Temenos

Interim Report 2013

TEMENOS
The Banking Software Company

Contents

The amounts are expressed in thousands of US dollars

	2013	2012 Restated*
Revenues		
Software licensing	**52,133**	47,651
Software-as-a-Service	**1,643**	-
Total software licensing	**53,776**	47,651
Maintenance	**103,420**	98,622
Services	**56,423**	59,718
Total revenues	**213,619**	205,991
Operating expenses		
Cost of sales	**68,077**	68,500
Sales and marketing	**43,034**	36,276
General and administrative	**29,808**	37,195
Other operating expenses	**50,066**	61,988
Total operating expenses	**190,985**	203,959
Operating profit	**22,634**	2,032
Finance costs - net	**(5,303)**	(6,961)
Profit/(loss) before taxation	**17,331**	(4,929)
Taxation (note 3)	**(5,182)**	(6,073)
Profit/(loss) for the period	**12,149**	(11,002)
Attributable to:		
Equity holders of the Company	**12,149**	(11,002)
Non-controlling interest	**-**	-
Earnings per share (in US$): (note 6)		
basic	**0.18**	**(0.16)**
diluted	**0.17**	**(0.16)**

* Note 3

The notes on page 8 to 14 form an integral part of these interim consolidated financial statements.

The amounts are expressed in thousands of US dollars

	2013	2012 Restated*
Profit/(loss) for the period	**12,149**	(11,002)
Other comprehensive income:		
Currency translation difference	**(9,815)**	(4,595)
Cash flow hedge	**(3,023)**	2,660
Other comprehensive income, net of tax	**(12,838)**	(1,935)
Total comprehensive income for the period	**(689)**	(12,937)
Attributable to:		
Equity holders of the Company	**(689)**	(12,937)
Non-controlling interest	**-**	-

* Note 3

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The amounts are expressed in thousands of US dollars

unaudited

	30 June 2013	31 December 2012 Restated*
Assets		
Current assets		
Cash and cash equivalents	**67,297**	117,734
Trade and other receivables	**260,473**	261,733
Other financial assets	**1,838**	1,615
Total current assets	**329,608**	381,082
Non-current assets		
Property, plant and equipment (note 7)	**13,245**	13,798
Intangible assets (note 7)	**453,063**	436,124
Trade and other receivables	**36,658**	41,629
Deferred tax asset	**26,931**	30,326
Total non-current assets	**529,897**	521,877
Total assets	**859,505**	902,959
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**101,610**	111,285
Other financial liabilities	**2,760**	1,475
Deferred revenues	**144,483**	156,742
Income taxes payable	**10,021**	11,916
Borrowings (note 8)	**10,823**	10,735
Provisions for other liabilities and charges	**2,242**	6,540
Total current liabilities	**271,939**	298,693
Non-current liabilities		
Trade and other payables	**1,809**	273
Other financial liabilities	**445**	-
Income tax liabilities	**1,660**	1,544
Borrowings (note 8)	**204,218**	203,625
Provisions for other liabilities and charges	**1,102**	1,318
Deferred tax liabilities	**4,640**	6,318
Retirement benefit obligations	**3,245**	3,102
Total non-current liabilities	**217,119**	216,180
Total liabilities	**489,058**	514,873
Shareholders' equity		
Share capital	**239,798**	239,798
Treasury shares	**(97,320)**	(105,264)
Share premium and capital reserves	**15,881**	20,398
Fair value and other reserves	**(77,779)**	(64,941)
Retained earnings	**289,867**	298,095
Total equity	**370,447**	388,086
Total liabilities and equity	**859,505**	902,959

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	2013	2012
Cash generated from/(used in) operations	**26,905**	(27,960)
Income taxes paid	**(4,125)**	(6,918)
Net cash generated from/(used in) operating activities	**22,780**	(34,878)
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	**(1,300)**	(2,668)
Purchase of intangible assets, net of disposals	**(2,529)**	(1,655)
Capitalised development costs (note 7)	**(19,324)**	(19,204)
Acquisitions of subsidiaries, net of cash acquired (note 13)	**(12,225)**	(2,263)
Settlement of financial instruments	**(718)**	(1,213)
Interest received	**95**	79
Net cash used in investing activities	**(36,001)**	(26,924)
Cash flows from financing activities		
Acquisition of treasury shares	**(9,115)**	-
Interest payments	**(2,408)**	(3,221)
Repayments net proceeds from borrowings (note 8)	**(103,601)**	(30,010)
Proceeds from issuance of bond (note 8)	**104,281**	-
Dividend paid	**(20,377)**	-
Payment of financing costs	**(4,311)**	(394)
Payment of finance lease liabilities (note 8)	**(178)**	(206)
Net cash used in financing activities	**(35,709)**	(33,831)
Effect of exchange rate changes	**(1,507)**	(212)
Net decrease in cash and cash equivalents in the period	**(50,437)**	(95,845)
Cash and cash equivalents at the beginning of the period	**117,734**	154,950
Cash and cash equivalents at the end of the period	**67,297**	59,105

