



TEMENOS
the banking software company

DIGITAL TO THE CORE

o Temenos Group AG
Annual Report and Accounts 2017

WELCOME TO TEMENOS

WHAT WE BELIEVE IN

OUR VISION

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

HOW WE ACHIEVE IT

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

TEMENOS IS **THE** BANKING SOFTWARE COMPANY

41

of the top 50
banks in the world
run Temenos

Learn more about how Temenos
drives innovation on page 22.

500m

end customers
rely on Temenos
software

150⁺

countries with
Temenos clients

3,000⁺

financial
institutions use
Temenos software

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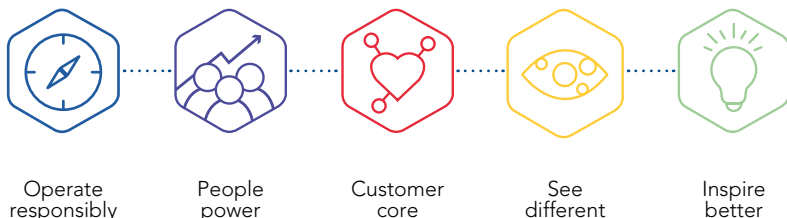
25 YEARS OF INNOVATION IN TECHNOLOGY

CHAIRMAN'S STATEMENT



Andreas Andreades
Executive Chairman

OUR VALUES



It is with great pleasure that we present our annual report for 2017 to our shareholders.

Banking represents the single largest untapped vertical market, that is only gradually converting to packaged software. The market opportunity that we address with our software is estimated to be USD 48 billion. Given this opportunity, the Temenos business model was always about growth. Growth in revenues, growth in client numbers, growth in employees, growth in profits. Building more software, selling more software and implementing more software. And in 2017 we did just that, with our growth accelerating during the last quarters of the year. Our profits and cash flows were clearly at record levels and this also resulted in a record stock price.

The customers of banks increasingly demand a full digital experience, innovative services with instant gratification and a user experience equal to the standards already set by the global technology companies. Open banking initiatives, starting in Europe, are already resulting in a far more competitive market place for banking services. Fintech companies, banks and technology players are now able to take advantage of open banking initiatives to deliver real time, personalized services to their customers that are relevant and contextual.

With industry drivers stronger than ever, we see sustained demand for our products from banks around the world. Being truly digital is now better understood; it encompasses both front office and back office systems that are capable of running on cloud, massively scalable to take into account ever increasing volume of transactions, whilst exposing services through a library of APIs that allow banks to become platform companies and create network effects.

As has been the case in other industry verticals that have switched to packaged software before banks, a very small number of software vendors manage to successfully invest enough to capture the opportunity. Usually the winner in the market takes most of the market as better product, more client successes, and a stronger ecosystem of Partners makes its value proposition far superior to what competitors can offer. In 2017, Temenos continued to build very solid foundations to ensure that it is the Company that will remain the key software provider to the banking industry and over a period of time capture most of the opportunity. We won most, if not all strategic deals in the market and continued to demonstrate unparalleled progress and success with our implementations. Our superior growth, as well as the scale of our business, allows us to invest more aggressively than our competitors, providing our clients with a superior platform and a partnership model that has stood the test of time based on upgradeable packaged software.

During 2017, we acquired Rubik, a software as a service vendor to Australian banks and financial institutions that has been a Temenos Partner since 2008. With the help of Rubik, we now have the necessary infrastructure in Australia, one of the largest software markets in the world, that will allow us to expand our presence in that market.

David is reporting extensively on our commitment to corporate social responsibility and the progress we made during 2017. I would like to highlight one issue which is particularly close to our hearts – about 2 billion of the world's population is still unbanked. With every new software sale we make in emerging markets, we help reduce this number and through this contribute towards giving people an opportunity to combat poverty. And we will continue to do so.

In 2018, we will celebrate 25 years of Temenos. We remain as excited by what we do as we were 25 years ago and this guides our everyday actions and decisions. From the very beginning, we believed in our people and the uniqueness of our products. Everywhere we conducted business we turned our client advocates into successful global banks and we continue to do so today. It is the same belief that pushed us to relentlessly invest all these years, to operate with a long term strategic mind set, whilst creating a sense of urgency that every moment counts, every deal counts, every implementation is important and every client is important whatever its size. We were always hands on, we were close to the issues, close to our clients and product and we will continue to be so. We were sharply focused on our market and the direction it was taking and throughout remained humble with our success and we will continue to do so. We operate at a much larger size today but still with the energy and enthusiasm of a start up, as if it is the first day in Temenos for each one of us.

I will repeat what I said last year; that influencing the way banking is carried out for the 21st century continues to be our end goal, one that guides our daily endeavors. With more than 3,000 banking clients in 150+ countries worldwide, we are well on our way to doing so. With a local investment mind-set, we hope we also successfully contribute to the economies of the world where our clients do business. The success of all who are involved with Temenos, be it clients, shareholders, Partners or employees, will always underpin the positive development of our business.



Andreas Andreades
Executive Chairman

OUR VALUES IN DEPTH



WE OPERATE RESPONSIBLY TO BUILD A SUSTAINABLE BUSINESS

We walk the extra mile to build strong and lasting relationships with our stakeholders and create sustainable value for them.



WE BELIEVE IN THE POWER OF PEOPLE

People make things happen. People define our destiny.



WE PLACE CLIENTS AT THE CORE OF WHAT WE DO

Everything starts and ends with our clients' goals.



WE SEE THINGS DIFFERENTLY FROM EVERYONE ELSE

Average people see difficulties, exceptional people see opportunities.

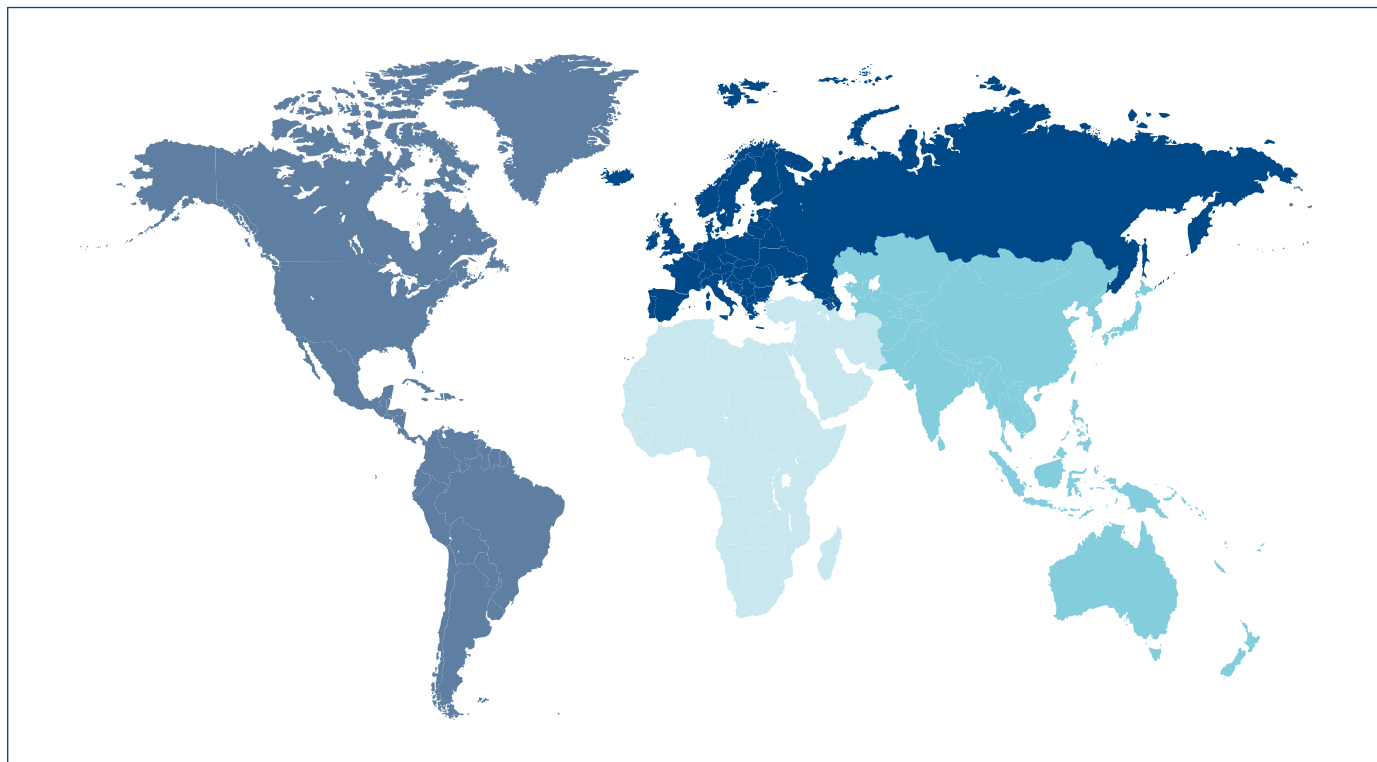


WE INSPIRE, THROUGH LIVING UP TO OUR FULL POTENTIAL

We dream big and pursue our goals fearlessly.

TECHNOLOGY DRIVING INNOVATION

OUR MARKET OPPORTUNITY



TOTAL REVENUE



Europe	48%
Asia Pacific	19%
Americas	18%
Middle East and Africa	15%

TOTAL SOFTWARE LICENSING REVENUE



Europe	50%
Asia Pacific	19%
Americas	22%
Middle East and Africa	9%

GLOBAL REACH



Europe

23

offices in the region



Asia Pacific

18

offices in the region



Americas

15

offices in the region



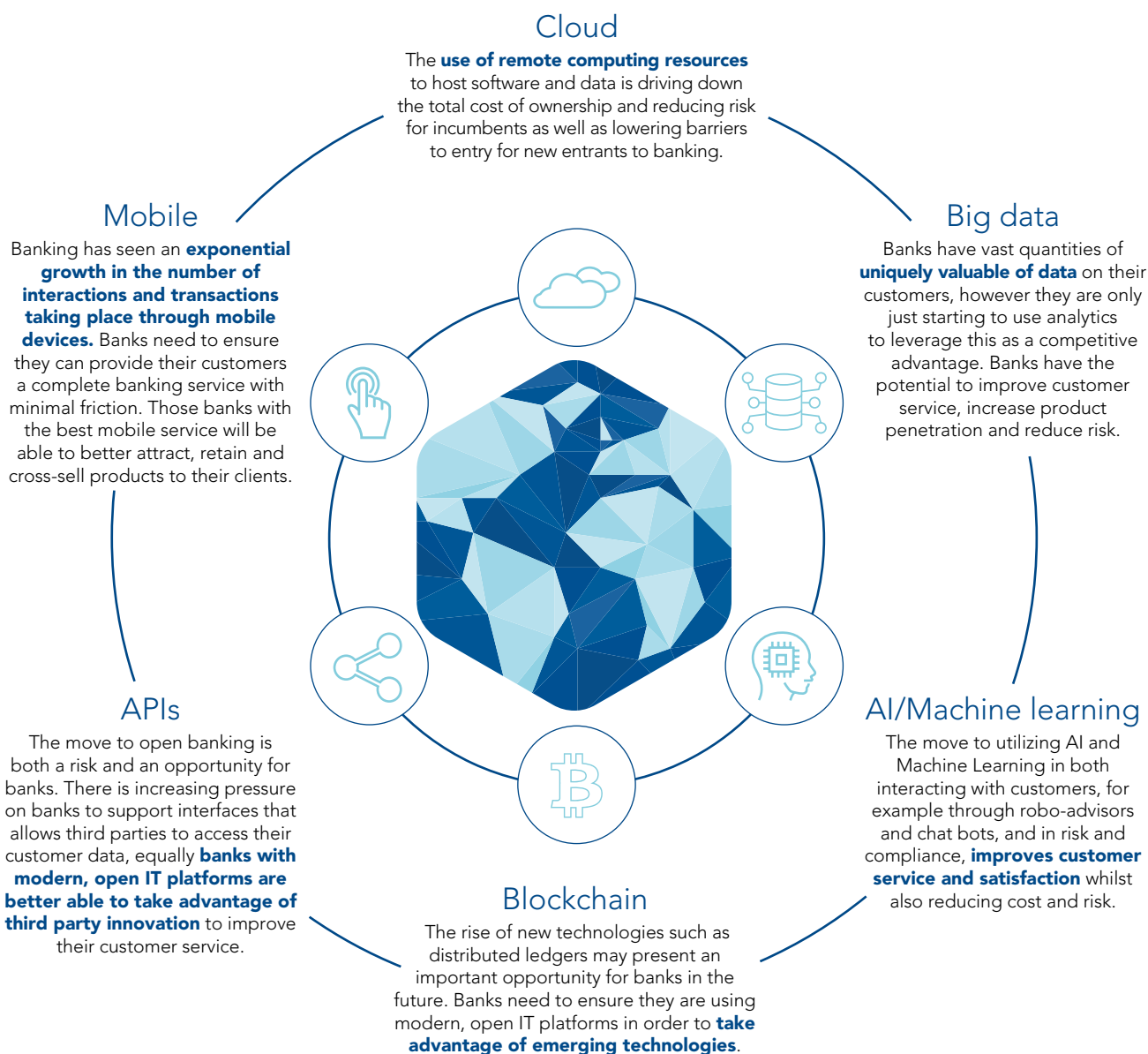
Middle East and Africa

8

offices in the region

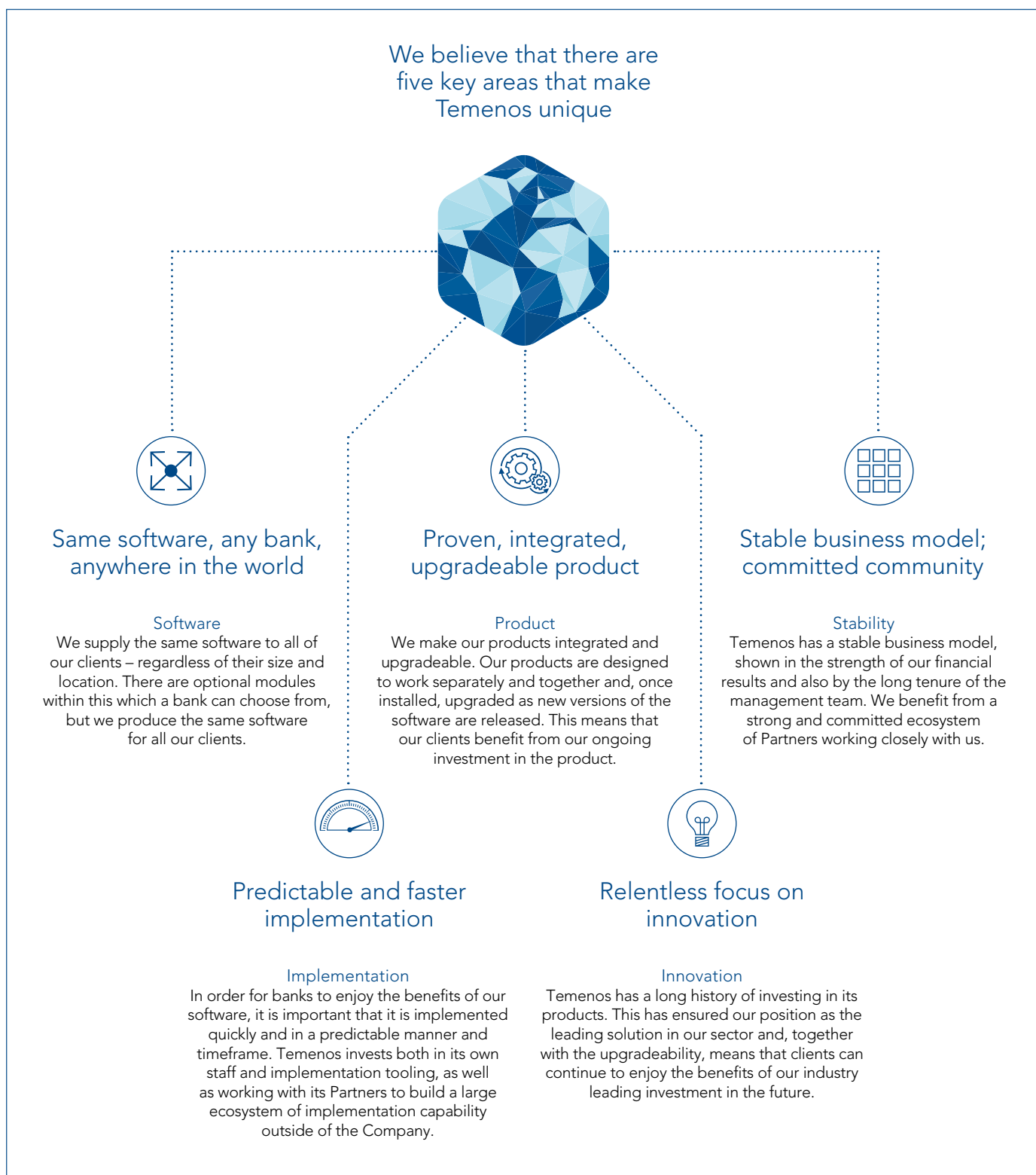
KEY TECHNOLOGY TRENDS

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



WHAT MAKES TEMENOS UNIQUE

OUR INVESTMENT CASE



A YEAR OF SUCCESS

HIGHLIGHTS OF THE YEAR

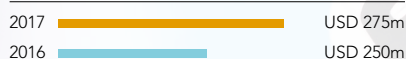
TOTAL SOFTWARE LICENSING

+23%



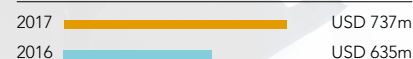
MAINTENANCE

+10%



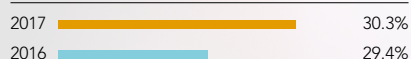
TOTAL REVENUE

+16%



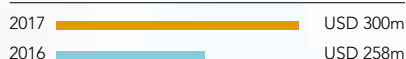
EBIT MARGIN

30.3%



OPERATING CASH FLOW CONVERSION

114%



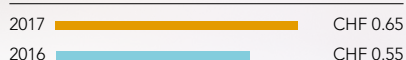
EARNINGS PER SHARE

+18%



DIVIDEND PER SHARE

+18%



2017 non-IFRS financial highlights

- > Total software licensing revenue growth of 23%.
- > Maintenance growth of 10%.
- > Total revenue growth of 16%.
- > Services margin of 9.7%, improvement of 0.6 percentage points.
- > EBIT margin of 30.3%, up 98 bps.
- > Operating cash flows of USD 300 million, up 16%.
- > Operating cash conversion of 114% with DSOs down eight days in the year.
- > Strength of cash flows and growth in profit support 2017 dividend of CHF 0.65 per share, an increase of 18% (2016: CHF 0.55 per share).

2017 operational highlights

- > Outstanding performance in 2017 driven by strong execution across the business in a growing market.
- > Digital and regulatory pressure, as well as the move to open banking, are driving banks to accelerate their IT investment strategies.
- > Temenos had strong double-digit growth across all geographies in the year with high volumes of deals across client segments.
- > In particular, there was significant activity with tier 1 and 2 clients, which constituted 59% of total software licensing revenue in the year. Notable deals included Openbank, Santander's digital bank, and Itaú, the largest bank in Latin America.
- > We won 65 new clients, and new and competitive deals contributed 41% of software licensing in the year.

- > Temenos continues to be a market leader, pulling ahead of the competition and raising barriers to entry through the strength of our reference client base.
- > Temenos has significant revenue visibility going into 2018 driven by committed spend and the strength and quality of the pipeline.
- > We continue to work very closely with our Partners across technology and implementation, with Partners involved in the majority of our implementations. The launch of the Temenos Learning Community will be a key driver of Partner engagement in the future.

MARKET LEADER

INDUSTRY RECOGNITION

Gartner¹

- > Recognized as a Leader for 8th consecutive time in 'Magic Quadrant for Global Retail Core Banking.'

Banking Technology Awards⁷

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

5yrs

Ranked best selling core banking system⁴

Forrester²

- > Leader in Forrester Wave for digital banking engagement platforms and global banking platforms.
- > Classed "Global Power Seller" for new business for 11th consecutive year and "Top Global Player" for new and existing business deals for 5th consecutive year.

FS Tech Awards 2017⁸

- > "Technology Provider of the Year 2017."

8th

consecutive year

Recognized as a Leader eight consecutive times¹

Leader

Recognized as a Leader by the International Data Corporation⁶

Ovum³

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

IBS Intelligence⁴

- > Ranked best selling core banking system for the last 5 years and top two positions for the past 18 consecutive years.
- > Ranked best selling digital banking and channels system.

Celent⁵

- > Awarded '2016 XCelent Award' for advanced technology in digital channels and awarded '2017 XCelent Award' for breadth of functionality in wealth core banking.

11yrs

Classed "Global Power Seller" for new business²

International Data Corporation⁶

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

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

STRATEGIC FIT

ACQUISITIONS IN 2017

In May 2017, Temenos completed the acquisition of Rubik, a leading software provider to the financial services sector in Australia.

Founded in 2007, Rubik is a financial software company providing banking, wealth management and mortgage broking solutions, primarily in Australia, and also internationally across Asia and the Middle East. Rubik, which was listed on the Australian Securities Exchange (ASX) servicing 930 direct clients and 23,000 end-users in 12 countries.

Temenos has a longstanding partnership with Rubik which dates back nearly ten years. Rubik has successfully used Temenos solutions as the foundation for its Model Bank and digital front end platform.

The combination of Rubik and Temenos will create a market leader that will be able to capitalize on the growth opportunities in the Australian market. In particular, it enables Temenos to benefit from increased scale and to accelerate growth across its key target segments including wealth, core banking, and fund administration. The Australian market represents a significant opportunity for Temenos, with spending on banking software forecast to grow at an 8% CAGR in the medium term as well as having the 4th largest investment market globally driven by the superannuation scheme.

Through the acquisition, Temenos now has relationships with 41 of the world's top 50 banks, up from 38 prior to the acquisition, with the addition of Commonwealth Bank Group, National Australia Bank and Westpac Banking Corporation to the Temenos client base.

"We are delighted to announce the acquisition of Rubik, which will create a leader in the fast growing Australian financial software market by combining Rubik's local knowledge and product set with Temenos' global expertise and world class solutions. In particular, Rubik's expertise and offering in the wealth space are highly complementary to our existing products, and a key aspect of the acquisition for Temenos given the size of this opportunity in the domestic market.

We are increasingly seeing banks around the globe addressing the structural pressures they are facing through core renovation with digital at the heart of their strategy. By acquiring Rubik, we will be able to provide a complete vertically integrated solution for the Australian banking market, enabling our clients to realize their digital ambitions. The acquisition will bring us scale and allow us to accelerate our penetration and growth in the Australian market across wealth, core banking and fund administration."

