TEMENOS

THE BANKING SOFTWARE COMPANY

Temenos AG

Interim Report 2020

THE **WORLD'S #1** BANKING SOFTWARE COMPANY

Our vision is to provide financial institutions, of any size, anywhere in the world, the software to thrive in the digital banking age.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of **26.8%**, half the industry average, and returns on equity of **29%**, three times the industry average.

21

New customer wins in H1 2020

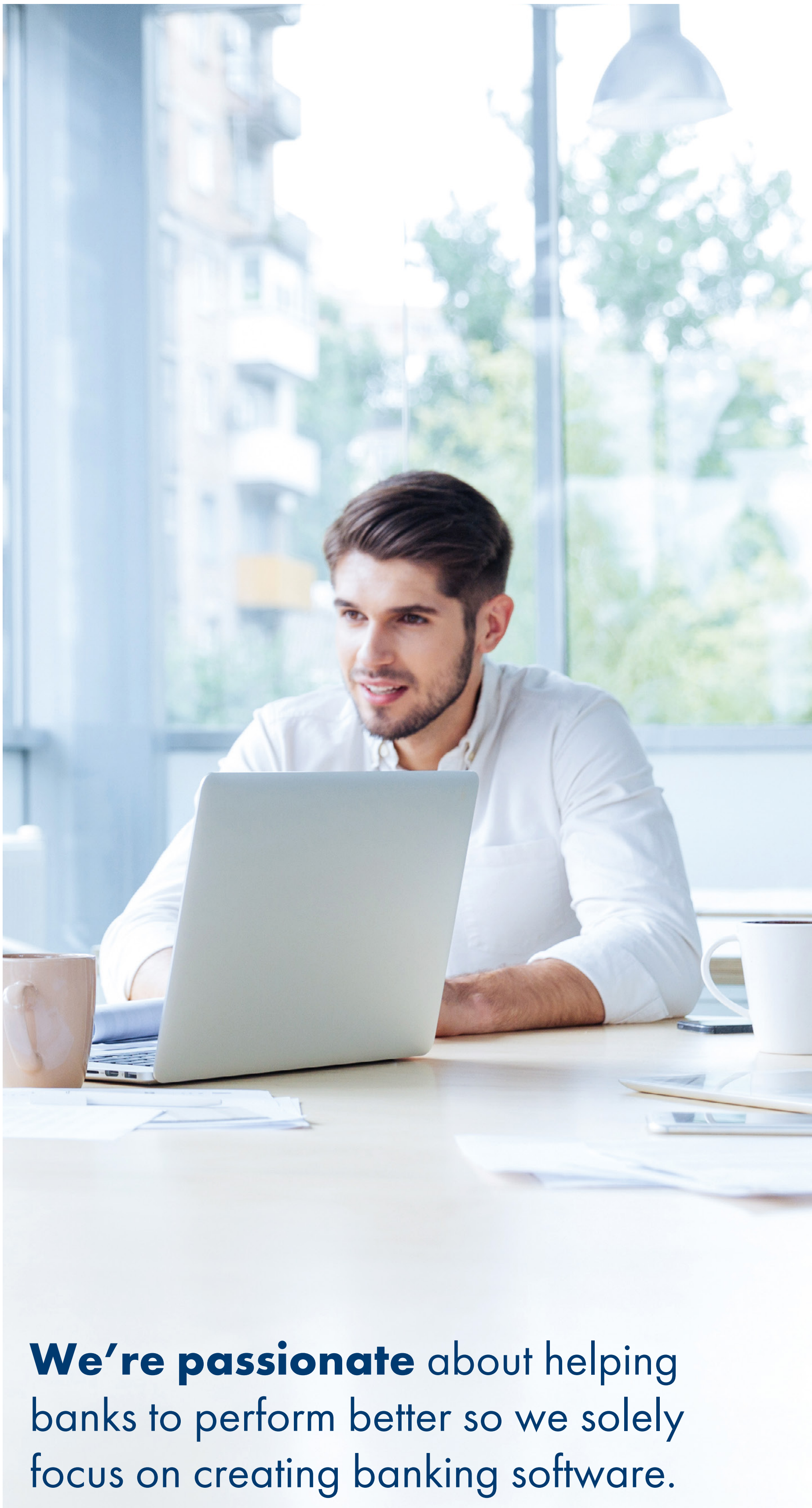
166

Deployments in H1 2020

#1

Best-selling core banking system in the IBS League table for the last 9 years

Contents



Highlights of H1 2020

CONTINUED SUCCESS YEAR ON YEAR

SaaS and subscription

H1 2020	USD 45.8m
H1 2019	USD 27.6m

66%

SaaS ACV

H1 2020	USD 8.8m
H1 2019	USD 5.7m

56%

Total software licensing

H1 2020	USD 137m
H1 2019	USD 183m

-25%

Maintenance

H1 2020	USD 189m
H1 2019	USD 172m

10%

Recurring revenue (SaaS and maintenance)