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	Share capital	Treasury shares	Share premium and capital reserves	Fair value and other reserves	Retained earnings	Total
Balance at 1 January 2012	**239,677**	**(113,473)**	**19,367**	**(69,997)**	**272,607**	**348,181**
Effect of application of IAS 19 revised (note 3)	-	-	-	-	68	68
Balance at 1 January 2012 (restated)	**239,677**	**(113,473)**	**19,367**	**(69,997)**	**272,675**	**348,249**
Total comprehensive income for the period	-	-	-	(1,935)	(11,002)	(12,937)
Cost of share options	-	-	5,868	-	-	5,868
Exercise of share options	121	1,384	(1,500)	-	-	5
Share issuance costs	-	-	(40)	-	-	(40)
	121	1,384	4,328	(1,935)	(11,002)	(7,104)
Balance at 30 June 2012 (restated)	**239,798**	**(112,089)**	**23,695**	**(71,932)**	**261,673**	**341,145**
Balance at 1 January 2013	**239,798**	**(105,264)**	**20,398**	**(64,941)**	**296,766**	**386,757**
Effect of application of IAS 19 revised (note 3)	-	-	-	-	1,329	1,329
Balance at 1 January 2013 (restated)	**239,798**	**(105,264)**	**20,398**	**(64,941)**	**298,095**	**388,086**
Total comprehensive income for the period	-	-	-	(12,838)	12,149	(689)
Dividend paid	-	-	-	-	(20,377)	(20,377)
Cost of share options	-	-	6,718	-	-	6,718
Share issued in relation to acquisition	-	15,559	(6,286)	-	-	9,273
Exercise of share options	-	4,898	(4,901)	-	-	(3)
Acquisition of treasury shares	-	(12,513)	-	-	-	(12,513)
Share issuance costs	-	-	(48)	-	-	(48)
	-	7,944	(4,517)	(12,838)	(8,228)	(17,639)
Balance at 30 June 2013	**239,798**	**(97,320)**	**15,881**	**(77,779)**	**289,867**	**370,447**

The notes on page 8 to 14 form an integral part of these interim 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 SIX Swiss Exchange. On incorporation, TEMENOS Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group. From 23 May 2006 the Company moved its seat of incorporation to Geneva, Switzerland. The registered office is 2 Rue Ecole de Chimie, Geneva.

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.

2 Basis of preparation

This condensed interim financial information for the six month ended 30 June 2013 has been prepared in accordance with IAS 34 (Interim financial reporting) and are unaudited. The consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2012 which have been prepared in accordance with IFRS's.

3 Accounting policies

Except as described below, the accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2012.

Income tax is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year.
The tax charge for the period ended 30 June 2013 consisted of tax on profits, withholding tax and deferred tax movements due to the reversal of timing differences.

Standards, amendments and interpretations effective as of 1 January 2013 that have been adopted by the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2013 which were adopted by the Group:

- IFRS 7 (amendment) 'Financial instruments: Disclosures',
- IFRS 10 (Standard) 'Consolidated financial statements',
- IFRS 11 (Standard) 'Joint arrangements',
- IFRS 12 (Standard) 'Disclosures of interests in other entities',
- IFRS 13 (Standard) 'Fair value measurement',
- IAS 1 (amendment) 'Presentation of Financial Statements',
- IAS 19 (amendment) 'Employee benefits',
- IAS 27 (amendment) 'Separate financial statement',
- IAS 28 (amendment) 'Investments in Associates and Joint Ventures',
- Annual improvements 2009-2011.