David Arnott
CEO, Temenos



900+

clients brought in
by Rubik

SOLUTIONS FOR THE DIGITAL AGE

OUR SOLUTIONS

OUR SOLUTIONS

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

Suites

Read more on
> 11

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

RetailSuite
WealthSuite
CorporateSuite
IslamicSuite
InclusiveBankingSuite
FundSuite

Products

Read more on
> 14

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

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

Technology

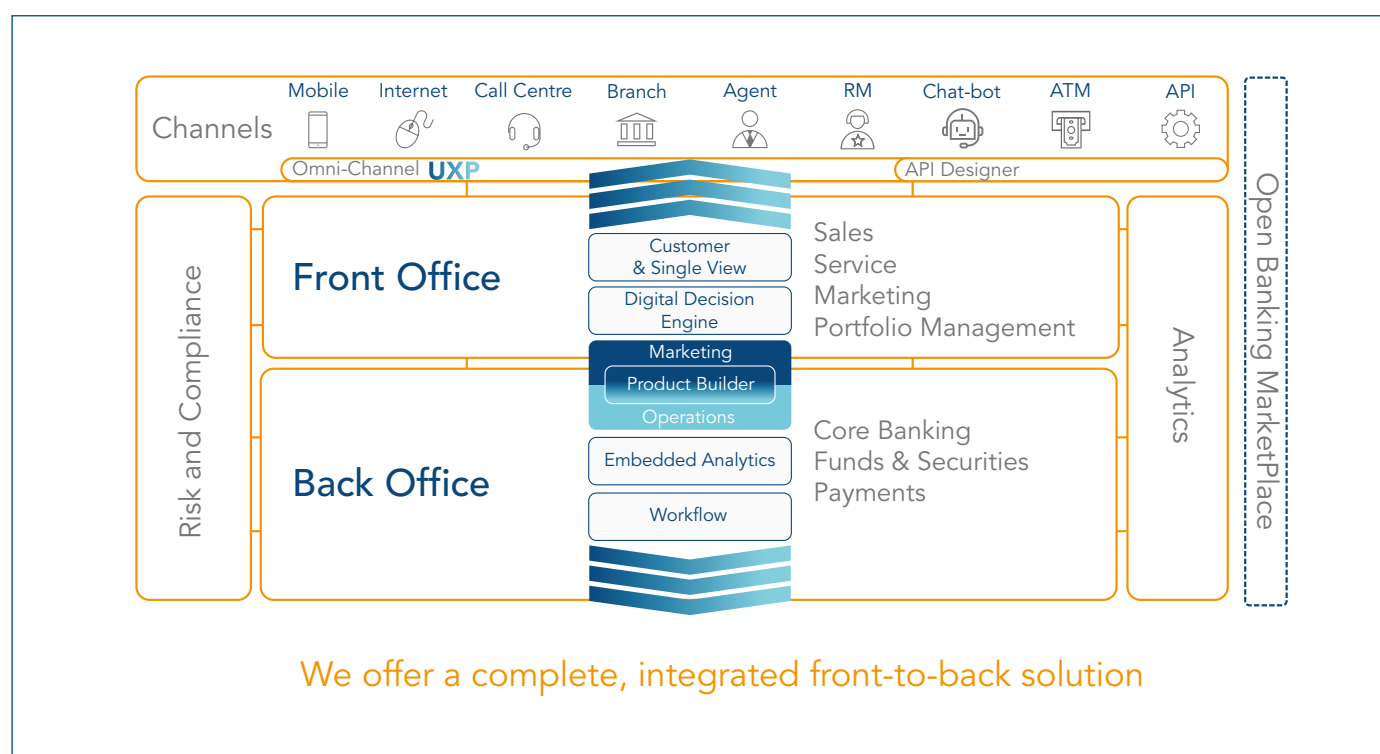
Read more on
> 18

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

Data
Design
Integration
Interaction
Platform

INNOVATIVE SOFTWARE

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



OUR SOFTWARE

A complete and integrated software platform for banks.

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

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

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

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

SUITES

We organize our products into open, integrated offerings for the different vertical markets we serve. Called Suites, each of these provide our clients with a real-time, end-to-end packaged platform.



RETAILSUITE

The world's leading retail banking solution designed for the new banking landscape.

RetailSuite is an integrated banking software solution for retail banks of all sizes across the globe.

- > Full front-to-back coverage;
- > Embedded analytics across all areas; and
- > Agile product engine.

RetailSuite is a solution platform which helps banks grow, whether they are established or new, and design and market innovative products which help attract new customers.

- > Allows banks to bring new products to market faster;
- > Unparalleled insight allows banks to make better decisions, faster; and
- > Integrated product engine and marketing and distribution channels enables banks to provide a cost-efficient personalized service to customers.

Whether a bank is a new start up looking for its first solution, or a large-scale multi-country enterprise, RetailSuite provides a solution which enables banks to scale, onboard customers, reduce attrition and deliver a market-leading service to their customers.



WEALTHSUITE

WealthSuite is an integrated software solution for wealth managers. Its highly scalable technology offers integrated, multi-channel, front-to-back office capabilities.

WealthSuite empowers our clients' business. The solution industrializes the investment process allowing banks to;

- > Efficiently manage investments for large numbers of complex portfolios;
- > Achieve maximum investment performance;
- > Address both HNW and mass affluent markets;
- > Offer full digital channel access to customers; and
- > Target customers with appropriate services and offers using the embedded CRM.

For banks looking for a single vendor solution, with the associated benefits of centralized support, WealthSuite transforms their business. WealthSuite enables banks and wealth managers to:

- > Increased performance and revenue growth;
- > Stronger customer loyalty;
- > Advanced digital capabilities; and
- > Cost and risk reduction.



CORPORATESUITE

CorporateSuite provides one system, one view for all corporate banking needs; today and tomorrow.

CorporateSuite, with its scalable, innovative technology, provides superior features for corporate banks, supporting profitability, customer acquisition and retention. Now bank customers can benefit from quality digital solutions to equal their retail experiences for all their business banking needs.

Our CorporateSuite clients continue to see the benefit of our advanced modules. Temenos' CorporateSuite clients benefit from increased efficiency and profitability through:

- > A complete, single solution;
- > Transparent, single view offering a 360° view of accounts;
- > Agile, parameter driven platform flexibility;
- > A product builder to quickly create segment customer level products; and
- > Insight into customer profitability, loyalty, attrition risk and number of products for targeting activity.

This enable banks to:

- > A massively scalable, straight through processing (STP) solution;
- > Comprehensive business functionality and a modern, advanced, secure, open, modular architecture;
- > An automated, electronic solution without the need for cumbersome paper based processes; and
- > Target individual corporations and SME segments with appropriate, timely and innovative arrangements and product offers.



ISLAMICSUITE

IslamicSuite, with its scalable innovative technology, provides superior features for Islamic banks to offer their customers Shari'ah compliant products and services that rival their Islamic or conventional counterparts.

IslamicSuite services the Islamic banking community with Shari'ah compliant, flexible solutions that are:

- > Specifically designed to support wealth, retail, corporate and treasury bank needs;
- > Highly scalable, established solution; and
- > Islamic institutions can now easily and efficiently create new Islamic banking products.

Temenos' IslamicSuite clients benefit from increased efficiency and profitability through:

- > Adopting a pre-configured solution based on Shari'ah industry standard;
- > Offering advanced Shari'ah wealth management services;
- > Full automation and increased straight through processing rates;
- > Reduced development time by 40%; and
- > Quality customer products and services available quickly and cost effectively.



INCLUSIVEBANKINGSUITE

InclusiveBankingSuite is an integrated banking software solution built upon 20 years experience serving retail community banking.

InclusiveBankingSuite is an integrated banking software solution for microfinance institutions (MFIs) and banks of all sizes active in both group and individual microfinance lending.

- > It provides MFIs with world class banking capabilities that usually are only accessible to larger commercial banks with significant IT budgets;
- > Deployable in the cloud on a SaaS basis;
- > Modern, agile and highly scalable core banking system, as well as a single platform for distribution across all digital and assisted channels; and
- > Powerful business analytics.

InclusiveBankingSuite enables MFIs to significantly reduce operating costs even when business is growing fast, and to pass on these efficiencies to their end customers in the spirit of financial inclusion. At the same time, it enables MFIs to clearly differentiate themselves with highly responsive service, tailored products and a truly customer-centric experience – giving every customer the same quality service anywhere regardless of their financial worth.

- > Cost-efficiency: Cloud deployment and SaaS model, high STP levels;
- > Scalability: Preserves transaction and query performance when growing fast;
- > Innovation: Easy product configuration and launch, powerful customer analytics; and
- > Operational resilience: Nonstop 24/7 business and scalable data centers.



FUNDSUITE

FundSuite is an award winning fund administration software solution which provides fund accounting, portfolio accounting and investor servicing and transfer agency on a single platform.

Clients using FundSuite are able to:

- > Manage all the asset classes and jurisdictions that they are involved with now or in the future from a single accounting and investor servicing platform;
- > Support alternatives flexibly on one platform to facilitate convergence between long-only and alternative funds;
- > Reduce the total cost of ownership by consolidating functions and systems on one platform across multiple geographies, asset classes, jurisdictions;
- > Exploit the sophisticated workflow and exception management;
- > Produce analysis and product development across clients so that development costs are shared and all clients benefit from changes made to one code base;
- > Use the solution in both middle office and back office to deliver the Investment Book Of Records (IBOR) and Accounting Book Of Records (ABOR) from one platform; and
- > Access the data which is stored on an open Oracle architecture.

PRODUCTS



CORE BANKING

The Temenos T24 Core Banking platform has been the best selling solution on the market for 15 years, used by over 700 financial institutions.

It combines rich functionality with cutting-edge technology in an easily upgradeable application. Clients benefit from real-time embedded analytics, a sophisticated product builder and technology that allows for easy integration and infinite scalability, in turn enabling them to significantly outperform their peers.

The Temenos Core Banking solution is an open, integrated and real-time platform providing:

- > Real-time, complete customer information – enabling financial institutions to offer their customers the right products at the right time;
- > Product builder – allows for extremely quick time to market for new products as well as the ability to personalize products and services to individual customers – a market of one;
- > Infinite scalability – the solution runs on any software stack and is engineered to be linearly scalable, allowing clients to generate significant economies of scale;
- > Extremely low Total Cost of Ownership (TCO) – against the industry average of 78.8% of IT budgets being spent on maintenance, Temenos clients spend 46.3%; and
- > Zero risk of obsolescence – Temenos spends c.20% of revenues annually on R&D, continually developing software based on customer requirements and innovation from our labs. We make this available to our clients through regular releases, ensuring that they never fall behind.



COUNTRY MODEL BANKS

With our extensive experience of client implementations we have packaged all country specific localizations, including compliance with regulations and local payments systems, into reusable country platforms, to provide our clients with software that fully supports local requirements.

We currently offer country model platforms for over 30 major countries.



FRONT OFFICE

Front Office is an integrated, role-specific, multi-channel solution, designed to support banks' daily interactions and long term relationships with their retail, corporate, mass affluent and HNW customers.

Front Office is a key enabler of digital engagement throughout the customer's life cycle with both staff and customers benefiting from the product's multi-channel capabilities. Through the system's powerful data analytics, financial institutions can gain valuable insights into customers' lifestyles and transactional behaviors enabling them to offer a personalized customer experience through timely and relevant advice, customized offers and rewards and relationship based pricing.

Temenos' Front Office clients benefit from increased productivity and efficiency through:

- > Industrialization of key on-boarding and revenue-generating processes;
- > High STP levels, enabling 'self-service' models via digital channels; and
- > A single integrated platform.

Front Office integrates seamlessly with both back office data and self-service channels to provide a consistent customer experience. It is completely compatible with the existing banking systems, enabling organizations to deploy and control a flexible range of multi-channel, next generation banking services for their customers – efficiently, securely, cost effectively and profitably.



CHANNELS

Banks can accelerate time to market for all of their products and services across all digital and assisted channels and extend their reach to customers using any device today and in the future.

Temenos' ground breaking Channels solutions enable our clients to deliver products and services for any business line, across all digital and assisted channels, for both bank staff and customers, in any language and optimized for any device. Temenos is the only provider currently in the marketplace that can deliver all of this from a single user experience platform (UXP).

Banks can support branch transformation as branches look to become more customer engagement focused with self-service kiosks and face to face financial advisors. Contact centers will be able to leverage digital technologies such as social media, video, chat and instant messenger as emerging channels for providing customer service and support.

A dynamic, rich User Experience (UX) responsive design is delivered providing consistency across all channels. Banks can provide choice and convenience to their customers and the optimum user experience whatever channel or device they choose to use at that time.

Temenos Channels solutions offer:

- > A single, consistent UXP reducing complexity and improving productivity;
- > Accelerating speed to market of new products and services by up to four times;
- > Using components to provide maximum business reuse and business agility;
- > An underlying UXP that can be extended across the enterprise further reducing TCO;
- > Seamless integration to Temenos Core Banking with open integration to third party systems and applications;
- > Maximum flexibility and agility to respond to market opportunities and changing conditions, by being highly customizable and configurable;
- > Being future-proofed to embrace new innovative technologies and devices thereby protecting your investment; and
- > Low TCO and reduced maintenance costs by up to 95%.



ANALYTICS

Unlock the power of banks' data to become analytically driven and drive profitability and efficiency improvements throughout their entire organization.

Temenos Analytics enables banks to harness a wealth of data and transform it into valuable business intelligence to support better decision-making across the enterprise and to enrich all interaction with their customers.

By using banking specific, high-value, analytical applications in every department from Finance, Marketing, Operations, Treasury to Risk Management, banks are able to transform their business. This gives banks a significant competitive edge in this new banking landscape and digital world.

By using Analytics, our clients are able to:

- > Empower business users with self-service access to accurate data providing a single version of the truth driving smarter decision-making faster with better business outcomes;
- > Gain deep customer insight into behavior and buying trends to build a customer-centric approach to delivering products and services;
- > Embed intelligent analytics into core systems to enrich every customer interaction and boost customer engagement with a superior user experience;
- > Integrate real-time data and embed predictive analytics to enable real-time risk and marketing activities;

PRODUCTS continued



ANALYTICS continued

- > Provide customers with contextual, relevant product offers and advice at a time when they are most likely to buy – improving cross-selling, customer value and customer loyalty;
- > Integrate analytical capabilities directly into Core Banking and other applications, making those applications, and the users of them, smarter and more efficient; and
- > Better understand and predict performance to build strategies for improving operational efficiency and financial processes to minimize risk and drive profitable growth.



PAYMENTS

A uniquely flexible payment solution offering full, real-time control and a harmonized customer service experience.

Our Payments product family is a uniquely flexible payment offering that not only gives banks full, real-time control but also a harmonized customer service experience and centralized for cost efficiencies and risk management. Our Payment Hub is designed to process domestic and international payments in one solution in any region as defined by analysts as 'a vision for the payment architecture'. It was designed in collaboration with a leading international bank to meet a gap in the market and with its rule and data driven approach, allows instant changes. Our auto-repair solution allows banks to reach STP rates of 97% and higher.

Our Payments clients benefit from increased efficiency and profitability through:

- > A complete, single solution;
- > Transparent, 360° view of transactions;
- > Unique weight based processing supporting payment prioritization;
- > Agile, parameter driven platform flexibility;
- > Full operational and technical control;
- > Conditional rules; avoiding the complexity of multiple connections and high risk programming; and
- > Stand alone or fully embedded within Temenos Core Banking.



RISK AND COMPLIANCE

Enabling financial institutions to navigate the complex regulatory landscape in order to remain focused on serving customers, creating innovative products and improving profitability.

The Risk and Compliance product family offers software and services for:

- > Compliance advice;
- > Audits;
- > Social media monitoring;;
- > Vendor management;
- > IFRS 9;
- > CRS;
- > Enterprise risk management; and
- > FATCA compliance.

With our solutions, organizations are able to reduce exposure to risk and minimize losses while complying fully with regulatory mandates. In this challenging environment, there is tremendous pressure to maintain and grow profit margins despite challenges associated with new consumer demands, non-traditional competitors, and heavy regulatory burdens. Proper compliance practices, supplemented by products and services from Temenos, can help financial institutions avoid penalties, fines, and reputational risk, ultimately ensuring profitability and success.



FINANCIAL CRIME MITIGATION

A uniquely flexible range of intelligent, versatile solutions for banks, large and small, to combat financial crime.

The Financial Crime Mitigation product family is a range of intelligent, analytical detection engines that are accurate, fast, easy to configure and simple to use. Its sophisticated approach ensures increased efficiency by saving time and lowering data-mining costs for enhanced decision-making and improved collaboration, ultimately completely mitigating against risk. Banks choose the solution they need, whether it be to combat money laundering, accurately screen against sanctions lists or ensure enhanced customer due diligence.

Our Financial Crime Mitigation clients benefit from increased efficiency and profitability through:

- > Safe and accurate algorithms;
- > Complete control and clarity;
- > 25 years of experience;
- > Full automation;
- > Intelligent analysis;
- > Ready and easy integration;
- > Stand alone or integrated into Temenos Core Banking; and
- > Real time as well as offline solutions.

With our solutions, organizations are able to reduce exposure to risk and minimize losses while complying fully with regulatory mandates.



FUNDS AND SECURITIES

Our Funds and Securities products are the award winning fund administration software from Multifonds, providing fund accounting, portfolio accounting and investor servicing and transfer agency on a single platform.

Today more than USD 5 trillion in assets for both traditional and alternative funds are processed on FundSuite in more than 30 jurisdictions for the world's leading global custodians, third-party administrators, insurance companies and asset managers.

TECHNOLOGY

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.

These products also boost the scalability and resilience of the banking platform, enabling banks to perform well in the midst of complex, risky and margin-pressured environments. Specifically, we help banks to:

- > Become digital banks with real-time multichannel banking and real-time analytics and reporting;
- > Exploit innovative third-party user-interfaces and apps and other cloud-based resources;
- > Manage the cost of growing their banking platform and operations;
- > Address the threats of disruption, disintermediation and commoditization which arise from the entry of fintechs and large tech native players into their markets; and
- > Engage with changes to their industry and use them for their own advantage.

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



DATA

Turn the lead weight of data into a golden opportunity: manage it, unlock it and extract value from it.

Temenos' Data products provide banks with a unified data platform that helps them deal with the massive data volumes of the digital banking era by efficiently managing their data, unlocking and better accessing their data, and extracting value from their data.

Temenos' Data framework lets changes made by any Temenos product to be available in near-real-time to any configured reporting database. This data federation enables multi-tenant and multi-region operation without loss of real-time query.

This technology enables banks to strengthen their customer-centricity and support business decisions even when the volume of business data is growing fast. The key business benefits of our Data products and framework are:

- > Scalability: the ability to efficiently process massive volumes of both transactions and reporting queries without increasing costs, thereby preserving the quality of the customer and business user experience as the business grows;
- > Productivity: the ability to support advanced reporting capabilities that provide business decision-makers with value-adding perspectives, and to provide customers with fast responses to online queries; and
- > Competitiveness: the ability to exploit business analytics solutions to their fullest capabilities, enabling banks to action valuable insights and offer highly tailored and proactive products and services to customers.



DESIGN

Adapt banking system functionality and business processes better, faster and more frequently.

Temenos' Design offering boosts banks' responsiveness to changes in business requirements while reducing cost-per-change, by enabling banks to adapt the functionality of their Temenos business systems and to adapt their business processes in a productive, cost-efficient and low-risk manner.

This technology enables banks to easily make high quality adaptations to systems' functionality to stay abreast with evolving business requirements and customer journeys. The key business benefits of our Design products are:

- > Responsiveness/Productivity: the ability to respond to evolving business requirements by adapting functionality and processes much faster and much more frequently, possibly multiple times a week or even per day, without increasing costs;
- > Quality: the ability to build and run a highly industrialized and institutionalized change-the-bank process which encourages high quality development work and eliminates the risk of faulty changes affecting business operations; and
- > Cost-efficiency: reduce dependence on vendor-specialized experts, legacy in-house tools and complex coding cycles, and maximize the level of automation of the change-the-bank process.



INTEGRATION

Be more agile and competitive with real-time event based integration.

Temenos' Integration offering makes banks more agile by enabling them to integrate systems much faster and more cost efficiently, and more competitive by enabling real-time, highly scalable, self-assisted and multi-channel banking 24/7.

Temenos' Integration framework is the basis for Temenos support for PSD2 based on ISO 20022 messages being exchanged between banks and third party payment providers in near-real-time.

This technology enables banks to offer a superior customer experience, one that is much more timely as well as more easily attuned to evolving customer needs, even when business is growing fast. The key business benefits of our Integration products are:

- > Agility: the ability to integrate any business system up to 3x faster, without detailed vendor-specific coding work, enabling banks to respond much faster to evolving business needs;
- > Competitiveness: the ability to provide multi-channel banking services in near-real-time 24/7, enabling banks to be competitive in the era of real-time digital business;
- > Profitability: the ability to sustainably reduce the costs of performing and maintaining integration, and the ability to exploit cloud-based applications;
- > Scalability: the ability to preserve the performance of integrated business services and straight through processing as business volumes grow; and
- > Reliability: reduce the risk of batch processing glitches and provide protection against regulatory scrutiny and reputational damage.



INTERACTION

Opening banking platforms to accelerate the pace of innovation around services.

Temenos' Interaction offering accelerates the pace of innovation around banks' services by enabling them to easily expose their services to innovation Partners and to any User-Interface (UI). It also lets the bank create innovative combined services and efficiently manage UIs across multiple channels/devices/roles/languages.

Temenos' Interaction framework is the basis for Temenos support for APIs whether for banking mobile agents or for open banking. The framework enables the API to be mapped to the underlying enterprise services whether provided by Temenos, the bank, or third parties.

This technology enables our clients to easily build and maintain an outstanding digital customer experience that can evolve fast and cost-efficiently. The key business benefits of our Interaction products are:

- > Innovation: the ability to make banking services readily available in a standard way to innovation Partners and to any third-party UI of their choosing, which will accelerate the pace of innovation around services;
- > Competitiveness: the ability to efficiently distribute innovative services, including combined (banking and/or non-banking) services, via outstanding UIs and via multiple channels/devices;
- > Flexibility: make it much easier to evolve UIs at a faster pace than underlying business systems without incurring substantial costs (from 'ripping out' and 'rewiring'); and
- > Cost-efficiency: reduce dependence on vendor-specialized experts and on lengthy coding cycles to make banks services readily available and to build their own UIs; enhance the re-usability of APIs and UIs that they create, and pre-empt data openness regulatory requirements.



PLATFORM

Reduce the cost of growth and complexity with a highly scalable, efficient and flexible platform.

Temenos' Platform offering helps banks run and scale their business systems much more efficiently and to minimize TCO. It does this by letting banks run their core banking system in an application server and, when required, in a multi-tenant or cloud-based set-up. In all cases, business functionality is totally preserved.