H1 2020	USD 235m
H1 2019	USD 199m

18%

Total revenue

H1 2020	USD 409m
H1 2019	USD 442m

-7%

EBIT margin

H1 2020	26.1%
H1 2019	27.8%

-1.7%

Earnings per share

H1 2020	USD 1.09
H1 2019	USD 1.32

-17%

LTM operating cash conversion

H1 2020	115%
H1 2019	111%

4%

H1 2020 non-IFRS financial highlights

- SaaS and subscription growth of 66%
- SaaS ACV growth of 56%
- Total software licensing decline of 25%
- Maintenance growth of 10%
- Recurring revenue growth of 18%
- Total Group revenue decline of 7%
- EBIT margin of 26.1%, down 1.7 percentage points
- EPS of USD 1.09, down 17%
- LTM operating cash conversion of 115%, with DSOs down to 107 days (105 days organic)
- Dividend of CHF 0.85 per share, totaling CHF 61 million, paid to shareholders

H1 2020 operational highlights

- Sales in H1 impacted by COVID-19 as banks remained focused on business continuity
- Travel restrictions impacted the sales force's ability to close deals, in particular in Europe
- Strong growth in recurring revenue driven by maintenance growth and greater resilience in SaaS
- Temenos' leadership position reconfirmed by industry analysts
- Exclusive partnership signed with HCL which positively impacted total software licensing and EBIT
- Double digit growth in new pipeline opportunities in the second quarter
- Recurring revenue growth, cost base flexibility and strong cost control driving EBIT and cash performance
- Continued investment, in particular in R&D, to extend product advantage
- Structural drivers of digital, regulation, cost pressures and move to open banking remain intact and likely to accelerate post-crisis, adoption of SaaS and cloud also likely to accelerate

The Group focused on impacts of COVID-19 pandemic on the following areas, highlighted on the disclosure notes to the financial statements section:

- Valuation of intangible assets, including goodwill (also highlights revenue performance) (refer to note 12 – PPE and intangible assets)
- Recoverability of financial instruments (refer to note 6 – Estimates and judgments)
- Covenants (refer to note 13 – Borrowings)

For more information

Check out our website

www.temenos.com

GROWING OUR **GLOBAL OPPORTUNITY**

Europe	The Americas	Middle East & Africa	Asia Pacific
22 Offices in the region	**17** Offices in the region	**7** Offices in the region	**21** Offices in the region
33% Total revenue	**30%** Total revenue	**18%** Total revenue	**19%** Total revenue
24% Total software licensing revenue	**43%** Total software licensing revenue	**17%** Total software licensing revenue	**16%** Total software licensing revenue

Note: percentages are for H1 2020.

Our strategy

STRATEGIC INITIATIVES TO DRIVE GROWTH

Enhance award winning solutions

Cloud-based Microservices

Hypersonalization of front office with XAI

Continuous renovation of tier 1 back office

Geographic market development

Significant traction in the US for Infinity and Transact post integration of Kony

Investing in Sales and Marketing, Cloud and SaaS, and Talent and People

56% increase in SaaS ACV in H1 2020

An expanding Partner ecosystem

6,500 consultants, 12,000 developer community members

Using M&A to accelerate organic growth

kony

logical glue

hTRUNK

* Definition of ACV to be found on the Sources page in the Appendix.

A MARKET **LEADER**

Gartner[1]

- Recognized as a Leader eleven times in Magic Quadrant for Global Retail Core Banking.

Forrester[2]

- Leader in Forrester Wave for Digital Banking Processing Platforms for Retail Banking.
- Leader in Forrester Wave for Digital Banking Processing Platforms for Corporate Banking.
- Leader in Forrester Wave for Digital Banking Engagement Platforms.
- Classed "Global Power Seller" for new business for the 14th consecutive year and "Top Global Player" for new and existing business deals for eighth consecutive year.
- Leader in Forrester Wave for Low-Code Development Platforms for AD&D Professionals (Q1, 2019).

Ovum[3]

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

IBS Intelligence[4]

- Ranked best-selling core banking system for the last nine years and top two positions for the past 21 consecutive years.
- Ranked best-selling digital banking and channels system.
- Ranked best-selling retail payments system.

Celent[5]

- Temenos' client, EQ Bank, received the Celent Model Bank 2020 Award for Banking in the Cloud.

International Data Corporation[6]

- Recognized as a 'Leader' for Worldwide Integrated Payment Systems.
- Recognized as a 'Leader' for North America Digital Banking Customer Experience Platforms for Kony DBX, now Temenos Infinity.
- Recognized as a 'Leader' for Know Your Customer (KYC) Solutions in Financial Services and as a 'Major Player' for Anti-Money Laundering (AML) Solutions in Financial Services. Recognized as a Leader in global core banking, European mobile banking and wealth management front and middle office.

*A "**Market Leader**" in **core banking** and a "**Market Leader**" in **digital banking platforms**.*[3]

Private Banking & Wealth Management Awards 2019[7]

- Recognized as 'Most Innovative Banking Technology Partner of the Year'.

FStech Awards 2020

- Awarded "Technology Provider of the Year".

Aite Group[8]

- Recognized as 'Best in Class' (the highest ranking) for Investment and Fund Accounting Systems.

11 times

Recognized as a Leader eleven times[1] in Gartner Magic Quadrant for Global Retail Core Banking

14 yrs

Classed "Global Power Seller" for new business[2]

9 yrs

Ranked best selling core banking system[4]

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Gartner, 'Magic Quadrant for Global Retail Core Banking', Vittorio D'Orazio, Don Free, 05 August 2020. (This report was previously titled "Magic Quadrant for International Retail Core Banking" from 2009 – 2014. Temenos was recognized as Temenos Group from 2010-2013, and Temenos Group (T24) in 2009.)