The adoption of these standards, amendments has not resulted in a material impact on the Group's consolidated financial statements except as described below:

- IAS 19 (amendment) 'Employee benefits':

The application of this amendment in accordance with its transitional provisions has resulted in the following retrospective effects:

- US$ 68 thousand gain in the opening balance of the consolidated statement of changes in equity at 1 January 2012.
- US$ 1,329 thousand gain in the opening balance of the consolidated statement of changes in equity at 1 January 2013.
- US$ 454 thousand gain in the consolidated income statement (General and administrative line) for the period ended 30 June 2012.
- Prepaid asset reported as part of the trade and other receivables has been restated from US$ 451 thousand to US$ 519 thousand at 1 January 2012 and from US$ 1,448 thousand to US$ 1,800 thousand at 31 December 2012.
- "Retirement benefit obligations" liability has been restated from US$ 4,079 thousand to US$ 3,102 thousand at 31 December 2012.
- The movement in the consolidated income statement has not resulted in a material effect on the earnings per share (basic and diluted) for the year ended 31 December 2012 and for the six months ended 30 June 2012.
- Remeasurement of the net defined benefit liability (asset) in the consolidated statement of comprehensive income for the period ended 30 June 2013 and 30 June 2012 was not material.

Comparative information

Where necessary comparative information has been restated to reflect the adoption of the amendment to IAS 19 'Employee benefits'.

The Group has also re-presented the consolidated income statement to split "Sales and marketing" from the heading "Other operating expense". This re-presentation better reflects the function of expenses on the face of the consolidated income statement.

The finalisation of the initial accounting for the previous year acquisition ("EDGE IPK") has not resulted in material changes in the fair value of the identifiable assets acquired and liabilities assumed.

3 Accounting policies (continued)

Seasonality of operations

The Group is not significantly influenced by seasonal or cyclical fluctuations but, historically, the Group tends to recognise a higher volume of licensing revenue in the second half of the financial year.

Significant events and transactions during the period

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

Decrease in "Provisions for other liabilities and charges" is mainly due to the settlement of the terminations benefits as described in the annual consolidated financial statements for the year ended 31 December 2012.

In the first half of 2013, the Group has not suffered from any significant financial risks. The type of market risk, credit risk and liquidity risk reported in the consolidated financial statements for the year ended 31 December 2012 remains the same.

4 Estimates

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

In preparing the Group's interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012

5 Share capital

As at 30 June 2013, the issued shares of TEMENOS Group AG comprised 72,023,148 common shares of a nominal value of CHF 5 each. All issued shares are fully paid.

The changes in the number of issued and outstanding shares for the period ended 30 June 2013 are summarised below:

	Number
Total number of shares issued, as at 1 January	72,023,148
Treasury shares	(2,911,562)
Total number of shares outstanding, as at 1 January	69,111,586
Share issued on exercise of employee share options	-
Movement in treasury shares	12,650
Total number of shares outstanding, as at 30 June 2013	69,124,236

As at 30 June 2013 the number of treasury shares held by the Group amounted to 2,898,912 (30 June 2012: 3,087,356).

In March 2013, The Group re-issued 408,877 treasury shares as part of the purchase of TRINOVUS. The fair value of these treasury shares amounted to US$ 9,273 thousand.

According to its Articles or Association, the Group has also the following conditional capital:

- authorised shares available until 24 May 2015	14,304,823
- conditional shares that may be issued on the exercise of employee share options	7,177,782
- conditional shares that may be issued in conjunction with financial instruments	6,607,904

6 Earnings per share

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

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. The Group has only one category with a potential dilutive effect: "Share options".

For the period ended 30 June 2012, this category was anti-dilutive as the Group reported a loss for the period. Therefore, diluted EPS was equal to the basic EPS.

For the period ended 30 June 2013, this category was fully dilutive.

7 Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
	US$ 000	US$ 000
Six months ended 30 June 2013		
Opening net book amount at 1 January 2013	13,798	436,124
Additions	1,484	1,861
Acquisition of subsidiary (note 13)	906	24,702
Disposals & impairment	(38)	-
Capitalised development costs	-	19,324
Charge for the period	(2,207)	(20,289)
Foreign currency exchange differences	(698)	(8,659)
Closing net book amount 30 June 2013	13,245	453,063

8 Borrowings

	30 June 2013	31 December 2012
	US$ 000	US$ 000
Current		
Obligations under finance leases	213	242
Other loans	43	44
Bond	541	-
Bank borrowings	10,026	10,449
Total current	10,823	10,735
Non-current		
Obligations under finance leases	82	70
Other loans	137	181
Bond	103,999	-
Bank borrowings	100,000	203,374
Total non-current	204,218	203,625
Total borrowings	215,041	214,360

Movements in borrowings is analysed as follows:

Six months ended 30 June 2013	
Opening balance as at 1 January 2013	214,360
Repayments net proceeds from borrowings	(103,779)
Proceeds from issuance of bond	104,281
Acquisition of subsidiary (note 13)	149
Decrease in borrowings - other	(398)
Foreign currency exchange differences	428
Closing net book amount 30 June 2013	215,041

8 Borrowings (continued)

In March 103, the Group issued CHF 100 million senior unsecured bond. The debt has a coupon of 2.75%, paid annually on 25 July, and matures on 25 July 2017.