This technology enables banks to deliver outstanding service to their customers and business users. The key business benefits of our Platform products and framework are:

- > Scalability: enables banks to preserve the performance of their core banking system at all stages of growth, while keeping operating expenses in check, by fully exploiting application server technology and the possibility of using a virtually unlimited number of app server instances arranged to work together (clustering); and the ability to undertake comprehensive reviews of their system's health without impacting performance;
- > Cost-efficiency: the ability to significantly reduce infrastructure and administrative costs of running and growing a complex organization by letting multiple entities ('tenants') share a same instance of the core banking system on a single set of platform resources; and the ability to automate multi-tenancy management to a large extent; and
- > Flexibility: at an operational level, the ability to choose which operating system and application server a bank wishes to use to run their banking systems; and, at a strategic level, the ability to easily create and manage new tenants in the system, increasing business agility.



Read the full versions of our insight and thought leadership pieces online at: www.temenos.com

THOUGHT LEADERSHIP

INSIGHTS

01

02

03

How Temenos enables open banking and the revised Payment Service Directive

Open banking is the adoption of common standards for collaboration between banks and other players within the banking ecosystem.

Kanika Hope
Strategic Business Development Director

The evolving landscape of bank-to-customer interactions

When banking began, banking interaction started physically by visiting a bank, and it was not until the 1980s that telephone banking came into play. Around the same time, Bank of Scotland launched Home-Link a service on Prestel's View-Link system which could be accessed on a microcomputer.

Dharmesh Mistry
Chief Digital Officer

AI in payments

We analyze data by looking at multiple factors across multiple facets of our world, related to but not limited to, the task at hand. Humans have the ability to call on every aspect of their current surroundings, any outlying influencing factors including gained experience and use the data to make a decision. It isn't always the right decision, but that gained experience helps the next time.

Is AI really capable of doing this?

Darryl Proctor
Product Director, Payments



04

Robotics in banking: more Iron Man than Terminator

Talk of robotics ending the world of work as we know it can be misleading and disingenuous. Rather than replacing our jobs, robotics and AI has the ability to enrich them, freeing up time to concentrate on what we do best – innovation and creativity.

Adam Gable
Product Director, Financial Crime,
Treasury and Risk

05

Four banking models for the digital age

Digitization of the banking industry is making new banking business models possible. But, it is the combination of regulation and technology that is making new business models a necessity.

Ben Robinson
Group Strategy Director

06

Successful migration is all about choosing the right route

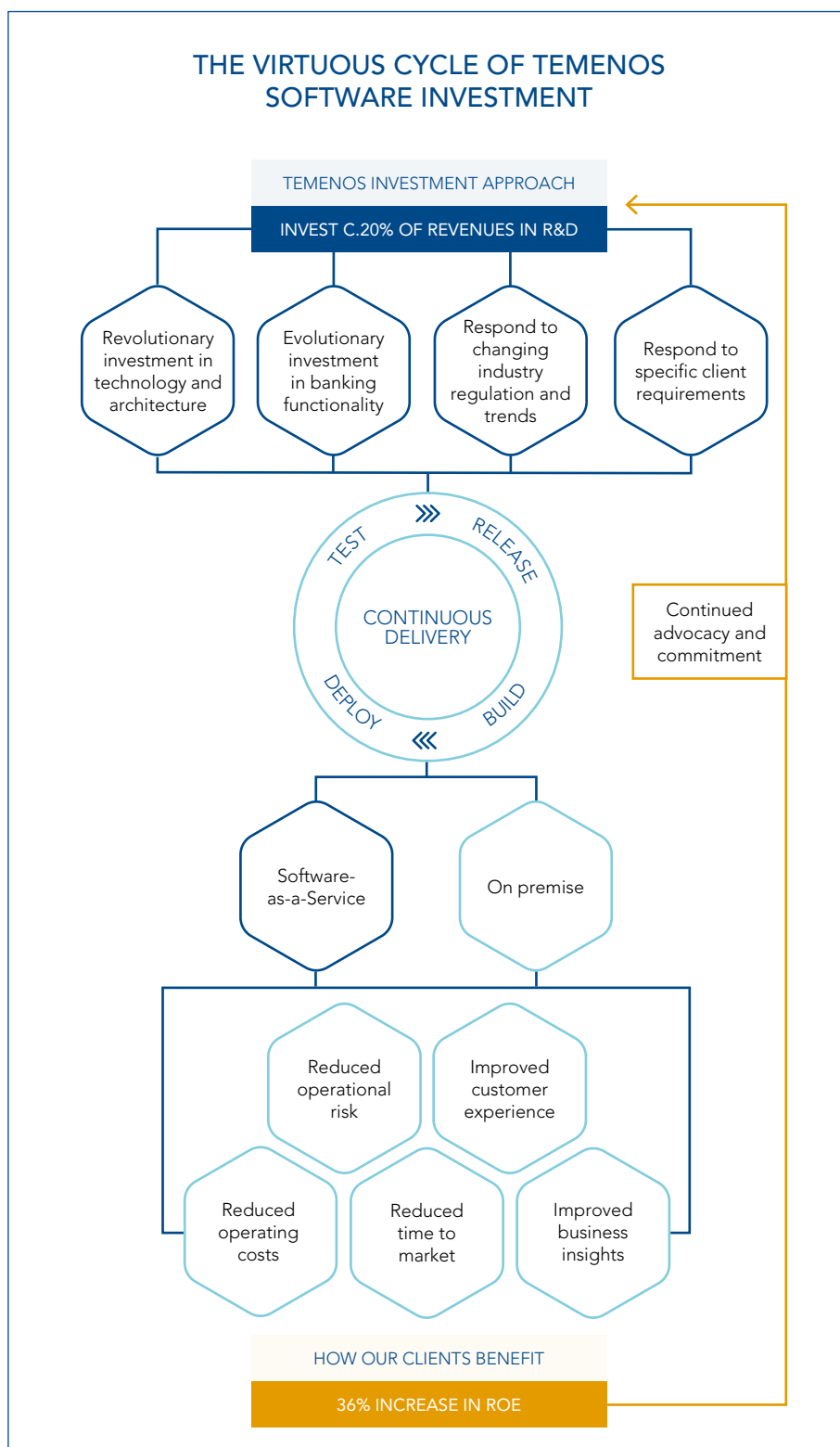
There are three basic routes to a new banking platform: Big Bang, Build and Migrate, and Progressive Migration.

Mark Gunning
Business Solutions Director

DRIVING INNOVATION THROUGH PRODUCT INVESTMENT

RESEARCH AND DEVELOPMENT

The Temenos software investment approach forms a virtuous cycle in which our clients influence Temenos' investment and therefore benefit from the improved product. This in turn contributes to their success. Our clients then advocate for our solutions enabling us to attract new clients continuing the cycle.



Revolutionary investment in technology and architecture

In order to keep pace with the rapid rate of change in information technology, Temenos continues to invest significantly to ensure that its software takes advantage of the latest innovations. The technology changes required to support the growing business and regulatory interest in open banking are a prime example of this. What is revolutionary at one point becomes standard in the following years, and this is why it is important to continue with this investment approach. Examples can be seen in recent years in the adoption of mobile banking technology and the increasing desire to provide software solutions which are hosted on the cloud. Temenos offers updated software based on the latest technology to clients seamlessly through simple, regular upgrades.

Evolutionary investment in banking functionality

Banking functionality changes more gradually than information technology, with evolutionary advances being made in banking products, industry practice and regulation. Temenos' investment in functionality over the past 25 years reflects this. Recent examples have included the embedding of analytics across the entire portfolio to support decision making by our clients and incremental investments in AI capabilities in areas such as the robo-advisor in wealth. We enable our existing clients to add new functionality to what they use already through regular updates, whilst releasing the latest software for new clients monthly.

Respond to changing industry regulation and trends

Banking, being a highly regulated industry, is subject to the continuous changing of requirements by regulatory agencies. At Temenos, we actively follow changes in banking regulation, in order to build relevant solutions into the software and thus support our clients using the regular upgrade mechanism. We also anticipate other significant industry trends such as open and digital banking, and incorporate them proactively into our software.

Respond to specific client requirements

As we enter new markets or work with new clients, it is possible that our software may require enhancement. We invest in our products to close these functional gaps, but also in such a way so as to make the new functionality of widest benefit possible to our existing and future clients. We do this by ensuring that flexibility is built into the design, and that the software is incorporated into the standard product. Our wide geographic reach across all banking segments means that enhancements developed for a specific client are often relevant in other markets and to other clients.

Continuous delivery

Temenos builds, deploys and tests software on a daily basis. We use this as the foundation for the monthly release of upgrades to clients, which are then accumulated into one Annual Maintenance Release each year. All releases are cumulative enabling clients to upgrade when they want. The upgrade process is designed to operate with minimal disruption to a bank's staff and customers.

Reduced operating costs

Banks spend an average of 14.3% of their operating costs on IT. Moreover, less than 30% of this is on growth and innovation; the remainder is spent on business as usual activities. In contrast, Temenos clients spend only 5.7% of their total costs on IT, of which 53.7% is on innovation. The result of lower and innovation-focused expenditure is an ROE (Return On Equity) number for Temenos clients which is 36% higher than banks using legacy systems.

Improved customer service

Customers expect banks to provide the same level of seamless, personalized service which they receive from leading online service companies such as Amazon or Uber. In the past, banks' abilities to provide such service has been hampered by legacy technology and business issues. Temenos provides a modern front-to-back digital and integrated solution, allowing seamless customer journeys across all areas of a bank's service and product portfolio. A single rules engine driven by embedded analytic capabilities, enables a bank to proactively tailor the experience to a customer's individual needs based on a single 360° lifetime view of the customer.

Reduced operational risk

Legacy IT landscapes are inherently risky because of the many interfaces which are required between different functionality and delivery silos; the number of "islands" of functionality and the resulting complexity of connections between them increase the number of points where a process or technology failure can occur. As a result, banks can face outages in mission critical operations with resulting reputational damage. These risks are increased if the bank is still relying on obsolete technology where there is often a shortage of suitably skilled resources. The end-to-end integration offered by Temenos' software, with its configurable and sophisticated workflow, access control and security features, allows our clients to benefit from the lowest levels of IT operational risk, and to future-proof their IT architecture by means of the regular software release mechanism.

Reduced time to market

Today, digitalization and the rise of new, specialized and highly agile competitors are driving banks to respond ever more quickly to customers' individual needs. Temenos' software enables banks to respond quickly, flexibly and securely to these business needs as it is highly parameter-driven, and delivered with pre-configured, re-usable content, as well as user-friendly configuration, design and testing tools.

Improved business insights

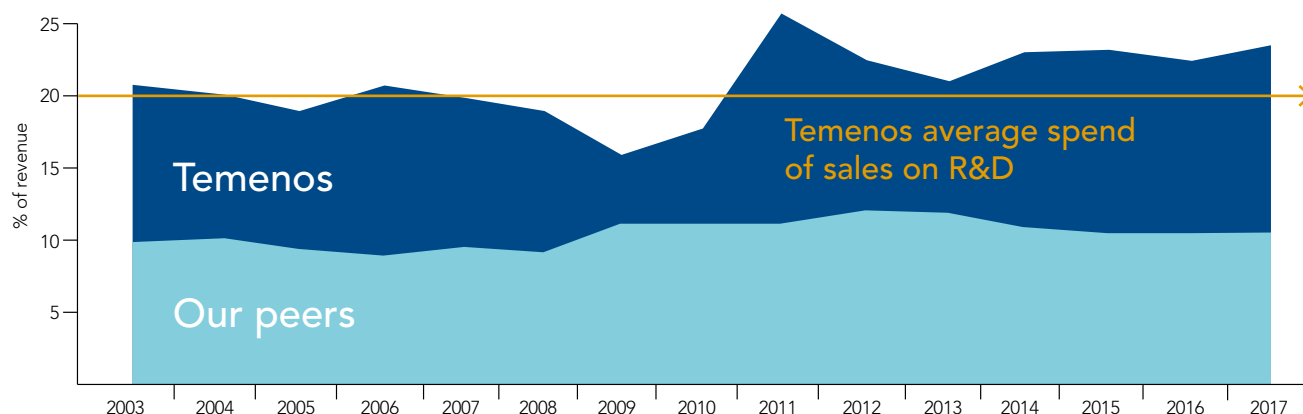
A modern, digital bank requires sophisticated analytics to understand customer needs, to service regulators and to make optimal business decisions in a timely and efficient manner. The Temenos analytics product set is tightly embedded within the overall front-to-back solution, providing real-time, predictive and integrated analytics based on a single version of the truth sourced from both transactional and contextual data from all areas of the solution. This enables bank staff to take customer service and business strategic decisions on the basis of up to date information.

R&DEEP

% OF REVENUE SPENT ON R&D

USD 1.75bn

Cumulative R&D investment 1990-2017



R&D at more than twice the level of our competitors plus deep domain knowledge means that our software never becomes legacy

Investing more than our peers on R&D

Temenos has consistently invested over 20% of its revenues in R&D. This is more than twice the level of investment made by our closest competitors. Furthermore, since we only produce software for banking and finance, all of this investment is targeted at our concentrated product portfolio.

Channeled into regular releases

Our software is truly packaged and upgradeable. We produce a monthly release of new software, which can be used by clients when there is need, and each year we create a cumulative Annual Maintenance Release.

We also support partial upgrades, allowing our clients to upgrade the parts of their solution which they need to. This means that all of our clients can continue to benefit from the ongoing investment we make in our products.

Core principles

Temenos has always produced software according to a set of core principles. We believe in re-use, openness and being agnostic about technology platforms. This means that all developments are made available to all clients. It also means giving our clients choice over which technology they run and never locking them into a particular provider. The openness means that third parties can develop on our platform to accelerate innovation thus ensuring that our clients always have access to the best technology and functionality.

Proud record of innovation

Our philosophy could be summed up as constant functional evolution delivered on innovative technology. We are proud of the record of innovation which we have established, being, for example, the first true fintech vendor to run on open systems, to have a truly 24 x7 platform, the first to run core processing software in the public cloud and the first to have all services exposed as RESTful APIs.

OPEN BANKING

The pace of innovation is accelerating at the same time as competitive boundaries are blurring.

Consequently, it's not enough to innovate faster; firms must keep up with best-in-class innovators regardless of what sector they might operate in today. This places many requirements on firms in terms of, say, winning the war for talent or adopting a DevOps model for the production and releasing of software. But, most of all, it means that companies need to open themselves up to third-parties. In today's world, the best way to build competitive advantage is to leverage a firm's position by putting it at the heart of an ecosystem; to influence rather than control. This is true for Temenos. It is true for banks. It is true for fintechs.

Recognizing the broad need for collaboration across financial services is why we created the Temenos Marketplace; an ecosystem for growth.

Open banking is inevitable

The widespread consumption of digital banking services by less loyal customers and the rise of non-traditional providers of financial services, mean that the banking value chain is unbundling and that manufacturing and distribution of banking services are diverging. This trend will only exacerbate as the disruptive technologies such as cloud, APIs, artificial intelligence and machine learning, mature in banking. Open banking is the resulting global phenomenon of this disintermediation of the value chain. It is a collaborative model and involves sharing of banking data between organizations through the use of open APIs. APIs are considered the de-facto industry standard for collaboration because they are scalable, reusable, easy-to-use and considered safer and more cost effective than non-standard ways of sharing data such as screen-scraping, or manual downloads. Open APIs lend themselves to monetization and the rise of new business models.

Regulatory initiatives such as the EU's Revised Payments Services Directive (PSD2) and other Open API initiatives in countries like the UK and Germany that came into force earlier this year, are further accelerating open banking by forcing banks to share customer data with third party providers, should their customers give consent. This is intended to create a level playing field for fintechs, technology players and banks alike.

Open banking can be lucrative

The good news is that the move to open banking can boost banks' profitability and most banks now see the opportunity.

By placing themselves at the heart of a digital ecosystem and orchestrating a successful platform strategy, i.e. forging partnerships with third party providers as well as developers, banks can benefit substantially. McKinsey estimates, that by adopting a platform model, banks could potentially increase their Return on Equity by up to 6.3%.

Banks are starting to appreciate this. A recent survey from Accenture and Temenos⁹ found that a clear majority of bankers (79%) now see open banking as more of an opportunity than a threat with 62% of bankers saying that they would be prepared to distribute third-party services over their platform.

This change in banking sentiment coincides with an increasing realization on the part of many service providers, especially fintech companies, that using banks as a route to market – given their large customer numbers, compliance and capital – might well be easier than going it alone. Today, according to Capgemini¹⁰, 75% of fintech companies want to work with banks.

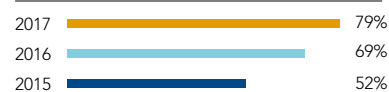
And so the scene is now set for greater collaboration.

OPEN BANKING READINESS

Banks were asked "To what extent do you agree/disagree with each of the following statements about open banking?" (%), 2015-2017.

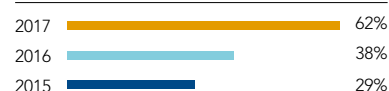
IT IS MORE OF AN OPPORTUNITY THAN A THREAT

79%



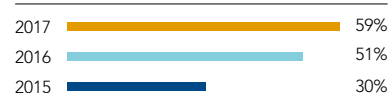
WE ARE HAPPY TO DISTRIBUTE THIRD PARTY PRODUCTS THROUGH OUR PLATFORM

62%



BUILDING AN OPEN BANKING PLATFORM IS A HIGH PRIORITY FOR US

59%



FINDING THE **BEST** FINTECH

According to some estimates, there are as many as 25,000 fintech companies in operation today.

As in everything in life, we could use a bellcurve to classify these companies, with only a minority being truly outstanding. The job of the MarketPlace team is to find those truly outstanding fintech companies, those that can add significant incremental value to our banking clients. As well as working with clients and our incubator Partners, the global Innovation Jam competition provides a critical means for us to uncover these exceptional companies.

The Innovation Jam was started in 2015. That year, we held a competition at the Temenos Community Forum (TCF) – decided by the attendees – to find the most innovative new product from our complementary solution providers. It proved to be such a success that, the following year, we turned it into a global competition.

The global competition is now in its third year and it keeps getting bigger and better. In 2016, we held four global heats, in 2017 we held five global heats and in 2018 we're holding eight.

This year, we are running many of the competitions together with Partners and many of the winners from last year, such as [Finn.ai](#) and Edgelab, will give testimonials explaining how the Innovation Jams have turbocharged their business.

In 2018, the Innovation Jams come to Dublin (powered by Bank of Ireland), Miami, Amsterdam (supported by ABN AMRO), Hong Kong (supported by Supercharger), London, Abu Dhabi (supported by ADGM), Geneva (supported by Fusion) and Luxembourg (supported by the LHoFT).

As in previous years, we will fly the winners from the Innovation Jams to the Temenos Community Forum, this year in Dublin, where they will compete for the crown of global innovation champion, which last year was won by Blue Code.

Let's Jam!



"Taking part and winning the **Geneva Innovation Jam** has given us massive exposure. That and our **Temenos MarketPlace membership**, has helped us to **grow much faster** and internationalize our business. Pretty much every day now we have a call or meeting with Temenos sales or Temenos customers."

Ruedi Winzeler – COO at EdgeLab

THE TEMENOS MARKETPLACE

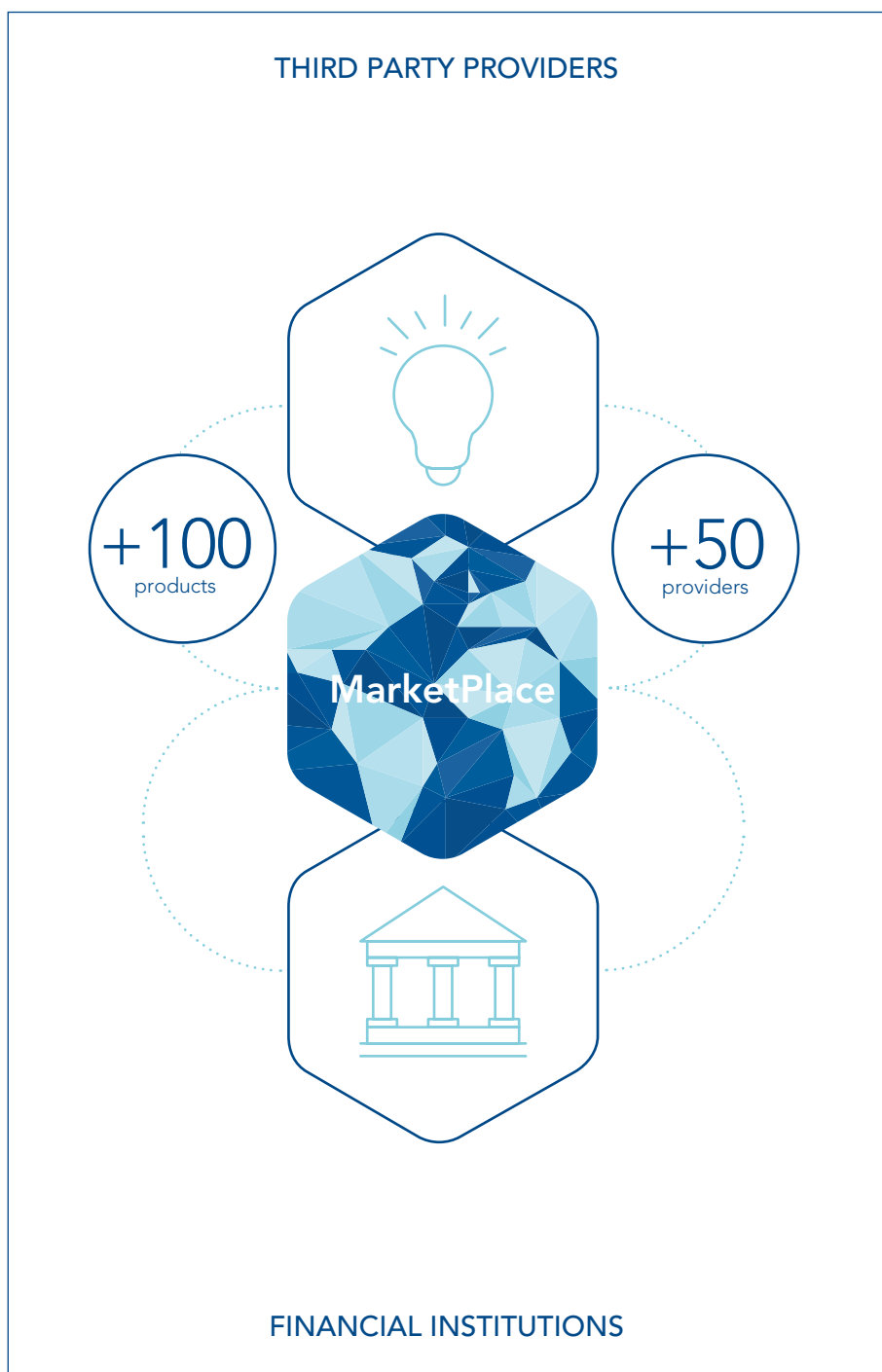
Fostering collaboration and access to innovation

The challenge is that there is no established model for banks and fintech companies to work together. This is the problem that the Temenos MarketPlace solves.