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Software

COMPREHENSIVE, **CLOUD NATIVE**, CLOUD AGNOSTIC, MICROSERVICES ARCHITECTURE

Temenos' software is centered around two main products: Temenos Infinity and Temenos Transact.

Both of these are available as independently deployable products, together with several other more specialist products described in the following pages. Their value to clients is, however, increased when they are deployed together to form an end-to-end digital banking solution. All of the software enjoys the benefit of continuing functional investment by Temenos, ensuring that Temenos' clients can access the latest banking functionality, as well as the years of functional enhancements which have been packaged into the products.

Temenos' products are also being increasingly deployable as Microservices. The boundaries between services are defined according to business areas and banking functions. This technology change provides a series of strategic benefits to banks who use the software. In particular, the independently deployable nature of each service means that banks can progressively go live with different business areas by implementing different services. Unlike a standalone best-of-breed approach, the various service components also sit together to build an integrated offering. This enables banks to undertake large transformation exercises in a more flexible manner which also delivers earlier benefits. It also allows banks to retain key items of third party or in-house technology where they have a competitive edge and to manage upgrades on a partial ("module level") basis going forwards.

All of Temenos' software products can be deployed natively on the main commercial cloud platforms; this means that they take the full benefit of the lower operating costs and elastic scalability of these services, as well as enjoying in-built operational resilience. They are also available on a Continuous Deployment basis which enables banks to reduce the cost of implementation and maintenance by the use of modern DevOps approaches and technology, as well as making it faster for banks to deploy innovations into their live operating environments and hence to enjoy a shorter time to market.

Temenos Infinity

Temenos Infinity is an independent digital banking product which focuses on customer engagement and the distribution of banking products and services on an omni-channel basis by means of an integrated "conversational banking" customer engagement module, cutting-edge digital customer acquisition and onboarding functionality and an integrated product origination capability. The market leading low-code channel capability of the software is backed by an independently deployable series of Distribution services, which enable banks to offer a seamless omni-channel experience across multiple core and other product manufacturing systems. By avoiding complex point-to-point connections, it also future-proofs a bank's capabilities in this area, allowing for different channel solutions to be deployed as needed, and for core systems to be changed without needing to rebuild large and complex integration layers.

It can be deployed on any combination of back office systems by means of its Open API framework and definitions in a quick and cost effective manner, allowing access to all of the underlying product manufacturing and servicing capabilities which those platforms offer. Even greater benefit can be gained when the solution is deployed with Temenos Transact as the bank can then make use of the end-to-end product design and distribution capabilities to gain significant benefits in the areas of customer insight and new product go-to-market agility.

Temenos Transact

Temenos Transact is the market leading core banking product which incorporates the broadest and deepest set of functionality available in the market. Temenos has invested in expanding the functionality of the product for over 25 years which, when allied with the policy of producing standard packaged software, provides a functional footprint which is without parallel in the industry.

This functional depth is supported by the use of the Microservice-based architecture. This allows for the solution to be deployed and upgraded on a functional component basis which means that banks can more easily engage in transformation programs that deliver early benefits and allow for changing business priorities during the implementation process.

The product is further enriched by an extensive set of Country Model Banks. This combination of global product capability, off-the-shelf regional functionality and the underlying flexibility of the product enables banks to implement the solution in a cost effective manner and to continue to innovate, and to deploy these innovations, at speed and on an efficient economic basis. The cloud native and cloud agnostic capabilities which underpin the product also enable banks to operate at scale in an elastic and agile manner.

Our solutions

PRODUCTS

Temenos organizes its products into five key areas reflecting the needs of its customers.

TECHNOLOGY PLATFORM

Technology is strategy. We say this because our Technology products and frameworks make banks more agile, competitive and profitable, and help them thrive in complex, margin-pressured environments.

SECTOR SOLUTIONS

Temenos offers software solutions to banks and financial institutions of all types and sizes.

Overview of IFRS vs non-IFRS

	Non-IFRS			IFRS		
USDm, except EPS	H1 2020	H1 2019	Change	H1 2020	H1 2019	Change
Software licensing	91.6	155.8	-41%	91.6	155.8	-41%
SaaS and subscription	45.8	27.6	66%	37.3	25.4	47%
Total software licensing	137.4	183.4	-25%	129.0	181.2	-29%
Maintenance	189.2	171.6	10%	189.2	171.6	10%
Services	82.7	86.9	-5%	82.7	86.9	-5%
Total revenues	409.4	441.9	-7%	400.9	439.7	-9%
EBIT	106.8	122.6	-13%	67.3	92.4	-27%
EBIT margin	26.1%	27.8%	-2% pts	16.8%	21.0%	-4% pts
EPS (USD)	1.09	1.32	-17%	0.63	0.96	-34%
Recurring revenue	235.0	199.2	18%	226.6	197.0	15%

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

Non-IFRS adjustments:

Deferred revenue write-down
Adjustments made resulting from acquisitions.

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

Acquisition related charges
Relates mainly to advisory fees, integration cost and earn out credits or charges.

Amortization of acquired intangibles
Amortization charges as a result of acquired intangible assets.

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

Taxation
Adjustment made to reflect the associated tax charge mainly on deferred revenue write-down and amortization of acquired intangibles, and on the basis of Temenos' expected effective tax rate.

Acquisition related finance cost
Mainly relates to fees incurred on acquisition funding.