On March 21 2013, The Group concluded a combined term loan and revolving credit facility with a pool of five large financial institutions, replacing existing facilities. The pertinent details of the facility available to the Group are as follows:

Multicurrency term loan facility:

US$ 100 million bearing interest at LIBOR/EURIBOR plus a variable margin dependent on certain financial measurements at the start of each interest rate fixing period. Utilised amounts are repayable in fixed installments between March 2014 and March 2017.

As at 30 June 2013, US$ 100 million was drawn.

Multicurrency revolving credit facility (RCF):

US$ 250 million bearing interest at LIBOR/EURIBOR plus a variable margin dependent on certain financial measurements at the start of each interest rate fixing period. The facility is repayable in full on 21 March 2017.

As at 30 June 2013, US$ 10 million was drawn as cash loan and guarantees totaling US$ 17.4 million were in issue.

The facilities granted are subject to various financial covenants which have been adhered to during the period ended 30 June 2013.

9 Dividends

A dividend of CHF 19,494 thousand (CHF 0.28 per share) in respect of the year ended 31 December 2012 was paid during the period ended June 30, 2013.

10 Segment information

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

The CODM considers the business from a product perspective and, therefore, recognises the reporting segments as: "Product" and "Services". Other representation of the Group's activity such as regional information is also presented to the CODM but it is not primarily used to review the Group's performance and to make decisions as how to allocate resources.

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

The Group's Chief Executive Officer assesses the performance of the operating segments based on the operating result. This measure reflects operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated costs mainly comprise of restructuring costs, share-based payment expenses, depreciation and amortisation, offices-related expenses, net finance costs and any other corporate expenses that cannot be directly attributable to the operating segments.

The primary information provided to the Group's Chief Executive Officer for the reportable segments is as follows:

	Product		Services		Total	
	2013	2012	2013	2012	2013	2012
External revenues	157,196	146,273	56,423	59,718	213,619	205,991
Segmental operating profit/(loss)	59,994	51,470	(629)	(6,023)	59,365	45,447

Intersegment transactions are treated as cost reductions rather than internal revenues. They are charged based on internal cost rates that excludes any profit margin.
There are no differences from the last annual financial statements with regards to the basis of segmentation or to the basis of measurement of segment profit or loss.
In the first half of 2013, there were no material change in the assets reported to the CODM from the amount disclosed in the consolidated financial statements for the year ended 31 December 2012.

RECONCILIATION TO THE GROUP'S INCOME STATEMENT	30 June 2013	30 June 2012 Restated*
Total operating profit for reportable segments	59,365	45,447
Depreciation and amortisation	(22,496)	(23,953)
Unallocated operating expenses	(14,235)	(19,462)
Finance costs - net	(5,303)	(6,961)
Profit/(loss) before taxation	17,331	(4,929)

* Note 3

11 Financial instruments

The following table shows the fair value and the carrying amount of the Group's financial instruments:

	30 June 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets	US$ 000	US$ 000	US$ 000	US$ 000
Derivatives financial instruments	1,752	1,752	1,529	1,529
Available-for-sale financial assets	86	86	86	86
Trade and other receivables	276,406	276,156	289,735	289,388
Cash and cash equivalent	67,297	67,297	117,734	117,734
Total	345,541	345,291	409,084	408,737
Financial liabilities				
Derivatives financial instruments	3,205	3,205	1,475	1,475
Borrowings	215,041	217,276	214,360	212,663
Trade and other payables	103,419	103,417	111,558	111,555
Total	321,665	323,898	327,393	325,693

12 Fair value measurement

The following table represents the fair value hierarchy of the Group's assets and liabilities measured at fair value:

Assets	Level 1	Level 2	Level 3	Total
Derivatives financial instruments	-	1,752	-	1,752
Available-for-sale financial assets	86	-	-	86
Total	86	1,752	-	1,838
Liabilities				
Derivatives financial instruments	-	3,205	-	3,205
Contingent consideration under business combination (note 13)	-	-	1,609	1,609
Total	-	3,205	1,609	4,814

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.