In the Accenture/Temenos banking survey, it was clear that banks overwhelmingly want to work with fintech firms, but they face two significant challenges in doing so. The first is around curation, mustering the time and resources to figure which are the best fintech firms to work with (cited by 10% of bankers). The second and bigger challenge (cited by 55% of bankers) is around procurement, specifically the time it takes to steer a fintech firm through a bank's procurement processes and then integrate the solution into the bank's production environment.

The Temenos MarketPlace overcomes these two challenges. The Temenos MarketPlace is curated. We find the best fintech companies by working with our ecosystem of incubator Partners and our clients and by actively screening the fintechs we find through the Innovation Jams and those that apply directly through the site. Our clients can be sure that every solution on Temenos MarketPlace is robust, proven and has a clear value-adding proposition.

In terms of speeding up procurement, we would point to certification and our Innovation Acceleration Platform, a cloud-based version of our Suites they can use for testing providers. When a provider is onboarded onto the Temenos MarketPlace, they get access to our developer portal, with documentation of our APIs, as well as access to a shared sandbox. This enables them to create the level of integration to have a joint architecture model and an integrated demo environment. Once a provider starts to sell, we then integrate much more deeply with our software, making them "plug and play" accessible to all clients who run our Innovation Acceleration Platform.



TOGETHER WE ARE STRONGER

DELIVERING CLIENT SUCCESS

Temenos and our network of Partners took 251 clients live with Temenos software in 2017 continuing the tremendous track record of successful delivery that we have seen over recent years.

In 2017, Temenos experienced even greater Partner involvement in successfully implementing our product solutions across all banking sectors. To support our clients and Partners, Temenos has continued to strengthen the governance by combining internal and Partner governance reviews and support which has allowed clients to fully utilize the power of the software.

Temenos focuses on the training of client staff and Partners responsible for implementation of software to ensure a strong mix of qualified Project Managers with extensive product expertise. Temenos ensures skills are appropriate through a rigorous program of formally certifying both staff and Partners in the Temenos Implementation Methodology, upgrades, data migration and Temenos product suites.

Temenos this year has changed processes allowing projects to begin significantly faster by utilizing cloud technologies, in turn helping clients and Partners access our software within days of starting the project. We believe this will help drive down implementation times for our clients through 2018 and beyond.

The Temenos Implementation Methodology (TIM) describes the full end-to-end project delivery cycle of Temenos Suites and has been developed over a number of years using best practice from hundreds of implementation projects. In 2017, Temenos extended its methodologies to new products and also made these available to our Partner community helping them drive successful implementations and upgrades in a robust and consistent manner.

The Temenos delivery ecosystem comprising our own consultants and Partner resources has continued to grow in 2017 to its highest level and Temenos will continue this focus into 2018 as we work with Partners to train and certify more staff to support our growth.

THE TEMENOS PARTNER PROGRAM



Our Partner vision is to be the partner of choice for leading quality product, technology and service suppliers in the banking sector to enable Temenos to deliver the optimum solutions to its clients.

"Temenos and our Partner ecosystem remain committed to delivery excellence. Our main focus is taking our clients live and generating client success. Targeted Productized Services, focused on Performance and Upgrades, ensure that our clients continue to realize the return on their investment for many years following their go live."

Alexa Guenoun, Chief Client Officer

EXPERTS IN THE FIELD

Our expert consulting capability helps our clients and Partners exploit the capability of our solution reliably and efficiently, and to select the right architecture to meet complex requirements.

Over 75 expert consultants with unparalleled breadth and depth of product knowledge and implementation experience are available globally to lead clients on their journeys of adopting, extending and optimising their use of Temenos solutions. Engagement styles may be persistent over a period of years, or short and sharp over just a few weeks, depending entirely on the nature of the challenges and opportunities being addressed. Broadly they fall into three categories: Expert, Governance and Productized Services.

Expert Services

With the increase in tier 1 and 2 clients choosing our solutions, comes a corresponding increase in deployment options and complexity. We are responding to the need to define a “right first time” implementation strategy by deploying Expert Solution Architects to give guidance to our clients and Partners on the right approach by developing a Solution Blueprint by which the project can subsequently navigate. The continuity provided across the handover from sales to delivery helps to ensure client and Partner confidence remains high and projects are initiated correctly and efficiently.

Across our mature and loyal client base we see an increasing trend to extend the use of our solutions, often to address business-critical opportunities such as acquisition of new businesses or expansion into new territories. Such projects typically involve a combination of upgrading, refreshing business and technical architectures, green-field adoption and replacing third-party or legacy core banking systems, and are often transformational in nature. We provide expert advice and guidance, helping to identify the lowest risk roadmap to extend our solutions across the growing organization and take full advantage of current and future product capability.

Finally, for all clients contemplating an upgrade of their Temenos solution, we provide a comprehensive Upgrade Assessment service executed by a combination of expert technical and business consultants who are able to define the benefits in the context of the client’s own business and IT strategies. This approach focuses on the value contributed by our solutions and may involve retiring old customizations as part of a “back to core” approach, moving to relational databases and Java technology, and adoption of new components of the applicable Temenos solution. As one client said “The service opened my eyes to doing things I had not previously thought of.”

Governance Services

In accordance with our partnering strategy more and more implementation and upgrade projects are primed by Partners. In order to provide the right level of Temenos involvement and assurance to clients, and appropriate advice and guidance to the Partners, we provide guaranteed access to an expert consultant focused on minimization of solution-oriented delivery risk and the most effective use of Temenos solutions in the project. This service includes regular formal project reviews and Design Authority participation.

Productized Services

Our portfolio of short, high-impact consultancy packages, designed and brought to market by our Expert Services team together with our Product group, continues to flourish.

Our expert Performance Specialists have now delivered over two hundred Performance Healthchecks, where we conduct a holistic assessment of online and Close of Business performance in the context of the client’s current and future business and IT environments and make recommendations for improvement. Striking improvements are often achieved in as little as two or three weeks.

We have productized the implementation of our Data Lifecycle Management (DLM) product, offering an effective and reliable way for our clients to take advantage of this technology to reduce the size and operational risk of their live database, and achieve significant cost savings on high performance storage infrastructure. This and other similar technical services are delivered by a cost-effective combination of onsite expert consultancy and our offshore Expert Services group which has doubled in size and skills capability over the last 12 months.

We continue to bring new Productized Services to market in areas such as Compliance, where our clients need a quick and reliable way of adopting our solutions to meet regulatory deadlines in areas such as IFRS 9 and CRS.

“We wanted to extend a huge and heartfelt thank you to your consultant for her tireless time and the amazing quality of work she has completed for us over the past month. We have been blown away with her expertise, knowledge, professionalism, analytical skills, training skills, attention to details and ability to articulate things in a way we will understand. Additionally, the quality and quantity of her work, documentation and writing skills deserve separate mention, as it’s the most thoroughly and comprehensive we have ever seen.”

Temenos Client

INVESTING IN LEARNING

During the year we saw the launch of the Temenos Learning Community otherwise known as TLC.

Over previous years, we have increased the number of premium services delivered to our clients and grown our partner-focused global and regional project delivery model. TLC has been created to add a new, modern knowledge-transfer approach to our overall Company service strategy.

The first product offering launched under the TLC brand is an online, subscriber-driven learning platform named TLC-Online that opened for business on 1 September 2017. Subscribers become members of an online, social-media based community, in which they are able to seek knowledge, gain knowledge and share knowledge.

With a growing Partner ecosystem and our increasing R&D investment, it is essential to maintain the focus on driving high levels of certification across all our products, technologies and methodologies. In response to feedback and in particular from our Partner ecosystem, TLC-Online is designed to directly bring online learning and certification to subscribing members 24x7, anytime and anywhere. Exclusively hosted in our own cloud environment, this level of availability and access is helping client and Partner project teams to study our training content and familiarize themselves on our products in an up-to-date sandbox environment. To help TLC members decide which courses are appropriate to help them achieve their certification goals, TLC-Online contains Suite-based learning paths to guide a member in developing their own personal training plan. At each stage of their journey along their learning path, a member can take an online examination to earn credits and increase their personal certification level.

Since its launch, TLC-Online has welcomed just under 500 members. This has grown on a monthly basis. Significantly, 40% of TLC members have already increased their own personal certification levels.

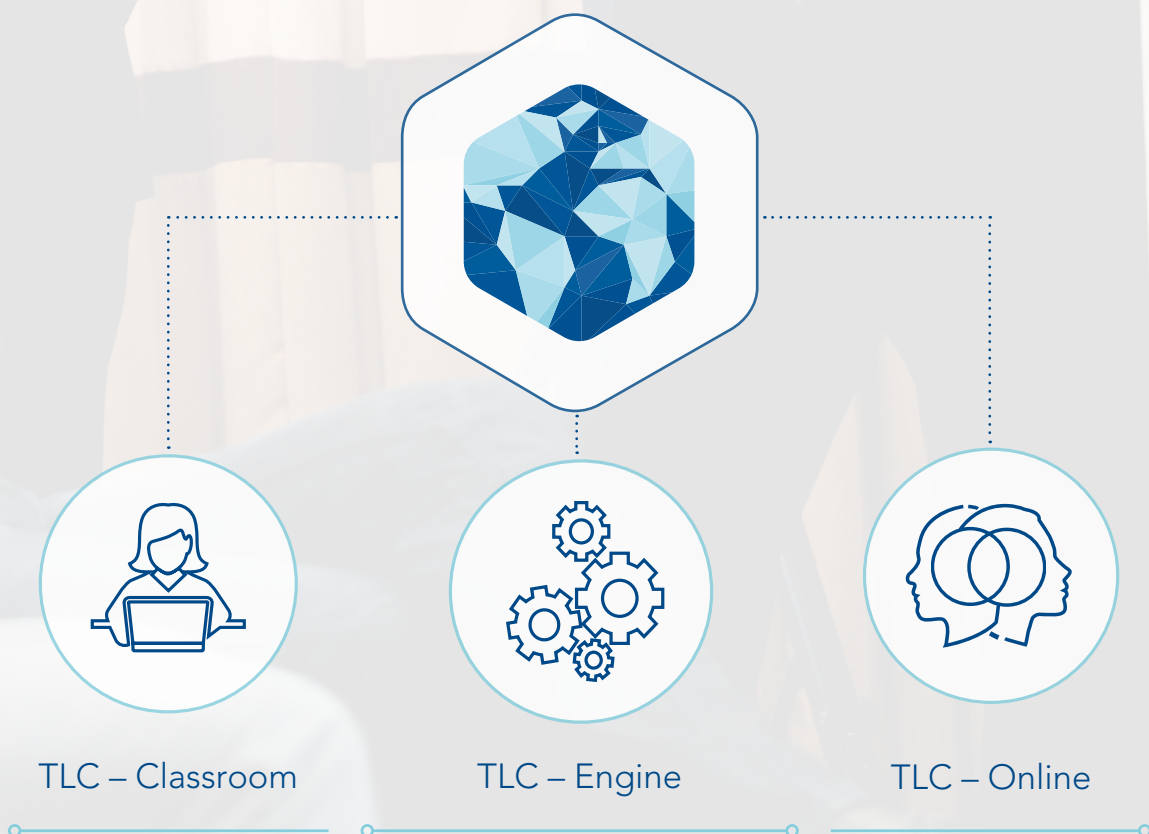
Our second product in the TLC family arrived at the turn of the year. TLC-Engine is our complete digital transformation tool able to train, test and certify a client's team. TLC-Engine brings a business-process led learning experience that provides the ability for our clients to shape and document their own unique standard operating processes.

Temenos Learning Community has established a new approach for Temenos to engage with all of our expanding ecosystem that puts the knowledge-sharing and learning of Temenos products and technologies at the heart of our clients and Partners' learning strategies.



TEMENOS LEARNING OPTIONS

Temenos Learning Community (TLC)



TENTH ANNUAL BANKING SURVEY

INSIGHTS

Banks facing an almost perfect storm of challenges...

In 2017's survey, co-produced with Accenture, a leading global professional services company and strategic Temenos partner, banks cited the following significant challenges to their business: meeting regulatory requirements (17% of respondents), securing customer loyalty (17%), using data effectively (15%), addressing increased competition (15%) and managing the growing risk of cybercrime (10%). The high levels of concern across these areas crowded out other issues, such as balancing risk with growth, which had been major concerns in the past.

...undermining profitability

All of these areas of concern potentially depress bank profitability, which emerged in this year's survey as the biggest challenge faced by banks. It was cited by 19% of respondents compared to 15% the year before, and reflects the fact that, notwithstanding an improving cyclical backdrop of slowly rising interest rates and better asset quality, profitability (particularly in Europe) has been fundamentally reset in the post-crisis era.

Fintechs are now friends, not foes

In a continuation of last year's trend, fewer banks are citing fintech companies as their biggest source of competition (16% vs. 19%). Instead, the vast majority of survey respondents want to work with fintech companies. However, they face challenges in doing so; determining which of the thousands of firms they should work with (curation was cited by 18% of respondents) and, in particular, steering small fintech companies through their own procurement processes (55%).

Open for business

The move to embrace fintech companies mirrors a progressive attitude to open banking in general. 79% of our respondents indicated that open banking is more of an opportunity than a threat (vs. 52% two years ago), and 62% said that they would be prepared to distribute third-party products through their platform (vs. 29% two years ago).

Beware challenger banks

Another notable change in this year's survey was banks' attitude to new challenger banks that respondents now see as much bigger threats. In general, banks see other banks as a slightly bigger competitive threat than non-bank entrants, such as technology companies and telecoms companies, which explains why so many banks (such as Bank Leumi with Pepper and J.P. Morgan with Finn) are launching challenger brands themselves.

Goodbye human bankers?

Perhaps the most surprising finding from this year's survey is the speed and extent to which banks expect their primary form of communication with customers to change. In ten years, respondents believe that only 7% of interactions will be in person (either physically or by videoconference). This shift that could have dramatic implications for the composition of the banking workforce.

Digitization drives IT spend

The biggest IT spending priorities reflect banks' digital agendas, with digital channels (18%) and analytics (14%) being two of the top three areas and the creation of APIs being cited by 8% of respondents compared to 1% last year.

Compliance is also a driver

Compliance with new regulations remains a key focus for IT spending (cited by 11% of respondents), especially for institutions in Europe and those in wealth management, which are facing multiple new regulations coming into force in 2018, such as MiFID II, PSD2 and GDPR.

The clouds are lifting

Attitudes towards the cloud continue to shift. For several years we have expected banks would start to deploy more applications, including mission-critical ones, in the public cloud in order to lower costs, speed up development cycles and cope with the processing demands of a digital economy. Banks were held back by concerns about regulation and security, but both these issues continue to diminish, with only 22% now worrying about data security (compared to 50% in 2011) and 29% seeing regulation as a barrier to adoption (39% in 2012).

Structural challenges call for structural answers

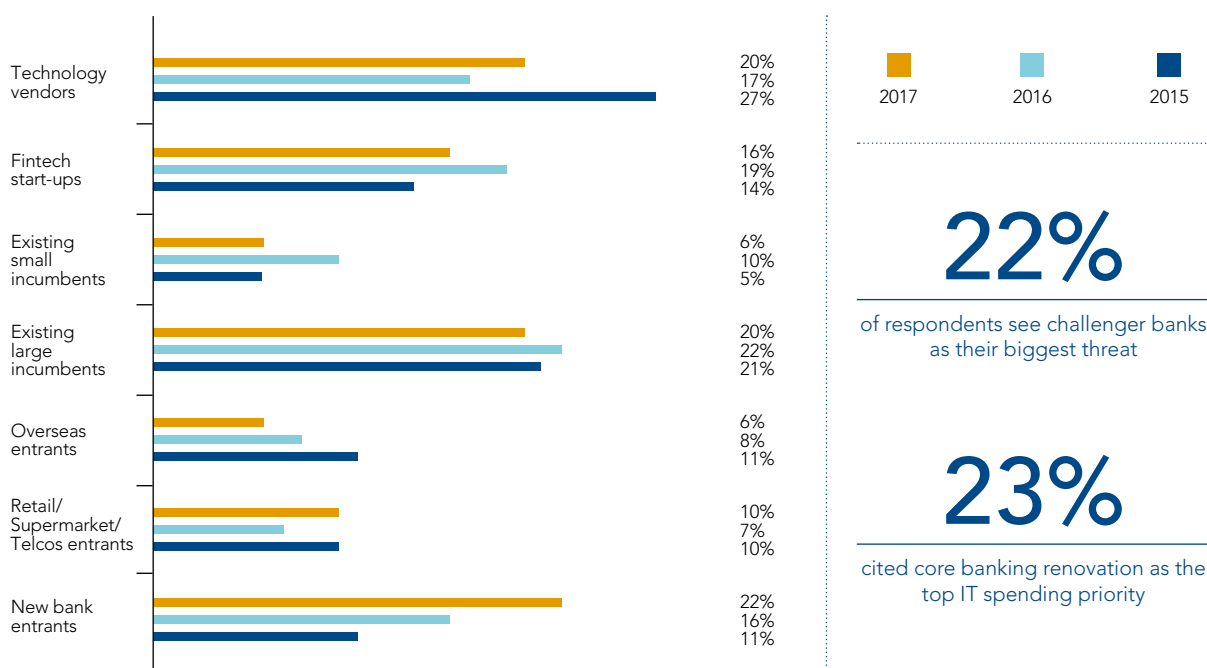
Recognizing that profitability is a structural, rather than a cyclical issue, banks are increasing their IT budgets in an effort to digitize operations. 68% of respondents said that they expected their budgets to be higher in 2018 than in 2017, against just 7% who expected the budgets to be cut, giving the highest positive delta (61%) since the survey started ten years ago. While there are interesting regional disparities (86% of Asian banks expect budgets to rise compared to 60% of banks in Europe), all regions expect increases.

Addressing the fundamentals

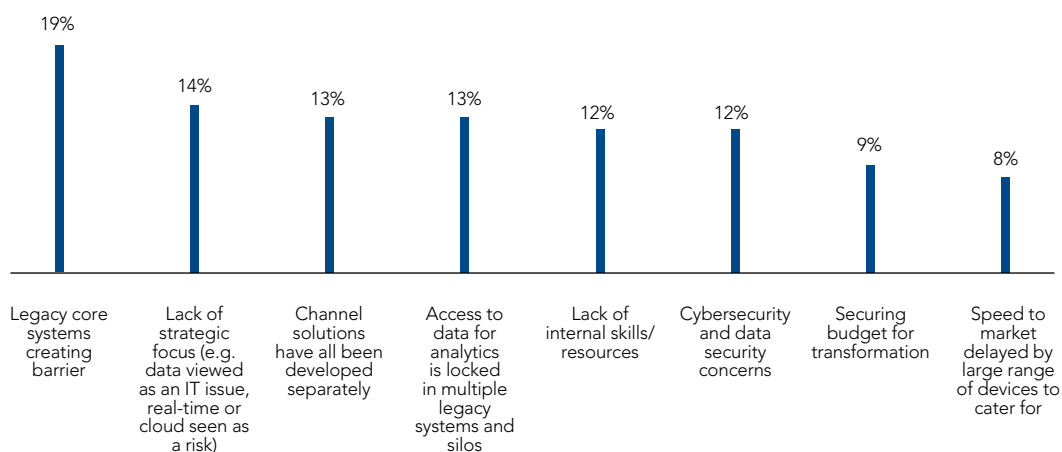
Encouragingly, banks seem to recognize that there are no shortcuts to true digitization as core banking renovation was cited as the top IT spending priority (23%). Banks have found that trying to avoid the fundamental step of consolidating data sets onto a real-time processing platform significantly limits the benefits from upstream investments in channels and analytics. As 32% of respondents told us, legacy systems represent the biggest barrier to digitization, far ahead of issues such as lack of strategic focus (14%) or lack of skills (12%).

KEY FINDINGS FROM THE SURVEY⁹

The evolving competitive threat: Which of the following do you see as the biggest competitive threats to your organization? (%) 2015-2017



What challenges, if any, are you facing in implementing a digital banking strategy? (%) 2017





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DELIVERING AN OUTSTANDING 2017

BUSINESS REVIEW



David Arnott
Chief Executive Officer

“I am delighted with our performance in 2017, in which the business has continued to accelerate and capitalize on the significant momentum in our end market.”

David Arnott
Chief Executive Officer

We have ended the year in a very strong position, with double digit growth across all our geographies, which is a testament to the dedication and talent of all our colleagues and our ability to consistently execute at a very high standard year after year.

This year our traction and leadership with tier 1 and 2 banks has been clearly demonstrated. We won deals with Openbank, Itaú, KBC and a US tier 1 bank among others, which speaks to our global relevance

and the strength of our value proposition. Our clients are looking for a software partner that will help them understand and address the pressures of digitization, regulation and the new world of open banking. With the leading packaged, upgradeable and open banking software in the market, we are the vendor of choice for the world's largest banks.

INTRODUCTION

In 2017, we cemented our position as the leading vendor of mission-critical software to banks globally. We delivered an outstanding performance across the business, from product innovation through to sales and implementation. This was all the more impressive coming on the back of a very strong two years of growth in 2015 and 2016 and demonstrates how, given the network effects in the software industry, fast growth begets fast growth.

Our growth is testament to our business model, which allows us to capitalize on network effects, and our ability to consistently execute on the structural opportunity. Banks are dealing with existential threats that are intensifying. The pace of digitization in financial services is accelerating, as is the burden of regulation. Overlaid on these two pressures is the move to open banking, which provides our clients with both a threat and an opportunity. How they respond to these pressures will dictate their future for decades.

These multiple structural drivers are underpinning the growth in third-party banking software spend, as institutions are increasingly coming to realize that they not only need to upgrade their systems for the digital age, but that they need to use third-party vendors to do so.

In 2017, we again took market share in this growing market. This owes in part to our ability to capture a growing share of deals with tier 1 and 2 institutions as we emerge as the de facto vendor of choice for the system replacement at the world's biggest banks. In 2017, tier 1 and 2 banks contributed 59% of total software licensing revenue. It also owes to the competitiveness of our solution across the different segments we serve, our results showing broad-based success across retail, wealth and corporate verticals.

With a significant and growing market opportunity, we continued to invest in our business throughout 2017 to ensure we are well positioned to keep taking market share. As a product-led organization, R&D is at the heart of everything we do and this is reflected in our ongoing commitment to invest in our product to ensure that we are at the forefront of innovation in our sector. We have also continued our investment in Sales and Marketing. As we grow, we need to ensure we have a sales team that is structured to continue driving this growth. We have increased our sales headcount by more than 20% in 2017. This was a mix of experienced hires as well as graduates from the Sales Academy, our comprehensive program to attract and train the best and the brightest young people to become sales leaders of the future.

We have demonstrated our ability to consistently execute on the market opportunity, and have seen a significant acceleration in our pipeline over the last 12 months. We have increased our financial targets for 2018 and for the medium term which reflects our revenue visibility and confidence in our ability to grow the business and create significant value for our shareholders.