Reconciliation from IFRS to non-IFRS – **EBIT/EBITDA**

USDm	H1 2020	H1 2019
IFRS EBIT	67.3	92.4
Deferred revenue write-down	8.5	2.2
Amortization of acquired intangibles	33.9	24.7
Restructuring	17.5	2.8
Acquisition-related (credits)/charges	(20.4)	0.6
Non-IFRS EBIT	106.8	122.6
IFRS EBIT	67.3	92.4
Depreciation and amortization	74.9	60.6
IFRS EBITDA	142.1	153.0
Deferred revenue write-down	8.5	2.2
Restructuring	17.5	2.8
Acquisition-related (credits)/charges	(20.4)	0.6
Non-IFRS EBITDA	147.7	158.5

Reconciliation from IFRS earnings to non-IFRS earnings

USDm	H1 2020	H1 2019
IFRS EBIT	67.3	92.4
Finance cost – net	(14.6)	(9.7)
Taxation	(6.7)	(13.1)
IFRS net earnings (Profit)	46.0	69.6
Number of shares – Diluted (000)	73,092	72,656
IFRS EPS (USD)	0.63	0.96
IFRS net earnings (Profit)	46.0	69.6
Deferred revenue write-down	8.5	2.2
Amortization of acquired intangibles	33.9	24.7
Restructuring	17.5	2.8
Acquisition-related (credits)/charges	(20.4)	0.6
Acquisition-related finance cost	–	–
Taxation	(5.9)	(3.9)
Non-IFRS net earnings (Profit)	79.5	95.9
Number of shares – Diluted (000)	73,092	72,656
Non-IFRS EPS (USD)	1.09	1.32

Consolidated statement of profit or loss (condensed)
For the six months ended 30 June
Unaudited

	2020 USD 000	2019 USD 000
Revenues		
Software licensing	91,645	155,776
SaaS & subscription	37,317	25,417
Total software licensing	128,962	181,193
Maintenance	189,249	171,596
Services	82,711	86,938
Total revenues	400,922	439,727
Operating expenses		
Cost of sales	(137,018)	(122,221)
Sales and marketing	(71,490)	(81,603)
General and administrative	(39,377)	(47,471)
Other operating expenses	(85,775)	(96,072)
Total operating expenses	(333,660)	(347,367)
Operating profit	67,262	92,360
Finance costs – net	(14,574)	(9,685)
Profit before taxation	52,688	82,675
Taxation	(6,711)	(13,093)
Profit for the period	45,977	69,582
Attributable to:		
Equity holders of the Company	45,977	69,582
Earnings per share (in USD): (note 11)		
basic	0.64	1.00
diluted	0.63	0.96

Notes on pages 12 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of comprehensive income (condensed)
For the six months ended 30 June
Unaudited

	2020 USD 000	2019 USD 000
Profit for the period	45,977	69,582
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	(564)	–
	(564)	–
Items that may be subsequently reclassified to profit or loss		
Cash flow hedge reserve	(440)	2,121
Cost of hedging reserve	10	–
Currency translation differences	(25,454)	(8,520)
	(25,884)	(6,399)
Other comprehensive income for the period	(26,448)	(6,399)
Total comprehensive income for the period	19,529	63,183
Attributable to:		
Equity holders of the Company	19,529	63,183

Notes on pages 12 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of financial position (condensed)
Unaudited

	30 June 2020 USD 000	Re-presented 31 December 2019 USD 000
Assets		
Current assets		
Cash and cash equivalents	**121,244**	152,785
Trade and other receivables	**316,364**	392,899
Other financial assets	**3,026**	4,431
Total current assets	**440,634**	550,115
Non-current assets		
Property, plant and equipment (note 12)	**69,044**	67,283
Intangible assets (note 12)	**1,620,954**	1,654,421
Trade and other receivables	**11,618**	12,338
Other financial assets	**21,755**	22,361
Deferred tax asset	**22,438**	19,155
Total non-current assets	**1,745,809**	1,777,558
Total assets	**2,186,443**	2,325,673
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	**171,492**	223,219
Other financial liabilities	**4,940**	2,518
Deferred revenue	**295,061**	287,325
Income taxes payable	**68,002**	62,925
Borrowings (note 13)	**21,110**	100,595
Provisions for other liabilities and charges	**4,275**	891
Total current liabilities	**564,880**	677,473
Non-current liabilities		
Trade and other payables	**689**	2,272
Other financial liabilities	**8,684**	11,976
Borrowings (note 13)	**1,097,267**	1,073,972
Provisions for other liabilities and charges	**679**	699
Deferred tax liabilities	**94,224**	103,665
Retirement benefit obligations	**11,456**	10,536
Total non-current liabilities	**1,212,999**	1,203,120
Total liabilities	**1,777,879**	1,880,593
Shareholders' equity		
Share capital	**247,316**	241,858
Treasury shares	**(264,608)**	(264,608)
Share premium and other reserves	**(255,983)**	(258,384)
Other equity	**(170,175)**	(143,742)
Retained earnings	**852,014**	869,956
Total equity	**408,564**	445,080
Total liabilities and equity	**2,186,443**	2,325,673

Notes on pages 12 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of cash flows (condensed)
for the six months ended 30 June
Unaudited