- Forward foreign exchange contracts are measured by discounting the future cash flows (income approach model) using observable market interest rates adjusted for performance and credit risk. Future cash flows are based on the observable market forward exchange rates.
- Cross currency swap is measured by discounting the contractual cash flows (income approach model) using the observable market interest curves adjusted for performance risk.

Level 3: unobservable inputs for the asset or liability.

- Contingent consideration arose from the acquisition of TriNovus Capital LLC and is measured using the "income approach" methodology. Future revenue projection is based on the expectation of the future signings from the evaluation of the acquiree's pipeline as well as the observable development of the US Software-as-a-Service (SaaS) market. Future projections are based on a risk-adjusted discount rate of 9% and an assumed probability rate. Since the initial accounting is still not yet finalised , no gains or losses were recognised either in profit or loss or in the other comprehensive income. Unless any downturn is particularly severe and pervasive, change in the unobservable inputs would not have significant effect on the fair value of the contingent consideration.

The Group's finance team regularly reviews and assesses the unobservable inputs and reports to the Chief Financial Officer ("CFO") any changes that may have a significant effect on the reported fair value.

The Group policy is to recognise transfers into and out of fair value hierarchy levels at the end of the quarter when the event or change in circumstances occurred.

They were no transfers between level 1 and 2 during the period.

13 Business combination

TriNovus Capital LLC

On 21 March 2013, the group acquired 100% of the share capital of TriNovus Capital LLC based in USA.

TriNovus is a Software-as-a-Service (SaaS) technology provider that develops and delivers Compliance and Core Banking solutions to community banks and credit unions.

The acquisition will significantly increase Temenos' customer base in the US market as well as provide it with the complementary products and local expertise to accelerate growth and launch a SaaS offering for the US market based on its market-leading, real-time T24 core banking platform, its Insight solution for business analytics and its Profile and Screen Anti-Money Laundering (AML) applications.

The goodwill arising from the acquisition is mainly attributable to the cross-selling opportunities with the acquired customer base, the penetration into the US SaaS banking market and to the enhancement of the solutions panel offered by the Group.

Fair value of the consideration transferred at acquisition date:	US$ 000
- Cash Consideration	13,025
- Deferred consideration	100
- Equity instruments (408,877 treasury shares)	9,273
- Contingent consideration	1,609
Total purchase consideration	**24,007**

Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	800
Trade and other receivables	1,578
Property, plant and equipment (note 7)	906
Intangible assets (note 7)	7,258
Prepayment	111
Trade and other payables	(1,748)
Deferred revenues	(2,193)
Borrowings (note 8)	(149)
Total identifiable net assets	6,563
Goodwill (note 7)	17,444
Acquisition-related costs included in "General and administrative" line in the income statement	284
Consideration paid in cash	13,025
Cash and cash equivalents acquired	(800)
Cash outflow on acquisition	12,225

The fair value of the equity instruments issued as part of the consideration was based on the published closing price of CHF21.45 on 21 March 2013.

The fair value of the trade and other receivables approximates its carrying value and it is expected to be fully recoverable.

The goodwill recognised is expected to be tax deductible for income tax purposes.

The revenue and profit or loss contributed by the acquiree in the period between the date of acquisition and the balance sheet date are US$ 1,643 thousand and US$ 69 thousand loss, respectively.

13 Business combination (continued)

If the acquisition had occurred on 1 January 2013, the estimated contribution by the acquiree to the Group's pro-forma revenues and pro-forma profit or loss would have been US$ 3,228 thousand and US$ 159 thousand loss, respectively.

The contingent consideration arrangement requires Temenos to pay in cash and shares an earn-out contribution based on the completion of an accumulated revenue target number over the earn out period ending 21 March 2016. The potential undiscounted consideration value is between nil and US$1,875 thousand.

The fair value of the contingent consideration arrangement was estimated by applying the "income approach" methodology. Future projections are based on a risk-adjusted discount rate of 9% and an assumed probability rate.

The initial accounting has been provisionally completed at 30 June 2013. The Group is still evaluating the fair value of certain acquired intangible assets as well as certain liabilities.

14 Events occurring after the reporting period.

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

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