2017 IN REVIEW

Sales – double digit growth across all geographies

Our sales performance in 2017 was very strong as we continued to win all the largest deals in our market. We delivered double digit growth across all of our geographies driven by a large volume of deals across client tiers and segments but also higher deal sizes as our sales mix continues to shift to tier 1 and 2 institutions. Activity in Europe was particularly strong as banks responded to changing customer demands, increased regulation and the move towards open banking. We also saw good growth in Latin America, as well as the Middle East and Africa, driven by increasing demand for banking products and the need for reduced time-to-market for new products and services to stay ahead of the competition.



OPENBANK, THE DIGITAL BANK OF SANTANDER GROUP, SELECTS TEMENOS CORE BANKING

Openbank, the digital bank of Santander Group, has selected Temenos Core Banking to be implemented as Openbank's new core banking solution for retail and SME banking across its global operations.

Temenos' Core Banking solution is an integrated, upgradeable and scalable package built on an open banking architecture. Banks are able to utilize robust open APIs to operate collaborative business models, working with an ecosystem of third parties to add more value to their customers' financial lives. Temenos Core Banking is already available through public cloud, private cloud or on premise and is platform agnostic.

By adopting Temenos Core Banking, Openbank will be able to gain a deeper understanding its customers and be fast to market with new personalized products and services at a very low Total Cost of Ownership.

Openbank, which already has over 1 million customers today, will use Temenos Core Banking to drive domestic and international expansion and support the group's digital strategy. Openbank is one of the first fully fledged digital banks in the world, with its software, APIs and client transactions running in the cloud, offering a complete range of banking and investment products through its digital platform.

"We are very excited to count on the know-how and speed to market that Temenos will provide us, as we continue to build one of the best digital banks in the world."

Ezequiel Szafir
Chief Executive Officer, Openbank

BUSINESS REVIEW continued

We announced a number of notable deals in 2017, the most significant of which was the signing of Openbank, the digital bank of Santander Group. Openbank is one of the first fully fledged digital banks in the world, running in the cloud and offering a complete range of banking and investment products through its digital platform. The bank selected Temenos T24 Core Banking for their new core banking solution for retail and SME banking across its global operations. By partnering with Temenos, Openbank will be able to gain a deeper understanding of its customers and be fast to market with new personalized products and services at a very low Total Cost of Ownership, driving domestic and international expansion and supporting the Santander Group's digital strategy.

We also announced the signing of a deal with Itaú, Latin America's largest banking group, which selected Temenos' WealthSuite for its international private banking operations. The solution will combine Itaú's core banking, portfolio management, channels and analytics functions in a single wealth management platform deployed in the cloud, enabling the solution to scale in an agile manner according to the ongoing evolution of the business.

Other key deals signed in the year included KBC, which commenced the implementation of Temenos' solution across multiple geographies after the successful roll out in Ireland. In Q4, we announced the signing of a deal with a US tier 1 bank, a significant step in our strategy of expanding into the US. The bank selected Temenos T24 Core Banking as its global cash management platform for deposit transaction processing, internal account sweeping and interest compensation. The system will replace the bank's legacy infrastructure and will be implemented progressively in multiple countries across the globe, enabling the bank to offer its wholesale clients a follow the sun service to improve their working capital efficiency.

Our new three year plan – update on strategic initiatives

We made very good progress on the strategic initiatives we laid out at our Capital Markets Day at the start of the year and presented a new three year plan at the start of 2018 to reflect the ongoing development of our business and end-market.

We extended our leadership across core banking, wealth and fund administration, with our growth in each area materially above the level of growth in the market. Our position as the leading vendor of front-to-back solutions was cemented with the signing of the largest and most strategically important deals in our market in 2017, in particular Openbank, KBC, Itaú and a US tier 1 bank. Our relentless focus on innovation and R&D is reflected in these key wins, as well as numerous other signings in the year, as we see banks reducing the number of vendors they work with to focus on relationships with a small number of key strategic Partners for the renovation of their legacy IT landscape.

Our strategy to penetrate the US is bearing fruit, with the signing of key new accounts, strong development of our pipeline and very good progress made on the ongoing implementation with Commerce Bank and the build out of the US model bank. Commerce Bank will be a key reference for us going forward.

Our momentum in digital banking and cloud was demonstrated with the progress of major digital projects including Pepper, the digital bank of Bank Leumi, as well as a noticeable uptake in the use of cloud for implementation and deployment, as demonstrated by the signing of Itaú. This culminated in us receiving recognition of our digital capabilities by leading industry analysts.

Our new three year plan focuses on five key initiatives:

- > Enhancing our award-winning Suites. Our focus is in particular on ensuring our clients can operate platform models in the age of open banking so key enhancements are around APIs, MarketPlace, analytics and online updates – allowing our clients to put into production new software much faster.
- > Product development to open up new markets. Through organic developments we are confident we can open up and generate material revenues from origination and fraud, markets accounting collectively for over USD 1.6 billion in annual software spend.
- > Market development to capture faster growth. Here we see the potential to capitalize on our existing momentum to drive much higher revenues and growth from tier 1 and 2 institutions, Australia (following the Rubik acquisition), the US and payments.
- > Ready the organization for sustained faster growth and changing deployment models. This concerns multiple aspects of the business such as: Sales and Marketing, where we continue to grow spend faster than revenues; education, where we are investing significant resources in our learning community, an ecosystem-led approach which will be highly scalable and be constantly enhanced via strong network effects; delivery, accelerating the rate at which we onboard Partner resources and launching initiatives such as the client assembly factory; and cloud, where our goal is not just to grow cloud deployments but to undertake a far greater proportion of implementations and testing using cloud infrastructure.
- > Complementing organic growth with acquisitions. We will continue to use M&A as a tertiary driver to give us presence in new markets, drive scale and accelerate our R&D roadmap through complementary technologies and entrance into complementary and adjacent segments.

Delivering client success

One of our most valuable intangible assets is our client references. We live and die by the success of our clients and as such I am hugely focused on ensuring our clients realize the business benefits they set out to achieve when partnering with Temenos. A record number of clients went live on Temenos software in 2017, with 251 go-lives in total including 104 clients going live for the very first time. Our Services organization continues to act in a critical quality control and governance role on all our projects, working closely with our strategic Partners to deliver success for all our clients.

DIGITAL TO THE CORE

2018 will be the year of digitization. However, most banks are still only beginning this digitization journey. Significant amounts have been spent on digital initiatives to date without realizing the improvements that banks were expecting. This is because banks invested in digital channels without updating their core infrastructure, exposing to end users the limitations of siloed, batch-based legacy systems. Now, banks are appreciating that a digital journey must include core banking modernization if it to be truly effective. The digital journey does not necessarily have to start with the core replacement, but it must include the core.

An end to end digital transformation is essential if banks are to deliver the levels of customer experience required and to capitalize on the opportunity afforded by open banking. As the major platform companies, such as Amazon, have shown, the model for delighting customers lies in providing the highest levels of fulfillment, the analytics to provide the best personalized recommendations and the third-party marketplace to offer the widest possible range of products and services. Without a digital core, banks will be unable to provide such a model since they will not have access to real-time information, data will be locked into product silos rather than attributable to customers, it will be impossible to provide adequate information to third parties and the speed of fulfillment will be dragged down by manual processing.

Banks can approach digital transformation in different ways. Most elect to progressively renovate their systems, replacing systems one by one by function, line of business or geography. This is what clients such as Nordea and Julius Baer are doing. Many others choose to launch a new digital bank. These include Equitable Bank's EQ Bank, Bank Leumi's Pepper and M-Shwari from Commercial Bank of Africa. The rationale for this approach is that the technology can be implemented quickly, the banks can be branded to appeal to a different, normally younger, demographic and the new entity is both free from many of the technology, process and governance constraints of the parent while leveraging the parent's assets in terms of trust and compliance knowledge. In our latest annual survey, conducted with Accenture, our respondents felt that these new digital banks represented their biggest competitive threat.

Once digital, banks will be able to fulfill their potential to become trusted advisors to their customers. This will see banks leverage their trust to help customers make smarter financial and commercial decisions, introducing them to the right service or providing the right advice at the right time and over the right channel.

We will explore the theme of 'digital to the core' further at our 2018 Temenos Community Forum, taking place in Dublin in May 2018.

FINAL REMARKS

I am delighted with our performance in 2017. We executed very well across all aspects of our business, from innovation through to Services. We have significant momentum in both our business and our end-market, which is reflected in the acceleration we have seen in the last few quarters and our substantial pipeline growth. We have unmatched references in the tier 1 and 2 space and continue to take market share. I am confident we will continue to deliver during 2018 and the medium term

David Arnott
Chief Executive Officer



ITAÚ SELECTS TEMENOS' WEALTHSUITE FOR ITS INTERNATIONAL PRIVATE BANKING BUSINESS

Itaú Unibanco Holding SA (Itaú), Latin America's largest banking group, selected Temenos' WealthSuite for its international private banking operations.

The highly scalable solution combines Itaú's core banking, portfolio management, channels and analytics functions in a single wealth management platform. The bank will deploy WealthSuite in the cloud enabling the solution to scale in an agile manner according to the ongoing evolution of its business.

Temenos' WealthSuite will be implemented in a big bang approach, allowing the business to benefit from the new technology in the quickest timeframe. The new system will allow the bank to scale to meet future demand at a reduced total cost of ownership (TCO). At the same time, it will decrease time to market for new innovative products and services, and provide Itaú's clients with a seamless digital customer experience.

"Investing in technology and the digital transformation of Itaú is crucial in order to meet clients' needs and create lasting value."

Carlos Constantini
CEO of US and
Head of International
Private Banking, Itaú

OUTSTANDING FINANCIAL PERFORMANCE

FINANCIAL REVIEW



+23% +16% +18%

Total software licensing
growth of 23%

Total revenue
growth of 16%

Earnings per
share growth of 18%

We have had a very strong performance in 2017, with total software licensing growth of 23% and total revenue growth of 16%. We delivered margin expansion of 98bps year-on-year and grew EPS by 18%. Our cash conversion of 114% for 2017 is significantly above our target of 100% of EBITDA and means we are recommending a 2017 dividend of CHF 0.65, an increase of 18% on 2016.

We have announced our guidance for 2018 which reflects our expectation of continued strong growth in the year. We are guiding

for non-IFRS total software licensing growth of 13.5% to 18.5% and non-IFRS total revenue growth of between 10% and 13%. We are guiding for 2018 non-IFRS EBIT of USD 255 million to 260 million, which implies a margin of 31%. Given the acceleration we saw during 2017 and the strong start to 2018 we expect our sales momentum to continue accelerating. We have excellent revenue visibility driven by committed spend and our pipeline growth, and I am confident in achieving our 2018 guidance.

INTRODUCTION

Opening thoughts

I am delighted with our performance in 2017, which built on the very strong momentum we had generated in the previous two years. We ended the year by achieving the top end of all our guidance targets, which had already been revised upwards at the time of our Q3 results. Our ability to consistently execute on the market opportunity, combined with the strength of our business model, enabled us to deliver significant growth in revenue and profit whilst maintaining cash conversion well in excess of 100% of EBITDA. This ensured our DSOs also continued to decline to reach 119 days by year end. We closed the year with USD 168 million of cash on our balance sheet and leverage of 1.0x net debt to EBITDA.

IFRS vs non-IFRS

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 on page 42.

Highlights

Full year highlights (non-IFRS) include:

- > Total software licensing revenue growth of 23%.
- > Maintenance revenue growth of 10%.
- > Total revenue growth of 16%.
- > Services margin of 9.7%, representing a margin expansion of 0.6 percentage points.
- > EBIT of USD 223.5 million and margin of 30.3%.
- > EPS of USD 2.45, an increase of 18%.
- > Operating cash inflow of USD 300 million with cash conversion of 114%, significantly ahead of our guidance of 100%.
- > DSOs reduced by eight days to 119 days, in line with the five to ten day annual target.
- > Recommended annual dividend of CHF 0.65, an increase of 18%.

KEY FIGURES 31 DECEMBER

All financial units in millions of US dollars, except non-IFRS EBIT margin and earnings per share.

	2017	2016
Non-IFRS Revenue	736.7	635.1
Non-IFRS EBIT	223.5	186.5
Non-IFRS EBIT margin	30.3%	29.4%
Cash generated from operations	299.7	257.6
Total assets	1,275.3	1,171.5
Non-IFRS earnings per share	USD 2.45	USD 2.07

REVENUES

IFRS

Total revenues were USD 735.4 million in 2017, an increase of 16% versus 2016 on a reported basis.

Total software licensing grew 23% in the year on a reported basis, with strong double-digit growth across all geographies. We saw significant sales momentum across client tiers and segments, with a large volume of deals signed throughout the year. We continued to win all the largest deals in our markets, in particular signing with Openbank, the digital bank of Santander Group, in Q4, for a core banking replacement, as well as announcing deals with KBC and Itaú. We made very good progress in the US, announcing a deal with a US tier 1 bank for a multi-country IT renovation for part of their corporate bank.

Maintenance revenues grew 10% on a reported basis, and Services revenues grew 13% on a reported basis.

Non-IFRS

Total Non-IFRS revenue in 2017 was USD 736.7 million, an increase of 16% compared to 2016 on a reported basis, with the USD 1.3 million difference between IFRS and non-IFRS revenues due to an adjustment for a deferred revenue write-down relating to the acquisition of Rubik which closed in May 2017.

COST BASE

IFRS

Full year costs on an IFRS basis were USD 557.1 million, up from USD 484.8 million in 2016. The majority of the cost increase was driven by our continued investment in Sales and Marketing and product development which are both critical for us to continue taking market share in the future. Services costs also increased in line with revenues and lastly a portion of the cost increase was driven by the acquisition of Rubik, which contributed about USD 18 million of costs in the year.

Non-IFRS

Full year costs on a non-IFRS basis were USD 513.1 million, up from USD 448.6 million in 2016. Of the USD 44 million difference between the IFRS and non-IFRS cost base, USD 35 million is due to adjustments made for the amortization of acquired intangibles costs and USD 8.9 million due to adjustments made for restructuring costs and acquisition-related charges.

EBIT AND EARNINGS PER SHARE (EPS)

IFRS

On an IFRS basis, EBIT was USD 178.3 million compared to USD 149.2 million in 2016. The strength of our business model enables us to deliver strong growth in revenue and profit, creating significant value for our shareholders. EPS for 2017 was USD 1.90, compared to USD 1.61 in 2016.

Non-IFRS

EBIT on a non-IFRS basis was USD 223.5 million, up from USD 186.5 million in 2016, an increase of 20% on a reported basis. EPS was USD 2.45, up from USD 2.07 in 2016, an increase of 18%.

Non-IFRS EBIT margin was 30.3%, up from 29.4% in 2016, as we continued to leverage our cost base in particular across G&A and Services. Our Services operating margin was 9.7% for the year, up from 9.1% in 2016. Our strategy of working closely with Partners and focusing on the governance of our projects is enabling us to continuously improve the margin in our Services business and we expect this will continue in the coming years.

CASH FLOWS

We generated USD 300 million of operating cash in 2017, representing a cash conversion of 114% of EBITDA. We have maintained our guidance for 100%+ conversion of EBITDA into operating cash flow in 2018, as we continue to grow our recurring revenue streams and see the positive impact of tier 1 and 2 clients who contributed 59% of total software licensing revenue in the year, up from 52% in FY 2016.

USDm, except EBIT margin and EPS	Non-IFRS			IFRS		
	2017	2016	Change	2017	2016	Change
Software licensing	248.5	205.1	21%	248.5	205.1	21%
SaaS and subscription	67.5	51.1	32%	66.2	50.1	32%
Total software licensing	316.1	256.2	23%	314.8	255.1	23%
Maintenance	274.8	250.4	10%	274.8	234.0	10%
Services	145.8	128.5	13%	145.8	250.4	13%
Total revenues	736.7	635.1	16%	735.4	634.0	16%
EBIT	223.5	186.5	20%	178.3	149.2	20%
EBIT margin	30.3%	29.4%		24.2%	17.8%	
EPS (USD, fully diluted)	2.45	2.07	18%	1.90	1.61	18%

FINANCIAL REVIEW continued

RECONCILIATION FROM IFRS EBIT TO NON-IFRS EBIT

USDm	2017	2016
IFRS EBIT	178.3	149.2
Deferred revenue write-down	1.3	1.1
Amortisation of acquired intangibles	35.0	31.7
Restructuring	6.9	4.5
Acquisition-related charges	2.0	–
Non-IFRS EBIT	223.5	186.5

DSOs decreased by eight days again in 2017 to reach 119 days by year end, in line with our target of reducing DSOs by five to ten days per annum which we have maintained for 2018. We continue to target DSOs to reach 100 days in the medium term.

Our free cash flow reached USD 227 million and has now grown 19% per annum for the last two years, as we continue to efficiently manage our capital expenditures.

BALANCE SHEET AND FINANCING

Temenos is highly cash generative with a strong balance sheet which enables:

- > the servicing of our debt obligations;
- > investment in the business, including industry leading R&D spend;
- > funding for targeted acquisitions;
- > the payment of an annual dividend; and
- > returning additional value to shareholders through share buybacks.

We continue to actively pursue acquisition opportunities as a driver of shareholder value creation, as well as investing in the business to position ourselves for the market opportunity.

We ended 2017 with a leverage ratio of 1.0x net debt to non-IFRS EBITDA. We have put ourselves in a very strong position at the start of 2018 and have significant capacity to pursue inorganic growth opportunities in line with our M&A strategy.

DIVIDEND

We have announced a dividend of CHF 0.65 per share for 2017, representing an increase of 18%. This is subject to shareholder approval at the AGM on 15 May 2018. The shares will trade ex-dividend on 18 May 2018, and the dividend record date will be set on 22 May 2018. The dividend will be paid on 23 May 2018. As with previous years, the 2017 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted from withholding tax. Temenos' policy is to distribute a sustainable to growing dividend.

LOOKING FORWARD

Guidance for 2018

Our 2018 guidance is as follows:

- > Non-IFRS total software licensing growth at constant currency of 13.5% to 18.5% (implying total software licensing revenue of USD 363 million to USD 379 million);
- > Non-IFRS revenue growth at constant currency of 10% to 13% (implying revenue of USD 819 million to USD 840 million);
- > Non-IFRS EBIT at constant currency of USD 255 million to 260 million (implying non-IFRS EBIT margin of 31.1% – 31.0%);
- > 100%+ conversion of EBITDA into operating cash flow; and
- > Tax rate of 15% to 16%.

Medium term targets

We revised upwards our medium term targets at the start of 2018 to reflect the strong growth in our business and our end-market:

- > Non-IFRS total software licensing growth of at least 15% CAGR;
- > Non-IFRS revenue growth of 10-15% CAGR;

- > Non-IFRS EBIT margin improvement of 100 to 150bps on average per annum;
- > Non-IFRS EPS growth of at least 15% CAGR;
- > Cash conversion of over 100% of EBITDA p.a.;
- > DSOs reducing by five to ten days per annum; and
- > Tax rate of 17% to 18%.

Drivers of growth in 2018 and the medium term

We held our 2018 Capital Markets Day in February, where we outlined the multiple structural growth drivers that we continue to benefit from.

We have a very large addressable market that is forecast to grow at an 8% CAGR in the medium term. Total global spend in areas that Temenos can address with its products is estimated to be USD 48 billion a year, of which USD 10 billion today is spent with third party vendors. The remaining USD 38 billion is spent in-house by banks on building and maintaining software. Banks are under sustained cost and regulatory pressure, as well as the move towards open banking. An ever increasing number of banks are responding to these pressures by shifting spend from in-house to third party vendors, to drive efficiencies and provide their customers with a truly digital service.

We continue to expand our addressable market by investing in new products, for example expanding our offering in the USD 700 million compliance software market and building a product with a tier 1 client for the USD 900 million origination market.

We continue to win all the largest deals in our markets and today have penetrated 30% of tier 1 and 2 banks globally, including 41 of the top 50 banks in the world. This means we have a massive opportunity to win more tier 1 and 2 clients, where the IT needs and addressable spend is far greater. However, even within our existing tier 1 and 2 clients, we have only captured about 4% of the total addressable spend in each institution to date. We have seen on average a 30% annual increase in spend from tier 1 and 2 clients undergoing progressive renovation

SIGNIFICANT, SUSTAINED SHAREHOLDER RETURNS

Medium term targets

At least 15%

Total software licensing (CAGR)

10-15%

Total revenue (CAGR)

100-150

p.a. EBIT (bps)

At least 15%

EPS (CAGR)

5-10

DSO reduction (days)

100%+

of EBITDA (Cash conversion)

17-18%

Tax rate

with Temenos and we expect this to continue growing as we work with these institutions to renovate their IT platforms.

Because of this we expect the contribution from tier 1 and 2 clients to continue increasing. In 2017, 59% of total software licensing came from tier 1 and 2 banks, up from 52% in 2016. This has given us the highest level of revenue visibility ever at the start of 2018.

We see significant opportunities across our installed base from cross-selling, progressive renovation and re-licensing and we expect revenues from the installed base to grow at a CAGR of 15-20% in the medium term.

Banks are increasingly interested in our SaaS and cloud offering, as demonstrated by the deal announced with Itaú, the largest bank in Latin America, in the fourth quarter of 2017. We expect our SaaS revenues to grow at a c.35% CAGR in the medium term to represent at least 15% of total software licensing revenues.

We made very good progress on our US strategy in 2017 with the signing of a US tier 1 bank in Q4 and reaching key milestones in the ongoing implementation with Commerce Bank. We expect North America to contribute 25% of total software licensing in the medium term as we continue to build our references and win more campaigns with the largest banks in this market.

CLOSING THOUGHTS

I am delighted with our financial and operating performance in 2017, coming on the back of an outstanding 2016 and 2015. We continue to be the leading vendor in our market, in particular for the world's largest banks, and have demonstrated we can consistently execute on the market opportunity to drive growth in revenue and profitability for our shareholders.

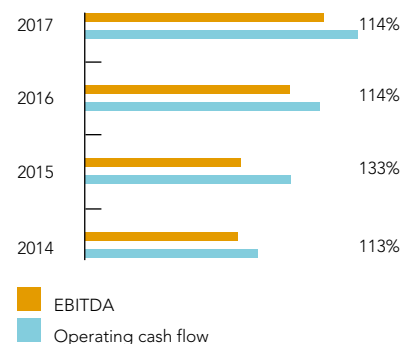
Max Chuard
Chief Financial Officer and
Chief Operating Officer

DSO

119

31/12/17	119
31/12/16	127
31/12/15	154
31/12/14	181

CASH CONVERSION



RESPONSIBLE RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES



RISK MANAGEMENT

Temenos Risk management policy is consistent with ISO: 31000 Risk management – Principles and guidelines. It defines the methodology, roles and responsibilities, reporting and monitoring for key risks. Temenos' operational management is responsible for managing day-to-day risks. Periodical risk assessments are done within business units and reported to management along with mitigation plans where appropriate. The Audit Committee oversees the program and reviews key risks of the group.