	2020 USD 000	2019 USD 000
Cash flows from operating activities		
Profit before taxation	52,688	82,675
Adjustments:		
Depreciation, amortisation and impairment of financial assets	75,746	61,012
Loss on disposal of property, plant and equipment	–	116
Cost of share options	7,915	8,900
Foreign exchange gain on non-operating activities	(5,741)	(5,452)
Interest expenses, net	13,301	7,271
Net loss from financial instruments	5,539	5,818
Other finance costs	1,926	1,984
Other non-cash item (note 7)	(20,241)	157
Changes in:		
Trade and other receivables	38,257	(18,114)
Trade and other payables, provisions and retirement benefit obligations	(27,619)	10,992
Deferred revenues	11,568	(22,948)
Cash generated from operations	153,339	132,411
Income taxes paid	(7,930)	(12,908)
Net cash generated from operating activities	145,409	119,503
Cash flows from investing activities		
Purchase of property, plant and equipment, net of disposals	(2,978)	(2,740)
Purchase of intangible assets, net of disposals	(1,332)	(2,457)
Capitalized development costs (note 12)	(35,673)	(28,445)
Acquisitions of subsidiaries, net of cash acquired (note 7)	6,160	(2,060)
Escrow deposit for contingent consideration on acquisition (note 7)	21,000	–
Settlement of financial instruments	(1,871)	(2,730)
Interest received	399	778
Net cash used in investing activities	(14,295)	(37,654)
Cash flows from financing activities		
Dividend paid (note 15)	(63,355)	(52,361)
Proceeds from borrowings (note 13)	128,367	2,685
Repayments of borrowings (note 13)	(201,983)	(110,000)
Repayment of bond	–	(100,652)
Payment of lease liabilities	(9,973)	(7,296)
Interest payments	(12,890)	(12,699)
Payment of other financing costs	(2,163)	(1,183)
Net cash used in financing activities	(161,997)	(281,506)
Effect of exchange rate changes	(658)	(501)
Net decrease in cash and cash equivalents in the period	(31,541)	(200,158)
Cash and cash equivalents at the beginning of the period	152,785	287,439
Cash and cash equivalents at the end of the period	121,244	87,281

Notes on pages 12 to 19 are an integral part of these interim consolidated financial statements.

Consolidated statement of changes in equity (condensed)
Unaudited

	Share capital USD 000	Treasury shares USD 000	Share premium and other reserves USD 000	Other equity USD 000	Retained earnings USD 000	Total USD 000
Balance at 1 January 2019	**233,217**	**(264,608)**	**(289,095)**	**(121,491)**	**740,748**	**298,771**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	(1,826)	(1,826)
Adjusted balance at 1 January 2019	**233,217**	**(264,608)**	**(289,095)**	**(121,491)**	**738,922**	**296,945**
Profit for the period	–	–	–	–	69,582	69,582
Other comprehensive income for the period, net of tax	–	–	–	(6,399)	–	(6,399)
Total comprehensive income for the period	–	–	–	(6,399)	69,582	63,183
Dividend paid	–	–	–	–	(52,361)	(52,361)
Hedging gains transferred to deferred revenues	–	–	–	(1,229)	–	(1,229)
Cost of share options	–	–	8,900	–	–	8,900
Exercise of share options	7,726	–	(7,726)	–	–	–
Costs associated with equity transactions	–	–	(35)	–	–	(35)
Acquisition of treasury shares	–	–	–	–	–	–
	7,726	–	1,139	(7,628)	17,221	18,458
Balance at 30 June 2019	**240,943**	**(264,608)**	**(287,956)**	**(129,119)**	**756,143**	**315,403**
Balance at 1 January 2020	**241,858**	**(264,608)**	**(258,384)**	**(143,742)**	**869,956**	**445,080**
Profit for the period	–	–	–	–	45,977	45,977
Other comprehensive income for the period, net of tax	–	–	–	(25,884)	(564)	(26,448)
Total comprehensive income for the period	–	–	–	(25,884)	45,413	19,529
Dividend paid (note 15)	–	–	–	–	(63,355)	(63,355)
Hedging gains transferred to deferred revenues	–	–	–	(549)	–	(549)
Cost of share options	–	–	7,915	–	–	7,915
Exercise of share options	5,458	–	(5,458)	–	–	–
Costs associated with equity transactions	–	–	(56)	–	–	(56)
Acquisition of treasury shares	–	–	–	–	–	–
	5,458	–	2,401	(26,433)	(17,942)	(36,516)
Balance at 30 June 2020	**247,316**	**(264,608)**	**(255,983)**	**(170,175)**	**852,014**	**408,564**

Notes on pages 12 to 19 are an integral part of these interim consolidated financial statements.

Notes to the consolidated interim financial statements
for the period ended 30 June 2020
Unaudited

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

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

2. Basis of preparation
This condensed interim financial information for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 'Interim financial reporting' and is unaudited. The consolidated interim financial report should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019 which have been prepared in accordance with the International Financial Reporting Standards ('IFRS').

Comparative information has been re-presented to reflect the adjustments to the initial accounting for the acquisition of Kony Inc, and the effect is not material.

3. Accounting policies
The accounting policies are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019, except as described below:

Taxation
Income tax is recognised based on the best estimate of the Group annual income tax rate for the full financial year, as applied to specific period profits and adjusted for specific period items as required to be consistent with IAS34.

The tax charge for the period ended 30 June 2020 consisted of tax on profits, withholding tax and deferred tax movements.

