellent. Thanks a lot.

Operator: The last question is from Mr. Raimo Lentschow from Merrill Lynch. Please go ahead.

Raimo Lentschow: Hey, thanks for taking my question. First of all, Andreas could you maybe talk about the Metavante type relationships that you've been discussing and maybe update us on the progress we've seen there?

And the other thing is on the T24 agreement with Metavante in the US. Metavante on Monday on the Conference Call obviously talked about, you know, good progress on TCB but also slightly slower demand for their software products. Is that something that concerns you on the T24? Does that mean we can probably need some time to see traction there or what's your expectation for this new partnership? Thanks.

Andreas Andreades: Okay. First let me, let's take the TCB side, which is what we entered into last year and we've been working with Metavante for the last year and I'd like to say that from a product perspective their project is going as planned. We delivered the first release of the product. We are quite excited by the reception it's receiving. From a demand perspective and that's also what the Metavante executives said on the Call on Monday is that they're seeing a significant shift in demand for TCB which is quite encouraging and we are looking to start closing our first deal for TCB. So that is progressing as per plan.

What we have now announced today and I suppose Metavante had not announced two days ago because probably it was not done by then is a new agreement for T24. What this agreement is? It is I suppose it's a testimony also to a strong relationship with Metavante that we want to be extending our - our corporation. What it is, is that we want to go to smaller banks and we've identified 120 universal banking institutions in the United States, mostly foreign banks with branches in the United States that would not qualify for TCB. TCB is the large retail product, these banks would not have the scale to go for a TCB implementation and would like a more universal banking solution and clearly T24 is very, very appropriate for them.

So, what we have done is we've entered into a joint phase and marketing agreement to develop this segment with T24. We take advantage of the sales organization of Metavante their peripherals products, again their client relationships, client connections, some of them are existing Metavante clients clearly and therefore for us it represents an incremental revenue stream.

Now, what I think the Metavante executives said on the Call on Monday was that they were quite positive on the prospects of core banking replacement and they did say that when it comes to less strategic decisions they see that there is softness in spending, but I think they've clearly confirmed that in terms of a strategic projects they see banks committing to investment. So secondly that would also be our view at this point in time.

Raimo Lentschow: And my first question was actually about partnerships like Metavante outside of the US I seem to remember you've talked about that in the past but we haven't seen any announcement there. Is there something you're still working on? Is that kind of something that still can happen this year or is that more a next year story? Thanks.

Andreas Andreades: We are working on that. We are working quite hard I'd say. We've got identified markets and we believe that over the next 6 to 12 months we are going to able to be announcing agreements like this. Now these agreements are large and they are very strategic, it's difficult to say whether it's going to be Q4 or Q1. So on that I cannot comment, but clearly from a business perspective they are there and they are there to be taken.

Raimo Lentschow: Perfect. Thank you.

Operator: Ladies and Gentlemen, the Conference Call is now over and you may disconnect your telephones. Thank you very much for joining and have a pleasant day. Good-bye.

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