We have implemented a robust internal control and risk management system for financial reporting that goes beyond statutory requirements. All relevant risks are identified, formally assessed and documented. For each risk we have implemented specific controls. Their effectiveness is regularly evaluated through a self-assessment process which is independently tested by internal and external auditors.

The following sections outline the risks that we have identified and track. They represent an aggregated view.

ECONOMIC, POLITICAL AND SOCIAL ENVIRONMENT

Temenos derives all of its licensing, SaaS, maintenance and services revenues from banks and other financial institutions. The banking industry is sensitive to changes in global economic conditions, financial markets and is highly susceptible to unforeseen external events, such as political instability, terrorist attacks, recession, inflation or other adverse occurrences that may result in a significant decline in the use and/or profitability of financial services. Any event that results in decreased consumer or corporate use of financial services, cost-cutting measures by financial services companies, or increased pressure on banks and financial institutions to develop, implement and maintain solutions in-house rather than going to external providers, may negatively affect the level of demand for Temenos products and services.

In recent years, there have been substantial changes in the banking industry, including continuing consolidation among market participants, decreasing profit margins in certain sectors, the introduction of wide ranging regulatory changes and extensive technological innovation. These changes have inter alia resulted in increased IT spending by banks and driven market participants to replace legacy systems, leading to increased demand for Temenos' solutions. If the pace of change were to decrease, demand for Temenos' products and services may decrease, which could have a material effect on Temenos' business, financial adverse condition and results.

Temenos' global presence, comprehensive product offering and market leadership help to mitigate this risk.

LAW AND LITIGATION

Temenos operates in various legal jurisdictions and as such is subject to various legal and regulatory requirements. Temenos may have legal proceedings or litigious actions brought against it. The outcome of these proceedings or actions are intrinsically uncertain and the actual outcomes could differ from the assessments made by management in prior periods, resulting in increases in provisions for litigation in the accounts of Temenos. Adverse outcomes to legal proceedings or litigious actions could result in the award of significant damages or injunctive measures that could hinder Temenos' ability to conduct business and could have a material adverse effect on its reputation, business, financial position, profit, and cash flows.

Litigation of intellectual property infringement claims may increase as a result of Temenos acquiring companies which rely on third-party code including open source code, Temenos expanding into new areas of the banking industry resulting in greater overlap in the functional scope of products, and increasing assertion of intellectual property infringement claims by non-practicing entities that do not design, manufacture, or distribute products.

Although Temenos believes that its products do not infringe upon the intellectual property rights of others, and that Temenos has all the rights necessary to utilize the intellectual property employed in its business, Temenos is still subject to the risk of claims alleging infringement of third-party intellectual property rights, including in respect of intellectual property that has been developed by third parties and acquired by Temenos in business or asset purchase transactions. Responding to such claims, regardless of whether they are with or without merit and negotiations or litigation relating to such claims could require Temenos to spend significant sums in litigation costs, payment of damages and expend significant management resources. In addition, such claims could lead to shipment delays or require Temenos to enter into royalty or licensing agreements on unfavorable terms, discontinue the use of challenged trade names or technology, or develop non-infringing intellectual property. Temenos liability insurance does

not protect it against the risk that its own or licensed third-party technology infringes the intellectual property of others. Therefore, any such claims could have a material adverse effect on Temenos' reputation, business, operating results and financial condition.

Temenos legal teams are aligned to business operations and are involved early in any decisions which may incur legal implications. The legal team reviews and provides guidance on complex client contracts to ensure contractual agreements align to local commerce laws and regulations. Whenever possible, Temenos tries to contractually limit its liabilities. This is covered further in Foreign Operating Environments.

More broadly, the risk of potential breach of legislative or regulatory requirements through general operations, such as breach of listing requirements or group level legal requirements are managed through group level controls, compliance policies and procedures.

Policy compliance requirements are periodically assessed through Risk Management processes and reviewed by Internal Audit to provide comfort over adequacy of policies, processes and compliance.

IP PROTECTION

Temenos relies upon a combination of copyright, trademark and trade secrecy laws, trade secrets, confidentiality procedures, contractual provisions and license arrangements to establish and protect its proprietary rights and Temenos' ability to do so effectively is crucial to its success. Temenos enters into agreements with its employees, Partners, distributors and clients that seek to limit the distribution of and otherwise protect its proprietary information. However, Temenos cannot give full assurances that the steps taken will be adequate to prevent misappropriation of its proprietary information as all of the protection measures afford only limited protection. Temenos' proprietary rights could be challenged, invalidated, held unenforceable or otherwise affected. Certain proprietary technology may be vulnerable to disclosure or misappropriation by employees, Partners or other third parties and third parties might reverse-engineer or otherwise obtain and use technology and information that Temenos regards as proprietary. Accordingly Temenos might not be able to protect its proprietary rights against unauthorized third-party copying or utilization, which may undermine Temenos' market position and deprive it of revenues.

Temenos may not be able to detect unauthorized use of its intellectual property, or take appropriate steps to enforce Temenos' intellectual property rights. Temenos' products are used globally and are therefore subject to varying laws governing the protection of software and intellectual property in each of these jurisdictions. Temenos cannot guarantee that its software and intellectual property will be afforded the same level of protection in each jurisdiction, as some jurisdictions may offer no effective means to enforce Temenos' rights to its proprietary information, which could result in competitors offering products that incorporate features equivalent to Temenos' most technologically advanced features, which could have a material adverse effect on Temenos' business, results of operations and financial condition.

PRINCIPAL RISKS AND UNCERTAINTIES continued

IP PROTECTION continued

Any legal action that Temenos may bring to enforce its proprietary rights could involve enforcement against a Partner or other third party, which may have a material adverse effect on its ability, and its clients' ability, to use that partner's or other third parties' products. Moreover, litigation, which could involve significant financial and management resources, may be necessary to enforce Temenos' proprietary rights. Any material infringement of Temenos' proprietary technology could have an adverse effect on its reputation, business, financial position, profit and cash flows. Our Partner contracts are designed in a manner which provides clarity and understanding of both parties with regard to the protection and safeguarding of their IP.

UNDETECTED DEFECTS OR SECURITY VULNERABILITIES

Temenos' products and offerings may contain defects or security vulnerabilities that Temenos has not been able to detect and that could adversely affect the performance of the products and negatively impact Temenos' relationship with its clients. This could occur when developing a new product or service or when developing a new version or enhancement of an existing product. It is not always possible to identify and rectify any errors or defects during a product or services developmental phase, and more commonly Temenos has discovered minor software defects in certain new versions and enhancements of its products after they have been introduced. The detection and subsequent correction of any errors or defects can be expensive and time consuming, and it is not always possible to meet the expectations of clients regarding the timeliness and the quality of the defect resolution process. In a worst case scenario, it might not be possible to wholly rectify certain defects or entirely meet client expectations. In such circumstances it is possible that clients may pursue claims for refunds, damages, attempt to terminate existing arrangements, request replacement software or seek other concessions.

A defect or error in any newly developed software of Temenos could result in adverse client reactions and negative publicity, as Temenos' clients and potential clients are highly sensitive to defects in the software they use. Any negative publicity could hinder the successful marketing of the new software, reducing demand for the software. A defect or error in new versions or enhancements of Temenos' existing products could result in the loss of orders or a delay in the receipt of orders and could result in reduced revenues, delays in market acceptance, diversion of development resources, product liability claims or increased service and warranty costs, any of which may have a material adverse effect on Temenos' business, results of operations and financial condition. Any claim brought against Temenos in connection with defective

software, regardless of its merits, could entail substantial expense and require a significant amount of time and attention by management personnel.

We continually enhance our quality program as part of SDLC. We have centralized our product security group and practices. Extensive testing is carried out to identify and resolve any issues which may adversely affect the functionality, security and other performance of our products and offerings.

KEY PERSONNEL

Temenos operates in an industry in which there is an intense competition for experienced and highly qualified individuals. The economic success of Temenos is partly dependent on its ability to identify, attract, develop, motivate, adequately compensate and retain highly skilled and qualified management, sales, support, service, marketing and software development personnel, particularly those with expertise in the banking software industry. In particular, Temenos depends heavily on the continued service and performance of its Directors, members of its Executive Committee and other senior managers and technical personnel. In addition, Temenos relies on hubs of its technical staff at its facilities in India, Romania and other locations for cost-effective development, support and other activities. Temenos believes that in order to grow its business it will need to continue to hire and retain highly qualified employees with the requisite skills and expertise to support its growing client base. There is intense competition for experienced and highly skilled personnel, and there is no guarantee that Temenos will continue to be able to successfully and consistently meet its personnel recruitment goals. If Temenos fails to recruit and retain the numbers and types of employees that it requires, its business, operating results and financial condition may be adversely affected.

Incentive and recognition programs are utilized to align staff efforts to organizational objectives. Staff receive various training to ensure they have the necessary skills to perform their duties. We have launched various CSR initiatives to demonstrate our commitment to employees. Career and succession planning are carried out annually to provide for continuity of operations.

FOREIGN OPERATIONS

Temenos systems are currently installed at more than 3,000 live sites in 150 countries and it has sales and support offices in 41 countries. Temenos' future revenue growth depends on the continued successful expansion of its development, sales, marketing, support and service organizations, through direct or indirect channels, in the various countries around the world where its current and potential clients are located, including in many developing or newly industrialized countries. Such expansion will require the opening of new offices, hiring new personnel and managing operations in widely disparate locations with different economies, legal systems, languages and cultures, and will require significant management attention and financial resources. Temenos' operations are also affected by other factors inherent in international business activities, such as:

- > differing or even conflicting laws and regulation of risk and compliance in the banking sector;
- > difficulties in staffing including works councils, labor unions and immigration laws and foreign operations;
- > the complexity of managing competing and overlapping tax regimes;
- > differing import and export licensing requirements;
- > operational difficulties in countries with a high corruption perception index;
- > protectionist trade policies such as tariffs;
- > limited protection for intellectual property rights in some countries;
- > difficulties enforcing intellectual property and contractual rights in certain jurisdictions;
- > differing data protection and privacy laws; and
- > political and economic instability, outbreaks of hostilities, terrorism, mass immigration, international embargoes, sanctions and boycotts.

The risks associated with the factors stated above will intensify as Temenos expands further into new countries and markets through organic growth or acquisitions. Additionally laws and regulations and governments' approaches to their enforcement, as well as Temenos' products and services, are continuing to change

and evolve. Compliance with the laws and regulations in the various jurisdictions may involve significant management time, costs and require costly changes to products and/or business practices.

Risks related to foreign operations are regularly assessed and mitigated as needed. Specific policies and procedures are in place to ensure compliance with export control and sanctions, anti-bribery and corruption, anti-money laundering, data protection and privacy and other legislation.

Foreign exchange and/or interest rate fluctuations

Temenos' financial statements are expressed in US dollars and Temenos generates the majority of its revenues in US dollars. However, a significant portion of its operating expenses are incurred in currencies other than the US dollar, particularly in euros, Swiss francs, Rupees and Pounds Sterling. In some jurisdictions Temenos receives payment in US dollars, but independent distributors resell the products to clients in the local currency.

Furthermore, Temenos is exposed to the fluctuation in exchange rates of each of these currencies. Temenos makes efforts to mitigate its foreign exchange risk by aligning its revenue streams to currencies that match its cost base and hedges most of the residual exposure by the use of derivative instruments. However, such hedging may not be sufficient protection against significant fluctuations in the exchange rate of the US dollar to other currencies, in particular those currencies in which Temenos incurs operating expenses, generates revenues or holds assets. Such fluctuations may impose additional costs on Temenos and have a material adverse effect on Temenos' financial condition and results of operations, and on the comparability of its results between financial periods.

Temenos uses a combination of various techniques to protect against currency and rates fluctuations.

PRINCIPAL RISKS AND UNCERTAINTIES continued

COMPLIANCE WITH THE TERMS OF TEMENOS CREDIT FACILITIES

Temenos has credit facilities in place with a syndicate of banks. The facilities contain financial and negative covenants, undertakings and event of default provisions. Moreover, the facilities contain cross-default provisions such that a default under another debt instrument, such as the Bonds, could result in a default under the credit facilities and acceleration of the debt thereunder.

The inability of Temenos to draw under the credit facilities to satisfy its financing requirements, could have an adverse effect on Temenos' growth. Compliance with the terms is monitored on monthly basis.

MANAGING CLIENT RELATIONSHIP

Temenos' relations with clients are protracted due to the nature of the products provided. The relationship continues from implementation to maintenance, support and upgrades through the life of the product. As such the client relationship is a long term and multi-faceted arrangement and must be managed accordingly. The contractual arrangements supporting this relationship are therefore often varied and diverse to reflect the nature of the requirements of the client factoring in specific legal and cultural requirements of the client's operating environment as well as the multiple stages of the relationship.

Temenos has increased its focus on assessing client satisfaction and proactively seeking and responding to client feedback.

Prior to entering into new client relationships Temenos is taking additional steps to develop a client profile which assists in clearly identifying and articulating client requirements as well as providing a mechanism to identify and mitigate any potential areas for concern which may materialize into disagreements at a later date.

Improved mechanisms for tracking and oversight of contract clauses are utilized by the global contract team to provide additional comfort over the effective management of client contractual arrangements.

Temenos aims to build long term strategic relationships with clients in order to maximize the value provided to both parties. Through strong relationships, Temenos is able to further develop products according to industry needs and requirements.

STRATEGIC PARTNERSHIPS

Temenos delivers its products to clients directly and indirectly through distributors and through strategic alliances with IT service providers. Temenos' strategic Partners sell to clients and provide implementation services through a contract with the client, rather than with Temenos. These relationships with IT service providers and strategic Partners help to drive co-innovation of Temenos' products, profitably expand Temenos' routes-to-market to enhance market coverage and provide high quality services in connection with Temenos' product offerings. Any failure to maintain and expand these relationships could adversely affect Temenos' products and services which, in turn, would have an adverse effect on Temenos' ability to compete successfully with its competitors and therefore negatively affect the results of operations and financial condition.

CLOUD AND SAAS SOLUTIONS

Cloud and SaaS technology is inherently complex and relatively new to the banking and financial market sector. Accordingly, Temenos may be subject to changing regulatory requirements, evolving client attitudes and technical complexities in developing a new business offering and support services. Temenos may fail to achieve desired operating profit results in this new market due to regulatory changes, inability to develop a competitive product or which appeals to its clients.

By providing cloud technology to clients, Temenos will hold client data. Hardware or data center failures, product defects or system errors could result in data loss or corruption, or cause the information held to be incomplete or contain inaccuracies. The availability of Temenos' application suite could be interrupted by a number of factors, such as the failure of a key supplier, its network or software systems due to human or other error and security breaches.

Although Temenos employs strict security, data protection and privacy measures there is a risk that such measures could be breached as a result of third party action, employee error and malfeasance, or otherwise, and if as a result unauthorized access is obtained to client data, which may include personally identifiable information about users, Temenos could suffer significant reputational damage and be exposed to liabilities.

Temenos is constantly enhancing its cloud and SaaS offering and security. In addition, Temenos holds SSAE 16 SOC 2 and ISO 27001 certifications to provide a greater degree of assurance to clients.

SOFTWARE IMPLEMENTATION PROJECT MANAGEMENT

The implementation of Temenos' software and integration of various product components is a complex procedure requiring skilled and experienced personnel. The implementation of Temenos' software is often performed in part or wholly by service delivery Partners as well as committed resources of the client. The complex nature of the custom built, componentized product also makes it necessary to provide training and education on the operation of the product.

The reliance on third party capabilities, and the complex nature of product customization and installation requirements mean that there is a high potential for unforeseen events to occur delaying the progress of implementations.

Temenos focuses heavily on training the staff and Partners responsible for implementation of software to ensure a strong mix of qualified project managers and technical product expertise. Temenos ensures the adequacy of skills through requiring certification of staff and Partners in Temenos Implementation Methodology and products. Launch of Temenos Learning Community (TLC) shows our further commitment to this area.

Implementation teams are also trained to identify and effectively manage any unforeseen events and a suite of risk management tools are used to monitor and track potential issues which may adversely impact the successful installation of software. Project governance boards are held monthly to oversee the delivery of the implementation against milestones.

Temenos Implementation Methodology is periodically reviewed and updated in order to maintain high standards for Temenos staff and Partners. Identified initial project risks receive an increased level of review and analysis in order to more effectively mitigate and monitor them throughout the life of the implementation project.

MERGERS AND ACQUISITIONS

Temenos pursues a strategy of making targeted acquisitions. The risks associated with such a strategy include the availability of suitable candidates and successful integration. Failure to assimilate operations and personnel, and the risk of entering markets in which Temenos has no or limited prior experience may materialize. The process of integrating an acquired company or business is risky and may create unforeseen operating difficulties and expenditures. These may not be limited to difficulties in integrating the operations, technologies, services and personnel of the acquired businesses; unexpected costs or liabilities of acquired businesses (or future acquisitions); ineffectiveness or incompatibility of acquired technologies or services; failure to realize operating benefits or synergies from completed transactions; potential loss of key employees of acquired business and cultural challenges associated with integrating employees from the acquired company; inability to maintain the key business relationships and the reputations of acquired businesses; and diversion of management's attention from other business concerns.

Further consolidation in Temenos' industry may decrease the number of potential desirable acquisition targets. Failure to acquire, integrate and derive the desired value of any businesses or assets in the future could materially adversely affect Temenos' business, results of operations and financial condition.

In addition, acquired businesses might not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets on Temenos' statement of financial position.

Detailed integration planning is utilized to ensure a smooth transition of product offerings and services. Legal, commercial and personnel matters are also considered prior to integration in order to limit exposure to unexpected losses or damage.

PRINCIPAL RISKS AND UNCERTAINTIES continued

SECURITY, BUSINESS CONTINUITY AND DISASTER MANAGEMENT

As a software technology vendor and services provider, we face various cyber and other security threats, including:

- > attempts to gain unauthorized access to sensitive information and networks;
- > insider threats;
- > threats to the safe and secure operation of our software solutions and services;
- > threats to the safety of our Directors, officers and employees;
- > threats to the security of our facilities and infrastructure; and
- > threats from terrorist acts or other acts of aggression.

Our clients and Partners (including subcontractors) face similar threats.

Although we utilize various procedures and controls to monitor and mitigate the risk of these threats, there can be no assurance that these procedures and controls will be sufficient. These threats could lead to losses of sensitive information or capabilities, harm to personnel, infrastructure or products, and/or damage to our reputation as well as our Partners' ability to perform on our contracts.

Cyber threats are evolving and include, but are not limited to:

- > malicious software;
- > destructive malware;
- > attempts to gain unauthorized access to data;
- > disruption or denial of service attacks; and
- > other electronic security breaches.

These threats could lead to disruptions in mission critical systems, unauthorized release of confidential, personal or otherwise protected information (ours or that of our employees, clients or Partners), and corruption of data, networks or systems. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our Partners' or clients' systems that are used in connection with our business. These events, if not prevented or effectively mitigated, could damage our reputation, require remedial actions and

lead to loss of business, regulatory actions, potential liability and other financial losses.

We provide software products and services to various clients who also face cyber threats. Our software products and services may themselves be subject to cyber threats and/or they may not be able to detect or deter threats, or effectively to mitigate resulting losses. These losses could adversely affect our clients and our Company. The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, regulatory actions and potential liability, any one of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

From an organizational perspective, the Security and Privacy Committee provides the group level oversight.

In terms of business processes, security assurance is integrated into all business processes related to R&D, the supply chain, sales and marketing, delivery, and technical services. In addition, Temenos reinforces the implementation of the cyber security assurance system by conducting internal audits and receiving external certification and auditing from security authorities or independent third-party agencies. Furthermore, Temenos has already been certified to ISO 27001:2013 since 2009.

In connection with personnel management, our employees, Partners and consultants are required to comply with security policies and requirements established by Temenos and receive appropriate training so that the concept of security is deeply rooted throughout Temenos. To promote cyber security, Temenos will reward employees who take an active part in cyber security assurance and will take appropriate action against those who violate cyber assurance policies. Employees may also incur personal legal liability for violation of relevant laws and regulations. If Temenos security measures are breached and unauthorized access is obtained to Temenos' IT systems, Temenos' business could be disrupted and Temenos may

suffer financial losses as a result of the loss of confidential client information or otherwise.

Temenos' insurance coverage might not cover claims against it for loss or security breach of data or other indirect or consequential damages. If Temenos experiences interruptions in the availability of its application suite, Temenos' reputation could be harmed, which may have a material adverse effect on Temenos' business and financial condition.

As part of the periodic Risk Assessment of IT infrastructure, potential physical and security vulnerabilities are factored into the process for developing a resilient and robust IT infrastructure.

The physical security of IT infrastructure and personnel are kept secure through standardized general IT controls across Temenos in line with best practice standards.

A Business Continuity Management framework currently provides contingency planning for all mission critical business functions and process within the organization.

Information systems are regularly audited internally and externally to provide a reasonable assurance on effective management of these risks.

INSURANCE

Temenos has taken out a variety of insurance policies in areas where a loss would have a significant financial impact, or to ensure safety of employees while on business trips.

Across the various local legal jurisdictions in which Temenos operates, there are various legal requirements to hold certain insurance policies such as workers compensation policies and public liability for example.

Temenos' local offices manage their legally required policies with oversight and review by Temenos Head Office. Also each office is reviewed and as necessary covered for property damage, business interruption and public liability risks. Information and IT infrastructure is also covered by regional and local computer policies.

The United States and Canada are of particular note with regard to statutory imposed insurance requirements and are as such monitored carefully to provide sufficient coverage.

Temenos Head Office also manages all global policies. The main global policies provide coverage across core business areas as follows; Professional Indemnity liability (covering Errors and Omissions, Cyber Liability and Data Protection), Cyber Insurance, Crime Insurance, Global Travel Insurance and Directors and Officers policy that is providing the professional coverage.

All insurance policies are reviewed periodically to ensure that Temenos, our offices and employees are adequately covered in line with the most actual and comprehensive insurance portfolio software for companies.

INTERNAL CONTROLS FAILURES

Although Temenos considers the controls and procedures it currently has in place to minimize the financial reporting, legal, disclosure and other regulatory, compliance and operational risks associated with its business to be adequate for its purposes, Temenos recognizes that the efficacy of some of these controls and procedures depends significantly on employees and contractors, and on input from external legal and other advisers and all of these controls and procedures need to be kept under regular review, particularly given the pace at which Temenos' business has developed and generally increasing regulatory scrutiny.

There is no assurance that Temenos will not be targeted by those willing to commit fraud against Temenos. Such an action could come from either an internal or external source and could result in a significant adverse impact on Temenos' business, results of operations and financial condition.

Internal controls are regularly reviewed, updated and tested. Internal audit serves as a third line of defense to provide assurance on the effectiveness of the internal controls system.



OPERATING RESPONSIBLY

Operating responsibly

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ACHIEVING EXCELLENCE RESPONSIBLY

MESSAGE FROM THE CEO



David Arnott
Chief Executive Officer

“Our 2017 CSR report reflects our commitment to achieving business excellence and long term value in a sustainable and responsible way.”