New amendments relevant to the Group's operation effective and adopted by the Group on or after 1 January 2020
- IFRS 3 'Business combination' (amendment) – Definition of a business
- IAS 1 'Presentation of financial statement' and IAS 8 'Accounting policies, changes in accounting estimates and errors' (amendment) – Definition of material
- IFRS 9 'Financial instruments', IAS 39 'Financial instruments recognition and measurement' and IFRS 7 'Financial instrument: Disclosures' (amendment) – Interest rate benchmark reform impact
- IFRS 16 'Leases' (amendment) – COVID-19 related rent concessions

The adoption of these amendments that became applicable for the financial reporting period commencing on 1 January 2020 had no significant effect on the Group's consolidated financial statements or on the Group's accounting policies.

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

5. Significant events and transactions during the period
On 28 January 2020, the group increased the value of its existing multicurrency revolving facility by USD 160 million. The total commitment is now USD 660 million. All other terms remain unchanged.

In July 2020, the Group extended the maturity of its revolving facility by one extra year, to be read now on 5 July 2025.

The Group's principal contingent liabilities arise from property rental guarantees, performance guarantees and bid bonds issued in the normal course of business. It excludes contingent consideration on acquisition. The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. There were no material changes in respect of the Group's contingent liabilities, including litigation settlements, since the last annual reporting date.

The movement on provisions since last annual reporting date relates mainly to termination benefit provision for a limited number of redundancies, which are part of a cost saving program in light of COVID-19.

There have been no substantive changes in the Group's exposure to financial risks and the Group has not suffered from significant adverse effect. The Group's policies and objectives reported in the consolidated financial statements at 31 December 2019 remain the same.

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

In preparing the Group's consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies have taken into consideration the uncertainties raised by the COVID-19 situation. Any forward looking assumptions required to assess recoverability of financial instruments includes the impact of COVID-19 where applicable, and no write down was identified. As the pandemic continues to evolve, it is difficult to predict the magnitude of its impact on assets, liabilities, and business operations. The Group is closely monitoring the COVID-19 situation and assumes there will be gradual improvement in its end market during the second half of 2020.

7. Business combination

Prior year acquisition

Kony Inc

The following tables summarize the financial effect of the adjustments to the initial accounting as at 30 June 2020.

Fair value of the consideration transferred at acquisition date:

	2019 Initial accounting USD 000	Accounting adjustment USD 000	Total USD 000
Cash consideration	512,491	(3,600)	508,891
Contingent consideration	20,241	–	20,241
Total	532,732	(3,600)	529,132

As required by IFRS 3: 'Business combinations', comparative information has been re-presented to reflect the changes to the provisional values.

Subsequent adjustment by category to be re-presented

	2019 Initial accounting USD 000	Accounting adjustment USD 000	Total USD 000
Cash and cash equivalents	5,774	–	5,774
Trade and other receivables	24,639	5,073	29,712
Property, plant and equipment	4,841	–	4,841
Intangible assets	241,125	100	241,225
Deferred tax assets	40	–	40
Trade and other payables	(20,854)	(3,272)	(24,126)
Borrowings (including lease liabilities)	(55,413)	–	(55,413)
Income tax liabilities	(15,743)	–	(15,743)
Deferred revenues	(18,003)	–	(18,003)
Deferred tax liabilities	(64,500)	–	(64,500)
Retirement benefit obligations	(2,504)	–	(2,504)
Total	99,401	1,901	101,302
Goodwill	433,331	(5,501)	427,830
Net consideration paid in cash	512,491	(3,600)	508,891
Debt repayment on acquisition date*	51,602	–	51,602
Cash and cash equivalents acquired	(5,774)	–	(5,774)
Cash outflow on acquisition	558,319	(3,600)	554,719

* Kony Inc outstanding term loan repaid on acquisition was triggered by a change of control.

The contingent consideration arrangement required the Group to pay in cash an earn out contribution based on the achievement of annual contract value targets over the fiscal year 2020 (ended March 2020) of the acquiree. These targets were not met and the contingent consideration has been released to the profit or loss (USD 20.2 million) as a post acquisition event and the related deposit of USD 21 million in the escrow account has been repaid back to the Group.

The Group has also adjusted opening balance sheet to book USD 5.1 million of indemnification asset which was erroneously not recorded during initial purchase price allocation process. The Group is still assessing fair value of the net assets as additional information being received post acquisition, although the group does not expect any significant change to fair value of acquired intangible assets.

Included in USD 6.2 million of cash-inflow from acquisition are USD 6.7 million inflow as a result of finalization of net working capital acquired (USD 3.6 million) and reimbursement for tax claim (USD 3.1 million) in respect of the acquisition of Kony Inc and outflow of USD 0.5 million for deferred consideration in respect of the acquisition of Htrunk Software Solutions Private Ltd.

The finalization of the initial accounting for prior year acquisition 'Htrunk Software Solutions Private Limited' and 'Logical Glue Limited' has resulted in no subsequent adjustment to the initial assets acquired and liabilities assumed.

8. Segment information

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

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

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

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

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

	Product		Services		Total	
	Half-year 2020 USD 000	Half-year 2019 USD 000	**Half-year 2020 USD 000**	Half-year 2019 USD 000	**Half-year 2020 USD 000**	Half-year 2019 USD 000
External revenues	**326,662**	354,989	**82,710**	86,938	**409,372**	441,927
Operating contribution	**139,251**	175,501	**16,430**	15,923	**155,681**	191,424

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

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

There has been no material change in the assets reported to the CODM from the amount disclosed in the consolidated financial statements for the year ended 31 December 2019.