David Arnott
Chief Executive Officer

Regulatory requirements, stakeholder pressures, reputational impacts, changes in corporate governance and business growth models and the need for competitive differentiation drive more and more businesses around the globe to publicly disclose how they manage environmental, social and governance (ESG) risks and opportunities.

At the same time, digital is creating world-changing innovations, while disrupting industry and how people work, playing a major role in business performance and social development.

Temenos, based on a solid corporate foundation with a strong governance model and a business culture of compliance, ethics and innovation, has been operating at a

high standard of integrity, responsibility and professionalism for more than 20 years. As a global corporation, we understand the responsibility that comes with that role and are committed to working with all our stakeholders to build strong, long term relationships and create sustainable value for them.

Understanding and meeting the expectations of our stakeholders is an important aspect of our CSR strategy. One of the goals we set for 2017 was a challenging one: to measure our non-financial performance and report on it along with our financial performance in accordance with the Global Reporting Initiative (GRI) guidelines. In that way, we can be better prepared to anticipate global and local business, social and environmental challenges, direct and indirect pressure coming from regulation, voluntary compliance initiatives, our peers, clients and prospects and actively manage the risks and opportunities associated with them.

Our 2017 CSR report reflects our commitment to achieving business excellence and long term value in a sustainable and responsible way through superior financial as well as social performance. We continue to demonstrate our internal commitment to our stakeholders to operate our business responsibly; i.e. having integrated sustainability into our corporate mission, policies and processes, our business planning, measurement and reporting systems, our management practices, decision-making and governance in alignment with the ten principles of the United Nations Global Compact, as well as the OECD Guidelines for Multinational Enterprises. We also outline our external commitment to use our assets, products and resources and focus our skills and expertise in a way that has a positive impact on the world around us.

These commitments guide the way we operate, innovate and deliver on our business mission; how we develop our digital strategy and use technology to help raise awareness and trigger actions on real-world problems; and most importantly, how we work to serve the world's most vulnerable communities to access affordable, trusted financial services that meet their needs, delivered in a responsible and sustainable way. These commitments fully align with our business mission while contributing to the global effort to achieve the UN Sustainable Development Goals.

As we look to the future, responsibility towards our stakeholders and the local communities will continue to be at the heart of what we do. Reflecting on our 20+ year successful journey, deeply committed to the Temenos mission and values and fully aligned with the United Nations Global Compact principles, we will continue to actively engage in dialogue with our stakeholders on our CSR strategy and actions, enable economic and social growth, drive continuous improvements towards that direction and deliver on our business mission for economic, social and environmental excellence.

David Arnott
Chief Executive Officer

ABOUT TEMENOS

Founded in 1993, Temenos Group AG is the market-leading provider of mission critical software to financial institutions globally with more than 3,000 clients in over 150 countries worldwide. Temenos software provides financial institutions with a single, real-time view across the enterprise, enabling them to maximize returns while streamlining costs.

Headquartered in Geneva, Switzerland, the Company has 64 offices in 41 countries and had non-IFRS revenues of USD 737 million for the year ended 31 December 2017. Temenos has been a public company listed on the SIX Swiss Exchange (TEMN) since June 2001.

Temenos employs 4,945 people worldwide, including full-time employees and contractors.

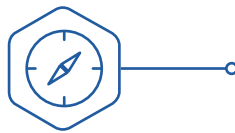
OUR VISION

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

HOW WE ACHIEVE IT

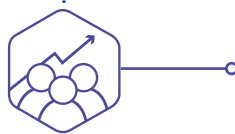
We do this by building, delivering and supporting the world's best packaged, upgradeable and open banking software

OUR VALUES



WE OPERATE RESPONSIBLY TO BUILD A SUSTAINABLE BUSINESS

We walk the extra mile to build strong and lasting relationships with our stakeholders and create sustainable value for them.



WE BELIEVE IN THE POWER OF PEOPLE

People make things happen. People define our destiny.



WE PLACE CLIENTS AT THE CORE OF WHAT WE DO

Everything starts and ends with our clients' goals.



WE SEE THINGS DIFFERENTLY FROM EVERYONE ELSE

Average people see difficulties, exceptional people see opportunities.



WE INSPIRE, THROUGH LIVING UP TO OUR FULL POTENTIAL

We dream big and pursue our goals fearlessly.

OUR CSR APPROACH

OUR COMMITMENTS

Temenos is committed to achieving business excellence and long term value through superior financial performance while operating responsibly and with integrity, honoring ethical values and respecting its stakeholders, communities and the environment.

We are committed to:

- > building long term sustainable relationships with our stakeholders
- > managing our operations in a responsible, secure and sustainable way
- > helping our clients transform into smart, sustainable organizations
- > achieving both financial and non-financial value (business and social value) for our stakeholders

OUR ENDORSEMENTS

International organizations as well as industry peer pressure play a major role in promoting CSR, transparency and accountability in corporate governance and business processes. Regulation as well as voluntary compliance with international standards are central to our CSR strategy. Temenos complies with the requirements of many international organizations, governmental organizations and industry standards, such as the EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups, India Companies Act 2013 and UK Modern Slavery Act 2015.

In addition, we align our commitments and CSR reporting with voluntary global standards. We base our CSR reporting on the Global Reporting Initiative (GRI) guidelines. We have endorsed the [United Nations Global Compact \(UNGC\)](#), having committed to submitting an annual Communication on Progress implementing the UNGC's 10 principles. We have aligned our Business Code of Conduct and corporate policies with the UNGC's 10 principles on the four issue areas of Human Rights, Labor, Environment and Anti-Corruption, as well as the OECD Guidelines for Multinational Enterprises. We support the UN Sustainable Development Goals (SDGs) and publicly report ways in which our operation as well as community investment are contributing to the global effort to achieve the SDGs.

Reporting, verification and assurance are important tools for us to measure the CSR progress as well as document our non-financial performance to all our stakeholders, while remaining competitive and ahead of the game.

2018 Goals

To continue to target international business benchmarks and voluntary initiatives relevant to the interests of our stakeholders, such as investor indices, ISO certifications and environmental performance ratings.

OUR ACTIONS

We have gone beyond the requirements of the law and have integrated CSR into our corporate strategy, business principles, policies and processes, decision-making and governance. Our CSR action plan focuses on three areas:

1. How to manage our CSR strategy
2. How to monitor, analyze and assess our ESG footprint, with the use of non-financial KPIs
3. How to communicate and raise awareness about our CSR strategy to all stakeholders internally and externally.

MATERIALITY ANALYSIS

Based on various risk assessments covering different areas related to the impact of our operations as well as on the on-going engagement process with our stakeholders, we have conducted a materiality analysis and assessment and identified the following material CSR issues for Temenos and for our key stakeholders. The materiality analysis was conducted in line with the GRI G4 requirements and included the views of our employees, clients, prospects, investors, suppliers, Partners, non-governmental organizations and media.

Understanding and prioritizing the issues that matter to Temenos and our stakeholders enables us to focus on the respective areas, address the right issues and report on them effectively, aligned



Enabling access to Financial Services

Investing in Our Communities



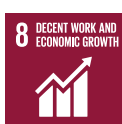
Investing in Our Communities



Investing in Our People

Enabling access to Financial Services

Investing in Our Communities



Investing in Our People

Enabling access to Financial Services

Investing in Our Communities



Operating Responsibly

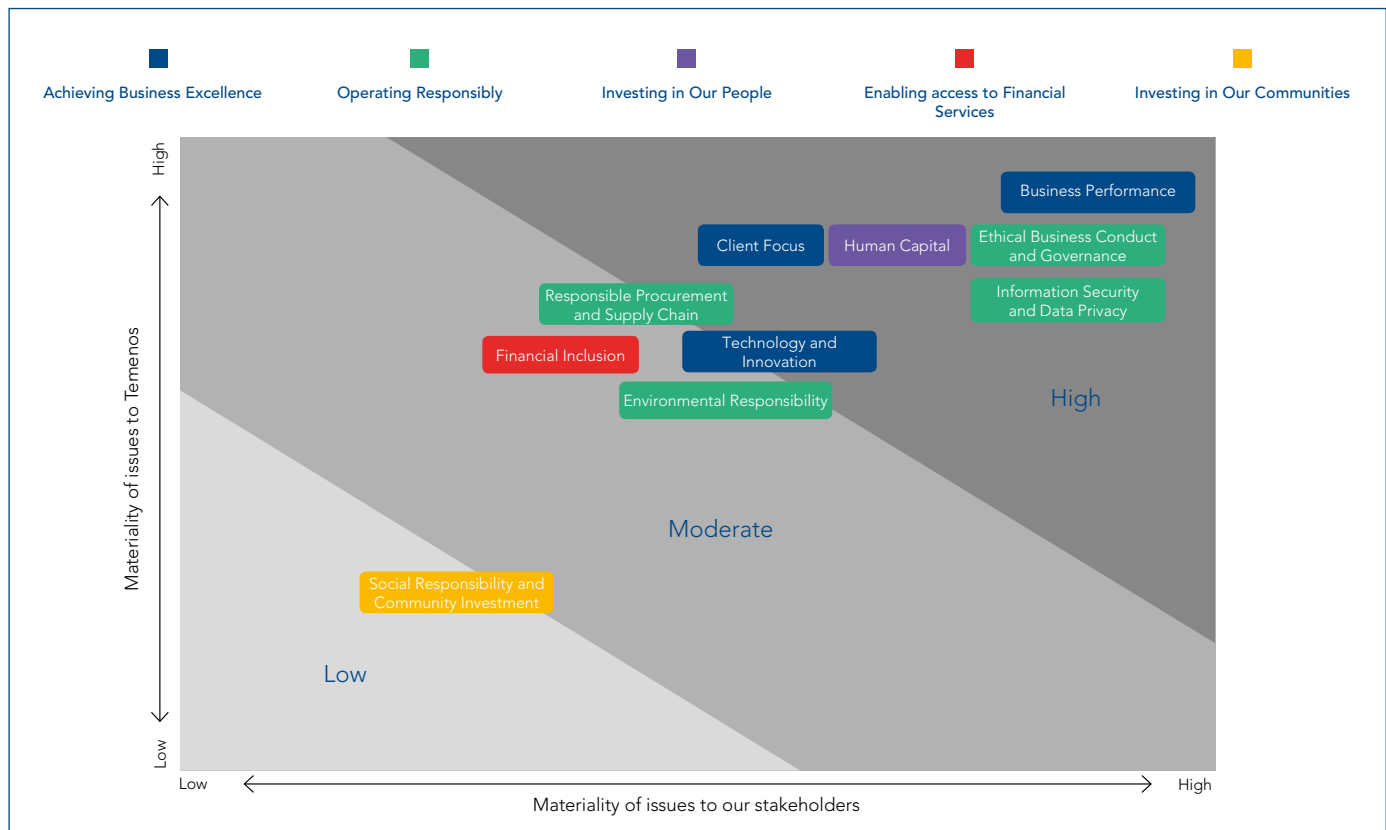


Operating Responsibly

Enabling access to Financial Services

Investing in Our Communities





with the interests and changing needs of our stakeholders and those of the Company. Based on the materiality analysis and assessment, we have developed our CSR strategy and set our commitments.

We define issues to be material to our business in terms of:

- > The importance of the issue to our key stakeholders
- > The potential impact on our operations or our supply chain
- > The degree to which this issue is aligned with our mission, vision and geographic presence
- > The extent of the Company's influence on the issue

The following main material issues for Temenos and our key stakeholders have been identified:

- > Business Performance
- > Ethical Business Conduct and Governance
- > Human Capital
- > Client Focus
- > Information Security and Data Privacy
- > Responsible Procurement and Supply Chain
- > Social Responsibility and Community Investment
- > Environmental Responsibility
- > Technology and Innovation
- > Financial Inclusion

For all of the issues discussed in this CSR Report, the data cover all Temenos operations globally except where otherwise noted. Our CSR strategy focuses on five priority areas, each with several topics of interest addressing the material issues:

- > Achieving Business Excellence
 - > Business Performance and Economic Impact
 - > Innovation and Technology
 - > Client Focus
- > Operating Responsibly
 - > Corporate Governance
 - > Ethical Business Conduct and Governance
 - > Information Security and Data Privacy
 - > Responsible Procurement and Supply Chain
 - > Environmental Responsibility
- > Investing in Our People
 - > Human Rights
 - > Diversity, Inclusion and Equal Opportunity
 - > Employee Relations
 - > Global Mobility, Health and Safety
 - > Employee Communication and Engagement
 - > Talent and Development
 - > Celebrating Excellence
- > Enabling Access to Financial Services
 - > Financial Inclusion Strategies
 - > Digital Transformation of Rural Finance
 - > Lowering Costs – Access to Quality Financial Services
 - > Strengthening Local Financial Intermediation

- > Investing in Our Communities
 - > Community Investment
 - > Employee Volunteering and Community Service

We believe that regular, open and transparent communication with our stakeholders is the most suitable medium to assess the impact of our operations and our performance as a corporate citizen. That is why we have integrated CSR considerations into our dialogue with our stakeholders, drawing upon international frameworks such as the United Nations Global Compact, the UN Guiding Principles on Business and Human Rights and the GRI guidelines.

STAKEHOLDER ENGAGEMENT

Engaging with our key stakeholders informs our decision-making, strengthens our relationships and helps us deliver our commitments and succeed as a business. In order to achieve our goals, we recognize that we need to work in partnership with those stakeholders who share our commitment and have a stake in our business. These engagements may take many forms, in order for us to better understand the needs and expectations of our stakeholders.

2018 Goals

To conduct a Stakeholder Engagement Survey to gain feedback on our existing CSR strategy and possible new areas for action. To be repeated every three years.

OUR CSR APPROACH continued

STAKEHOLDER GROUPS	STAKEHOLDER KEY CONCERNS	EXAMPLES OF ENGAGEMENT
Employees	<ul style="list-style-type: none"> > Career advancement > Training and development > Job satisfaction > Employee recognition > Responsible and secure workplace 	<ul style="list-style-type: none"> > Employee survey: MyVoice, New Joiner Survey > Career development framework: Pathfinder > Performance management process: Compass > Training and Development: Temenos University and multiple soft-skills, languages and technical training for upskilling > Internal Communication: uni-T intranet, social media and HR and regional Newsletters > Employee recognition: regional employee recognition awards, C-level awards, Club and Chairman's Club > Internal global mobility scheme > Business Code of Conduct and linked policies > Employee volunteering and fundraising matching scheme
Clients	<ul style="list-style-type: none"> > Client satisfaction and success > Quality, security and responsibility in delivery and implementation > Data privacy and protection 	<ul style="list-style-type: none"> > Client surveys: Client Voice program and Improve Client Satisfaction project > Product Board and Steering Committees > Annual Temenos Community Forum > Temenos Innovation Jams > Temenos MarketPlace > Client newsletters and updates > Client Support Portal > Audits > Temenos Security and Privacy Committee > Business Code of Conduct, data privacy and protection and corporate security policies
Investors	<ul style="list-style-type: none"> > Economic performance > Transparent and ethical corporate governance > Accurate, timely and responsible communication 	<ul style="list-style-type: none"> > Annual General Meeting of Shareholders > Annual Capital Markets Day > Roadshows, investor and analyst meetings > Financial press releases, videos and webcasts > Annual report > Corporate website > Business Code of Conduct and linked policies
Suppliers and Partners	<ul style="list-style-type: none"> > Ethical and responsible business conduct > Long term partnership 	<ul style="list-style-type: none"> > Procurement policies > Annual Temenos Community Forum > Annual Temenos Global Sales Meeting > Annual Partners' Meeting > Temenos Innovation Jams > Trainings and seminars > Audits and risk assessments
Communities	<ul style="list-style-type: none"> > Access to education and jobs > Improve local living conditions > Support in emergency situations 	<ul style="list-style-type: none"> > Cooperation with NGOs > Community service > Employee fundraising > Community investment projects
Academic Communities and Potential Employees	<ul style="list-style-type: none"> > Collaboration and job opportunities > Joint R&D projects 	<ul style="list-style-type: none"> > Temenos Sales Academy > Services Incubation Center > Internships > Collaboration in research programs > Lectures and presentations > Company visits > Career days

ACHIEVING BUSINESS EXCELLENCE

BUSINESS PERFORMANCE: FINANCIAL AND OPERATIONAL HIGHLIGHTS

2017 non-IFRS financial highlights

- > Total software licensing revenue growth of 23%.
- > Maintenance growth of 10%.
- > Total revenue growth of 16%.
- > Services margin of 9.7%, improvement of 0.6 percentage points.
- > EBIT margin of 30.3%, up 98 bps.
- > Operating cash flows of USD 300 million, up 16%.
- > Operating cash conversion of 114% with DSOs down eight days in the year.
- > Strength of cash flows and growth in profit support 2017 dividend of CHF 0.65 per share, an increase of 18% (2016: CHF 0.55 per share).

2017 operational highlights

- > Outstanding performance in 2017 driven by strong execution across the business in a growing market.
- > Digital and regulatory pressure, as well as the move to open banking, are driving banks to accelerate their IT investment strategies.
- > Temenos had strong double-digit growth across all geographies in the year with high volumes of deals across client segments.
- > In particular, there was significant activity with tier 1 and 2 clients, which constituted 59% of total software licensing revenue in the year. Notable deals included Openbank, Santander's digital bank, and Itaú, the largest bank in Latin America.
- > We won 65 new clients, and new and competitive deals contributed 41% of software licensing in the year.
- > Temenos continues to be a market leader, pulling ahead of the competition and raising barriers to entry through the strength of our reference client base.
- > Temenos has significant revenue visibility going into 2018 driven by committed spend and the strength and quality of the pipeline.
- > We continue to work very closely with our Partners across technology and implementation, with Partners involved in the majority of our implementations. The launch of the Temenos Learning Community will be a key driver of Partner engagement in the future.

ECONOMIC IMPACT

Economic impact for Temenos means achieving our medium term growth targets to generate long term sustainable value for all of our stakeholders in order to contribute to the global economy as well as the local economies where our clients conduct our business.

In 2017, we grew non-IFRS total software licensing by 23% and non-IFRS total revenues by 16%. We achieved full year non-IFRS EBIT of USD 223.5 million and expanded our non-IFRS EBIT margin by 98bps to reach 30.3%. Our proposed 2017 dividend is CHF 0.65, an increase of 18% over last year's dividend. We have a strong capital structure, with low leverage of 1.0x net debt / EBITDA as of 31.12.17 and having generated USD 300 million of operating cash flow in 2017.

METRIC (NON-IFRS)	MEDIUM TERM TARGETS	ACHIEVED IN 2017
Total software licensing	At least 15% CAGR	23%
Total Revenue	10-15% CAGR	16%
EBIT	100-150 bps p.a.	98bps
EPS	At least 15% CAGR	18%
DSO reduction	5-10 days reduction p.a.	8 days
Cash conversion	100% + of EBITDA	114%
Tax rate	17-18%	13%

ECONOMIC CONTRIBUTION TO VARIOUS STAKEHOLDERS

	FY 2017 USD 000	FY 2016 USD 000
Revenue	735,363	634,036
Employee wages and benefits	350,253	294,512
Payment to provider of funds	22,526	130,736
Payment to government	11,930	12,315
Community investment	722	643

ACHIEVING BUSINESS EXCELLENCE continued

Financial assistance

- > UK
Temenos UK receives research and development tax credits for certain related activities. In 2017 the total tax credit was USD 300,000 (2016: USD 272,000).
- > Romania
Temenos Romania benefits from an income tax exemption for employees in software creation related roles. The amount of the exemption for 2017 was USD 620,000 (2016: USD 550,000). In addition, there is a 20% reduction in Romanian corporate income tax of USD 48,610 (2016: USD 5,500). This amount is instead paid directly to a Temenos nominated charity.
- > China
Under government policy for individual income taxes, a 2% individual income tax refund is given to the Company which can be used for staff recreational activities or staff award. The refund for 2017 was USD 2,090 (2016: USD 3,637).
- > Singapore
Under Singapore's Productivity and Innovation credit (PIC) and Wage credit Schemes Temenos has claimed USD 51,095 in 2017 (2016: USD 80,366).

Procurement

The percentage of the procurement budget used for our significant locations of operation spent on suppliers local to that operation (such as percentage of products and services purchased locally) is as follows:

Location	% paid to local suppliers 2017
India	93%
Luxembourg	34%
Romania	58%
Switzerland	67%
UK	62%

The reported data above contains all local suppliers paid by the Temenos local entity, i.e. suppliers that are registered in the same country as the Temenos entity that pays them.

INNOVATION AND TECHNOLOGY

In order to keep pace with the rapid rate of change in information technology, Temenos has always invested extensively to ensure that its software takes advantage of the latest innovations. The updated software on the latest technology is offered to clients seamlessly through simple, regular upgrades. For more information please refer to Research and Development on page 22.

FOCUS ON CLIENT ENGAGEMENT

Client Voice

Client-centricity and client success have been at the heart of our corporate values since the Company was founded. In order to have a consistent view of each step of our clients' journey, we launched the Temenos Client Voice in 2012 and have been repeating it on an annual basis since then. The program, owned by our Chief Executive Officer, covers all products and regions. The program is critical to Temenos as it enables us to track and analyze the clients' perception of their experience of working with Temenos. It is supported both at a senior management and regional level, with the client satisfaction process itself being led by a cross departmental team with members from Sales, Marketing, Support and Services teams.

The Temenos Client Voice program was first launched with an initial survey in February 2012. It is based on the 'Net Promoter' methodology, which classifies participants from those least likely to recommend a firm to those most likely to advocate for a firm, detractors, passives and promoters. The percentage of detractors is then subtracted from the percentage of promoters to arrive at the Net Promoter Score. In doing so, it serves to effectively concentrate the organization on always giving outstanding service and moving client opinion from negative or neutral to highly positive (a promoter has a satisfaction score of nine or ten out of ten). However, the discipline of Net Promoter, which is used widely by B2B companies, goes deeper than just tracking a metric, it is a whole system designed to operationalize client data throughout the organization in order to drive change, systemize learnings and improve client experiences.

On an annual basis Temenos invites its entire client base, across its full range of products and platforms, to participate in a detailed relationship survey.

Client Satisfaction

In order to drive our focus on client experience further, a complementary initiative to the Temenos Client Voice program, the Improve Client Satisfaction Project, was launched in March 2014. The aim of the Improve Client Satisfaction Project is to cement the Company's focus on client satisfaction and make Temenos an even more client-centric company. The project is sponsored by our Chief Client Officer. Within the project, each department is represented by a carefully selected individual/ group of individuals. They are tasked with setting KPIs and actions to enhance satisfaction in their areas according to the feedback collected through the Temenos Client Voice program. The representatives are also responsible for making sure that the actions are completed and that the target improvements within their areas are achieved. The KPIs and actions are tracked and reported on a monthly basis at the executive level. They are also reviewed regularly based on incoming feedback in order to ensure that they remain relevant and continue addressing the correct areas.