Reconciliation to the Group's consolidated interim financial statements

	Half-year 2020 USD 000	Half-year 2019 USD 000
Total operating profit for the reportable segments	**155,681**	191,424
Fair value adjustment on acquired deferred income liability	**(8,450)**	(2,200)
Depreciation and amortisation	**(74,872)**	(60,551)
Unallocated operating expenses	**(5,097)**	(36,313)
Finance costs – net	**(14,574)**	(9,685)
Profit before taxation	**52,688**	82,675

Geographical information

Revenues from external customers by regions	**Half-year 2020 USD 000**	Half-year 2019 USD 000
Regions		
Europe	**134,383**	188,050
America	**115,798**	100,491
Middle East and Africa	**75,226**	67,174
APAC	**75,515**	84,012
Total revenues	**400,922**	439,727

9. Fair value measurement

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

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

Balance at 30 June 2020	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	2,037	–	2,037
Convertible notes	–	–	6,127	6,127
Derivatives used for hedging				
Foreign currency forwards	–	999	–	999
Foreign currency options	–	103	–	103
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity securities	–	–	15,515	15,515
Total	–	3,139	21,642	24,781

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	3,974	–	3,974
Foreign currency options	–	48	–	48
Contingent consideration	–	–	689	689
Derivatives used for hedging				
Foreign currency forwards	–	1,056	–	1,056
Cross currency swap	–	8,546	–	8,546
Total	–	13,624	689	14,313

Balance at 31 December 2019	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	2,184	–	2,184
Foreign currency options	–	147	–	147
Convertible notes	–	–	6,000	6,000
Derivatives used for hedging				
Foreign currency forwards	–	2,314	–	2,314
Foreign currency options	–	68	–	68
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity securities	–	–	16,079	16,079
Total	–	4,713	22,079	26,792

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at fair value through profit or loss (FVTPL)				
Foreign currency forwards	–	1,868	–	1,868
Contingent consideration	–	–	20,930	20,930
Derivatives used for hedging				
Foreign currency forwards	–	670	–	670
Cross currency swap	–	11,957	–	11,957
Total	–	14,495	20,930	35,425

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

Notes to the consolidated interim financial statements
for the period ended 30 June 2020
Unaudited (continued)

9. Fair value measurement (continued)
Assets and liabilities in level 2

Foreign currency forwards

Discounted cash flow method: The fair value represents the future cash flows that are discounted using a risk-free yield curve adjusted for credit risk. The future cash flows are determined using forward exchange rates at the balance sheet date.

Foreign currency options

Black-Scholes model.

Cross currency swaps:

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

Assets and liabilities in level 3

Equity investments:

Discounted cash flow model: The fair value represents the financial projection provided by the company discounted at a risk adjusted rate which represents an estimated weighted average cost of capital of the underlying company.

Reasonable change in the parameters and assumptions used in the financial projection would not significantly change the fair value of the investment.

Convertible notes

The fair value represents the future cash flows (principal + interests) discounted using the incremental interest rate of the notes. A shift by 1% in the incremental interest rate would not materially change the reported fair value.

Contingent consideration

The Group reversed the portion of contingent consideration related to the acquisition of Kony Inc. Earn out was based on meeting the annual contract value targets over the fiscal year 2020 of the acquiree (ending March 2020) and the targets were not met.

Remaining contingent consideration relates to 'Htrunk Software Solutions Private Limited' and reasonable change in forecasted revenue and the discount rate will not materially affect the fair value at reporting date.

Reconciliation from the opening balances to the closing balances:

	Equity securities USD 000	Convertible note USD 000	Contingent consideration USD 000
At 1 January 2020	16,079	6,000	20,930
Amount reversed within 'Cost of sales'	–	–	(20,515)
Fair value change through OCI	(564)	–	–
Interest	–	127	–
Unwinding of discount to 'Finance costs'	–	–	274
At 30 June 2020	**15,515**	**6,127**	**689**

10. Financial instruments measured at amortized cost
The following table provides the fair value and the carrying amount of the Group's financial instruments measured at amortized cost; excluding cash and cash equivalents, current trade and other receivables, current trade and other payables as their carrying amounts represent a reasonable approximation of their fair values and lease liabilities as exempted in IFRS 7 'Financial instruments: Disclosure'.

	30 June 2020		31 December 2019	
	Carrying amount USD 000	**Fair value USD 000**	Carrying amount USD 000	Fair value USD 000
Financial assets				
Non-current trade and other receivables	**11,618**	**11,261**	12,338	12,206
Total	**11,618**	**11,261**	12,338	12,206
Borrowings				
Other loans	**149**	**127**	189	164
Bank borrowings	**304,484**	**306,635**	377,094	376,832
Unsecured bonds	**760,504**	**755,841**	745,966	764,029
Total	**1,065,137**	**1,062,603**	1,123,249	1,141,025

11. Earnings per share

Basic

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

	Half-year 2020	Half-year 2019
Profit attributable to equity holders of the Company (USD 000)	**45,977**	69,582
Weighted average of ordinary shares outstanding during the period (in thousands)	**71,628**	69,915
Basic earnings per share (USD per share)	**0.64**	1.00

Diluted

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

For the period ended 30 June 2020 and 30 June 2019, this category was fully dilutive.

	Half-year 2020	Half-year 2019
Profit used to determine diluted earnings per share (USD 000)	**45,977**	69,582
Weighted average of ordinary shares outstanding during the period (in thousands)	**71,628**	69,915
Adjustments for:		
– Share options (in thousands)	**1,464**	2,741
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**73,092**	72,656
Diluted earnings per share (USD per share)	**0.63**	0.96

12. Property, plant and equipment and intangible assets

Six months ended 30 June 2020	Property, plant and equipment USD 000	Intangible assets Re-presented USD 000
Opening balance as at 1 January 2020 (USD 000)	**67,283**	**1,654,421**
Additions	17,289	1,629
Disposals	(1,262)	–
Capitalized development costs	–	35,673
Charge for the period	(12,378)	(62,494)
Foreign currency exchange differences	(1,888)	(8,275)
Closing net book amount as at 30 June 2020 (USD 000)	**69,044**	**1,620,954**

Impairment test for intangibles

In the context of COVID-19 and its impact on the economic environment, the Group analyzed if possible indications of impairment on the intangible assets and property, plant and equipment allocated to cash-generating units ("CGU") existed as at 30 June 2020.

The Group carried out impairment tests of recoverable amount of the cash-generating unit (CGU) which is determined based on value-in-use calculations. These calculations use pre-tax cash flow based on an updated financial forecast which includes the impact of the COVID-19 crisis. COVID-19 impacted license sales with signings being delayed but importantly not cancelled, whereas recurring revenue has performed strongly. Management believes that any reasonable change to any of the key assumptions on which the recoverable amount is based would not cause the reported carrying amount to exceed the recoverable amount of the cash-generating unit.

Based on this test, the Group concluded the recoverable amount of the cash-generating units exceeded the reported carrying value, and that no impairment of intangible assets including goodwill and property, plant and equipment as well was required in the first half of 2020.

13. Borrowings

	30 June 2020 USD 000	31 December 2019 USD 000
Current		
Lease liabilities	16,188	15,962
Other loans	46	59
Bank borrowings	–	80,000
Unsecured bonds	4,876	4,574
Total current	21,110	100,595
Non-current		
Lease liabilities	37,052	35,356
Other loans	103	130
Bank borrowings	304,484	297,094
Unsecured bonds	755,628	741,392
Total non-current	1,097,267	1,073,972
Total borrowings	1,118,377	1,174,567

Movements in borrowings is analyzed as follows:

	Six months ended 30 June 2020 USD 000
Opening balance as at 1 January 2020 (USD 000)	1,174,567
Proceeds from bank borrowings	128,367
Repayments of borrowings	(201,983)
Unsecured bond-coupon payments	(6,402)
Interest expense	7,725
Payments of lease liabilities	(9,973)
New leases	12,389
Foreign currency exchange differences	13,687
Closing net book amount as at 30 June 2020 (USD 000)	1,118,377

Bank facilities

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

- Total commitment of USD 660 million.
- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants.
- The facility is repayable on 5 July 2025 (note 16).
- Commitment fees are due on the undrawn portion.

This agreement is subject to financial covenants, which have been adhered to during the reporting periods, with no concerns linked to COVID-19.

As at 30 June 2020, a total of USD 304.5 million (31 December 2019: USD 297.1 million) was drawn under this agreement.

14. Share capital
As at 30 June 2020, the issued shares of Temenos AG comprised 73,801,817 ordinary shares of a nominal value of CHF 5 each. All issued shares are fully paid.

The changes in the number of issued and outstanding shares for the period ended 30 June 2020 are summarized below:

	Number
Total number of shares issued, as at 1 January 2020	72,757,466
Treasury shares	(1,804,267)
Total number of shares outstanding, as at 1 January 2020	70,953,199
Creation of new ordinary shares out of conditional capital for share-based payment transactions	1,044,351
Disposal of treasury shares for share-based payment transactions	–
Acquisition of treasury shares (share buyback)	–
Total number of shares outstanding, as at 30 June 2020	**71,997,550**

As at 30 June 2020 the number of treasury shares held by the Group amounted to 1,804,267 (31 December 2019: 1,804,267).

Temenos AG also has conditional and authorized capital, comprising:

	Number
Authorized shares available until 15 May 2021	7,100,000
Conditional shares that may be issued on the exercise of share-based payment transactions	5,092,458
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

15. Dividend payment
A dividend of CHF 61.1 million (CHF 0.85 per share) in respect of the financial year ended 31 December 2019 was paid during the period.

16. Events occurring after the reporting period
On 6 July 2020, the Group extended the maturity of its revolving facility by one extra year, to be on 5 July 2025.

Sources

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7. Private Banking & Wealth Management Awards 2019, December 2019.

8. Aite Group, Aite Matrix Evaluation: Investment and Fund Accounting Systems, April 2020.

9. ACV: Annual value of incremental business taken in-year (Bookings). Includes New Customers, up-sell/cross-sell. Only includes the recurring element of the contract and exclude variable elements.

Design and Production
www.carrkamasa.co.uk

ckd

Temenos Headquarters SA

Rue de L'Ecole-de-Chimie 2
CH-1205 Geneva
Switzerland
Tel: +41 22 708 1150
Fax: +41 22 708 1160
www.temenos.com