Clients receive updates on Temenos initiatives and activities through various media, from specific updates and newsletters to presentations at our annual Temenos Community Forum. Since the program was launched, we have seen a significant improvement in our Net Promoter Score and our clients have shown their support and approval of the program.

Since the metric was launched, our NPS has improved by 43 percentage points with the largest improvement following the launch of the Improve Client Satisfaction Project. Our satisfaction scores across the board have also followed this trend. To date we have completed eight survey waves, collecting over 5,000 responses across all our accounts. Since 2015, we have been incentivizing our clients to participate in the survey. The Company matched every survey submission with a donation and we were able to donate USD 30,000 to The Global Fund for Children. In 2017 we set ourselves several goals including increasing our participation to over 1,000 respondents, improving in all satisfaction areas and introducing a new survey platform. We are pleased to have achieved our 2017 goals, we will still continue to strive for improvement and have set further goals for 2018.

2018 Goals

- > To continue to focus efforts on improving satisfaction in those areas which have the largest impact on client engagement, including product, support and services.
- > To strive for higher participation in the Client Voice program to obtain more and more representative feedback, bringing the annual number of participants to over 1,200 individuals from our client organizations.
- > To raise our Net Promoter Score by a further 5 percentage points.
- > To improve our overall satisfaction score (an average of all participants' scores, as opposed to promoters less detractors) by at least 1 percentage point across every aspect of the business.

Quality and Certifications

In order to deliver consistency across all client touchpoints, Temenos utilizes management systems that are certified by accredited bodies and adhere to international standard certifications. In that way, we ensure a more systematic and effective approach to our issues.

- > ISO 9001:2008 Quality Management – India, London, Hemel Hempstead, Rubik
- > ISO 27001:2013 Information Security – India, Rubik
- > CMMI for Development ML 3 – T24 Product Development and Maintenance (India, London and Hemel Hempstead), Country Model Bank and Client Specific Developments (India)
- > CMMI for Services CL 3 – PACS (India)
- > SSAE 16, SOC 2 Type 2 – Azure (Krakow), Trinovus, Akcelerant

All Temenos products and people in the above mentioned scope are covered by these certifications with the possible exception of recent acquisitions which typically conform within a period of 18-24 months post acquisitions. Full coverage across products and services is unique among Temenos' peer group.

DOING BUSINESS THE RIGHT WAY

OPERATING RESPONSIBLY

For over 20 years we have been proud of our reputation for professionalism and the strong relationships we have built up with our clients. We believe that sound and ethical business conduct and governance is critical to earning and maintaining the trust of our clients, investors, Partners and suppliers. Integrity, honesty and transparency are at the heart of what we do. Our commitments to ethical business practices and strong corporate governance structures are designed to promote the long term interests of our shareholders, maintain internal checks and balances, promote accountability at all levels of our organization and foster responsible decision-making.

As a global corporation, we have been operating at an exceptionally high standard of integrity in complying with the laws and regulations of the countries in which we operate – in some cases higher standards than required by national laws or regulations. We understand the responsibility that comes with that role and are committed to working with all our stakeholders to build long term business relationships and create sustainable value for them.

CORPORATE GOVERNANCE

Corporate Governance at Temenos is set up so as to promote the long term interest of all of our stakeholders and foster a culture of transparency, business integrity, responsible decision-making and accountability, maintain internal checks and controls and help build public trust in the Company, by balancing the interests of all its stakeholders.

Highlights of Temenos Corporate Governance

- > Board of Directors with Non-Executive and Independent Directors
- > Separate Chairman and CEO
- > Executive Chairman
- > Independent Audit, Nomination and Compensation Committees
- > Charters for Board Committees
- > Chief Executive Officer and Executive Committee
- > Annual Board and Committee Evaluations
- > Stock Ownership and Holding Requirements

- > Corporate Governance Guidelines approved by the Board
- > Internal Controls and Risk Oversight by Committees and Board

More information on Corporate Governance is on page 97 and on the corporate website www.temenos.com.

ETHICAL BUSINESS CONDUCT AND GOVERNANCE

Our commitment to assess and manage the impact of our operations and promote the long term interests of our shareholders is demonstrated in the Temenos Business Code of Conduct (the Code) and our corporate policies. The members of the Board of Directors and the Executive Committee have endorsed the Code. Oversight of sustainability issues is part of the duties of our senior management through the CSR and Ethics Committee.

CSR and Ethics Governance

To ensure the effective implementation of our CSR strategy, Temenos has a Global Corporate Social Responsibility Department, responsible for managing the Group CSR strategy, interacting with stakeholders and driving the CSR initiatives.

Temenos CSR strategy is designed and led by the CSR and Ethics Committee (the Committee) at the senior management level, which reports to the Board of Directors through the Audit Committee. The purpose of the Committee is to foster a culture of sustainability, responsibility and ethics within the Company, recognizing that senior management is responsible for instilling Temenos' values throughout the Company. The Committee represents different Temenos functions and departments, ensuring all the voices of internal and external stakeholders are taken into account. The Committee consists of:

- > Chief Financial Officer / Chief Operating Officer (Chairman of the Committee)
- > General Counsel (Deputy Chairperson of the Committee)
- > Group CSR Manager (Secretary)
- > Group Human Resources Director
- > Finance Director – Strategic Projects and Compliance
- > Internal Audit and Risk Director

The Committee meets quarterly, while quorum is required for actions to be taken. Written minutes are kept and maintained by the Committee Secretary for all formal meetings of the Committee and are communicated to the external statutory auditor. In 2017, the Committee held 5 meetings. During that time, the Committee continued to implement the 4-year CSR strategic plan focusing on three areas:

1. to manage our CSR strategy;
2. to monitor, analyze and assess our Environment, Social and Governance (ESG) footprint, with the use of non-financial KPIs; and
3. to communicate and raise awareness about our CSR strategy to all stakeholders internally and externally.

Business Code of Conduct

The Code is the foundation of our commitment to ethical business practices and legal compliance. The Code defines the standards for business conduct everywhere we operate and provides guidance in addressing the business, legal and ethical issues encountered while performing daily work or making decisions on behalf of Temenos.

In 2017, we reviewed, updated and aligned our Code and policies with the ten principles of the United Nations Global Compact on the four issue areas of Human Rights, Labor, Environment and Anti-Corruption and the OECD Guidelines for Multinational Enterprises, in order to better serve the interests of a broader set of stakeholders and raise awareness about our responsible and sustainable operation. The updated Code is based on the solid fundamental principles that have sustained us and brought us success, but has been reviewed to better address the demands of the changing global environment.

The Code is available in English and French and can be found on our intranet and our corporate website. It applies equally to full-time, part-time, temporary employees and contractors globally. The Code is a key part of the employment contract and contractor agreement. All employees are required to read and acknowledge the Code and linked policies within the first three months

of their employment. In 2017, we achieved an acknowledgment rate of 90% for the Code.

Employees are also required to complete the mandatory trainings upon joining and every 18 months thereafter. The objective of the Code is to ensure that all stakeholders are aware of the behaviors that are expected from them. The CSR and Ethics Committee is charged with monitoring the compliance with the Code.

Temenos requires Partners to comply with the Temenos Business Code of Conduct as respective compliance requirements are included in the Services Partner agreement. Temenos requires all new suppliers to comply with the Temenos Business Code of Conduct and the Temenos Supplier Code of Conduct. For the existing suppliers Temenos will require to gradually comply with the Code and related policies and to verify compliance by providing respective information when requested.

Corporate Policies

The backbone of our Code are the corporate policies linked to it that provide detailed guidance on how to exercise good judgment when working and making decisions for Temenos. Temenos is a global company and our business is subject to the laws of many different countries. In order to conduct our business on a daily basis, we interact with a variety of stakeholders. We are committed to interacting with all of these stakeholders in a respectful, ethical manner and in compliance with all the local and international laws of the countries we operate in. The policies are reviewed annually and reflect our continued commitment to ethical business practices and legal compliance.

In addition to acknowledging the Code when joining the Company, Temenos employees are expected to complete training on the Code as well as on three other areas, such as Anti-corruption and Bribery, Data Privacy and Security Awareness. The increased focus and communication of the Code and related policies by our senior management and HR in 2017 had a positive impact on our Ethical Business Conduct compliance.

GLOBAL TEMENOS TRAINING COMPLETION PERCENTAGE

● Business Code of Conduct Acknowledgment	90%
● Business Code of Conduct Training	88%
● ABC Training	99%
● Data Protection Training	93%
● Security Awareness Training	93%

Anti-Corruption and Bribery

For Temenos, anti-corruption is not only a legal obligation but also a matter of ethical business standards. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships – wherever it operates – and to implementing and enforcing effective systems to counter bribery. Temenos upholds all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates, including but by no means limited to the US Foreign Corrupt Practices Act and the Bribery Act (UK) 2010. Temenos' zero tolerance on corruption and ethical standards are set out in our Code and our Anti-Bribery and Corruption (ABC) policy which apply to all Temenos employees and group entities.

The Temenos ABC policy states that Temenos shall actively attempt to ensure that corruption does not occur in Temenos' business activities through an adequate and risk-based Anti-Corruption Program. ABC training is part of the annual Business Conduct training that all employees have to take when joining Temenos and to repeat annually during their employment with Temenos. In 2017, we achieved a completion rate of 99% for the training (1% is accounted for new joiners with a three-month grace period from their hire date).

The ABC policy and the Anti-Corruption Program include several elements such as proportionate procedures, top-level commitment, risk assessment, integrity due diligence, communication and training, monitoring and review and enforcement and sanctions, with the aim of continuous improvement and alignment with prevailing international standards. As part of our on-going commitment to anti-corruption, we have expanded our commitments in this area beyond Temenos, to include our suppliers, Partners and other third parties that have a direct contractual relationship with Temenos. Integrity is a vital part of our business. We also have ABC provisions in our Partner and contractor agreements as well as in our procurement process with suppliers. In 2016, we implemented mandatory requirements for screening and conducting due-diligence assessments of our business Partners and suppliers, while introducing a risk assessment tool for our suppliers to identify the level of risk associated with bribery and corruption, ensuring that we can only engage with those that are legitimate businesses with a reputation for integrity.

In 2017, we updated our Code to address our policies with regards to charitable donations and the giving and receiving of gifts and corporate hospitality. To ensure charitable contributions, donations and sponsorships and prizes made on behalf of Temenos are not used to circumvent anti-bribery policies and can be documented, we set up an internal global system designed to centralize the declaration and/or approval process for gifts, entertainment and contributions to better shield the Company from practices that could be perceived as unethical and contrary to our ABC practices. All charitable contributions, donations and sponsorships require the prior review and written approval of the CSR and Ethics Committee.

OPERATING RESPONSIBLY continued

We also updated our anti-corruption framework and guidelines when engaging with third-party representatives that introduce Temenos to new markets and projects. In 2017, particular changes were made to the Introducer scoring mechanism as well as the level of documentation required to be submitted in support of Introducer related activities, including an obligation to document the activities and communications undertaken when working with Introducers. The new Introducer scoring mechanism is based on three assessment criteria. More specifically:

1. Quantitative Criteria

The risk assessment is based on:

- > Location Risk: The perceived corruption level set up by Transparency International is taken into consideration, both for the Introducer and the prospect client
- > Payment Risk: Both the proportionality of Introducer payment as % of deal value, as well as the payment to the Introducer as an absolute amount is taken into consideration
- > Transaction Risk: The location (country) of the bank account in which the Introducer will receive payment is scored against the location (country) of the Introducer.

Specific weighting is assigned to the following (based on the risk appetite set at management level):

- > Location Risk-Perceived corruption at location of prospect client
- > Location Risk-Perceived corruption at location of Introducer
- > Payment Risk
- > Transaction risk (Location of Payment-Perceived corruption)

2. Qualitative criteria

- > Relationship of the Introducer with government/governmental authorities
- > Adequacy of information provided

3. Sanction checking

Both the Introducer and the prospect client are cross-checked against sanctions lists provided by Dow Jones.

Temenos monitors compliance with the policy regularly through routine and ad hoc checks and audits across the organization. The ABC policy and the effectiveness of the Anti-Corruption Program are assessed and revised on a regular basis. In 2017, we engaged a third party external audit company to benchmark our ABC compliance organization, including an examination on the design, implementation, processes and internal controls in that respect. This benchmark was part of our commitment to ensure that our ABC compliance program is continuously improving, in line with best practices and our continually evolving business.

In 2017, no case of corruption was drawn to the Board's attention through the anonymous reporting mechanism.

Export Controls and Sanctions

Temenos complies with all applicable export control laws and sanctions worldwide when conducting business around the world. All Temenos employees, contractors, distributors and Partners are expected and required to comply with the Export Controls and Sanctions policy, which is also part of the Code. Failure to observe sanctions and export controls may cause operational delays, expose the Company to regulatory investigations, severely damage our reputation, and create substantial legal exposure for Temenos companies including criminal and civil fines, and for individuals, fines and imprisonment.

In 2017, a sanctions screening automation project was conducted internally by implementing Temenos' own FCM compliance solution in a corporate environment. By means of this automation we are able to analyze all business opportunities at an early stage of development for sanctions risks and continue to analyze them through their evolution as a business opportunity and thereafter as a client. On a daily basis, updated sanctions lists provided by Dow Jones are uploaded in the FCM Solution, and all business opportunities and clients are checked on a weekly basis. In order to further enhance Temenos' sanctions compliance program, further development steps will be performed in 2018 in order to cross-check our database on a daily basis.

Conflict of Interest and Related Party Transactions

Conflicts of interest in both the public and private sectors have become a major matter of public concern worldwide. As a global market leading software provider, Temenos might be faced with actual, potential or perceived conflicts of interest. Temenos is sensitive to the ways in which an employee's private financial affairs could create potential conflicts of interest. Also, transactions executed by related parties (legal entities and natural persons) must be reported if such transactions are carried out under the significant influence of a Temenos senior manager. Ensuring that the integrity of the Company's decision-making is not compromised by employees' private interests, Temenos has in place business-specific policies and procedures that address the identification and management of actual, potential or perceived conflicts of interest that may arise in the course of business as well as the reporting of any related party transactions.

Conflict of interest has been an important part of the Code since its launch. As of 2017, a separate policy was created which was directly linked to the Code. The policy describes in detail the voluntary and mandatory disclosure mechanism for all Temenos employees, members of the senior management and the Board of Directors as well as the appeal process to the CSR and Ethics Committee which is charged with monitoring the compliance with the Code and its linked policies.

In 2017, we set up an internal online global system designed to centralize the declaration of Conflict of Interest and Related Party Transactions as well as the approvals of Outside Directorships Requests made by Temenos employees or members of the Board of Directors serving as a Director or an officer for an outside organization which might also result in a conflict of interest.

Ethical Business Conduct Monitoring and Reporting

Our responsibility is to train our employees on ethical business conduct, provide them with communication channels, build controls to prevent and detect unethical and non-compliant conduct and perform regular internal audits; when we identify or learn of concerns or improper conduct, to investigate them fully and take appropriate action to remediate.

Temenos offers employees, Partners and suppliers ways to report compliance concerns. If instances of possible non-compliance with the Code are detected, an internal grievance mechanism is in place to record verbally, in print or electronically, any related concerns through:

- > the line Manager
- > Group Human Resources Department
- > Group Legal Department
- > Internal Audit and Risk

In case of anonymous reporting, there is an anonymous reporting mechanism in place through:
anonymousreporting@temenos.com.

Preventing retaliation is critical for Temenos. The Company has an open-door policy and strictly prohibits retaliation against those who raise a compliance concern in good faith. Retaliation for raising questions or issues is prohibited, even if an investigation does not ultimately validate the concerns raised. Temenos is committed to handling all inquiries discreetly and preserving the anonymity and confidentiality of anyone requesting guidance or reporting a possible violation to the extent possible and within the limits allowed by the laws.

In addition, an appeal process to the CSR and Ethics Committee was introduced, whose decision is final and binding. Failure to act in compliance with the Code can result in appropriate disciplinary actions. All filed cases have been successfully resolved.

Risk Management and Internal Controls

Temenos' policy is to have adequate controls in all areas of its operation to ensure compliance with applicable laws, regulations, policies and client agreements, preparation of reliable financial and management reports, safeguarding of Company assets (both physical and intangible) and efficient and effective use of resources. Internal audits are conducted by the Internal Audit function according to risk-based plan.

It is management's responsibility to design, implement and operate effective risk management practices and controls. This is achieved through regular assessment of

risks, carrying out control activities such as segregation of duties, supervision, staff training, communication and monitoring. It is the role of Internal Audit among others, to evaluate effectiveness of risk management and internal controls, assess compliance with policies and procedures and provide assurance to senior management and Board of Directors.

All Temenos employees, contractors, Partners and suppliers are required to fully cooperate with Internal Audit if and when requested and to provide access to all records, property and personnel as stated in the Internal Audit Charter approved by the Audit Committee.



	No. of grievances in 2017
Employee concerns	
Workplace discrimination concerns (perceived-feeling of discrimination)	2
Other workplace concerns (failure to comply with legal obligations, such as breach employment law or human rights obligations)	0
Fraud, theft or other ethical misconduct	1
Health and Safety or perceived damage to the environment	4
Violation of the Temenos Business Code of Conduct (perceived)	1
Actual, potential or perceived conflict of interest	2
Total	10

OPERATING RESPONSIBLY continued

INFORMATION SECURITY AND DATA PRIVACY

Security and data privacy continue to be a focus for corporations, regulators, industry organizations and advocacy groups across the globe. Regulatory requirements, stakeholder pressures and reputational impacts, due to high profile data security breaches in recent years, have thrown into the spotlight the importance of having robust safeguards in place for personal, corporate as well as client data.

As a market leading software provider for financial institutions globally, Temenos recognizes that information security and data privacy is a material issue for our stakeholders, as it is a fundamental aspect of our product offering and business operation, and to that end we are continuously working towards ensuring that personal data is treated in a secure and lawful manner, without adversely affecting the rights of individuals.

We do not need to develop privacy by design into our design and development processes as during that phase we are not handling any data. We are adapting our product offering to the growing importance of privacy, by aligning our product offering with a new Client Data Protection Module. The Temenos Client Data Protection Module provides clients with the tools and capital to assist their compliance to the General Data Protection Regulation (GDPR), and therefore more control, of personal data and processing throughout their systems. Applying our functional and technical understanding of the rules of data protection and our experience of working within the financial sector, we assist clients to analyze business models to help them understand the practical and financial implications of the new regulation and develop strategies for dealing with such implications within their usage of Temenos products. It is the responsibility of the client itself to ensure internal policies and procedures are in place across all systems to ensure compliance. New functionality will be provided that addresses potential gaps identified in data protection impact assessments our clients may recently have undertaken.

It is in our operational processes where we handle data, where we are continuously working towards ensuring that our processes protect any data we handle. Our aim is to avoid handling client data – for example we ask that data is scrambled before we are given access to it. At Temenos, we implement a global information security and data privacy program accompanied by supporting policies and procedures designed to safeguard the confidentiality, integrity and availability of data and IT services.

To comply with GDPR, data security and other related local laws, we continuously monitor our internal processes, run key compliance projects and conduct training to our people. Our goal is to raise awareness about integrating security into their day-to-day activities and adapting their behaviors accordingly to today's increasingly complex information technology landscape.

Security awareness and data privacy is an important part of the Temenos Business Code of Conduct. Temenos policies and procedures are based on international security standards, taking into account best practices and recommendations from the industry. The policies cover areas such as: confidentiality, data protection and privacy, intellectual property and responsible and secure use of IT infrastructure. Through the Temenos Data Protection and Privacy policy, Temenos promotes a culture of security and awareness relating to personal information, which is supported by additional procedures designed for our employees, contractors, Partners, suppliers and clients. As part of the e-training modules that all employees and contractors have to take when joining Temenos and repeat during their employment with Temenos, in 2017, we achieved a completion rate of 93% for the trainings. In 2017, we updated and aligned the trainings with GDPR. We also require Partners – included in the Services Partner agreement – to provide security awareness and data privacy trainings to all employees, working on Temenos projects. In addition, we offer an additional internal training to our employees as well as Partners to cover GDPR requirements during the Temenos Global Sales meeting (GSM).

We have incorporated information security and data privacy requirements into our Global Procurement policy and procedure that includes two main initiatives for suppliers: sourcing process for supplier qualification and an annual supplier performance and risk assessment, covering areas such as business and ethical conduct, environment, human rights, impact on society, client privacy and information security apart from financial and legal compliance requirements.

As part of the Temenos Information Security program, the Temenos office sites in India performing requirement analysis, design, development, testing, implementation, supply and maintenance of our products along with client support, product related consultancy and management. Shared Service Center and related support processes as well as Rubik are certified as ISO27001 compliant. In addition, Temenos maintains SSAE16 attestations for controls related to clients' data. This covers TriNovus and Akcelerator in the US as well as Temenos T24 in Azure. In addition, as part of our longstanding commitment to ensuring the privacy and security of the data we handle, Temenos also conducts annual audits, which outline and document the adequate internal controls for information security and data privacy. These audits are carried out for our data centers and infrastructure services as well. The results of these audits are communicated to senior management as well as the Board of Directors through the Audit Committee.

Temenos is always seeking to enhance its information and security systems and management to protect confidential and personal data used in the business and comply with GDPR, data security and other related local laws. To this end, in 2017 Temenos designed, parameterized and launched a GDPR compliance plan, targeting full GDPR compliance by 25 May 2018. The plan is built around the following five fundamental questions:

- > WHAT data are we processing?
- > WHY do we process the data?
- > WHERE do we process data?
- > WHO do we share the data with or has access to the data, and for what purpose(s)?
- > HOW do we protect the data?

Temenos GDPR compliance framework incorporates four principles: Assess, Protect, Sustain and Respond. As a result, a Temenos risk assessment dashboard was formulated, assessing the likelihood and impact of a potential breach. The dashboard assisted us in prioritizing the focus areas in terms of the relevant risk. To this end, a risk process mapping was designed and implemented across the focus areas, in which all processes related to personal data were documented, analyzed and assessed in terms of the relevant risks, and specific measures and controls were implemented in order to mitigate the identified risks. Furthermore, a data privacy impact assessment template was launched, in order to assess the level of risk in terms of data protection, when new technologies are being utilized by the Company. In order to measure the level of compliance in real terms, a readiness assessment dashboard was implemented based on the requirements set by GDPR which addresses the compliance rate with regards to the following:

- > Legal basis for processing
- > Rights of data subjects
- > Obligations
- > Privacy notices
- > Security
- > Handling of data breaches
- > Privacy by design and by default
- > Data protection impact assessments (DPIAs)
- > Designation of a Data Protection Officer
- > Data transfer mechanisms

The respective readiness assessment is updated regularly and the relevant findings are presented to senior management.

Temenos maintains vigilance over its security and privacy arrangements with a proactive approach as it recognizes that incidents may occur due to unforeseen events. To this end, Temenos is developing robust security incident management procedures, in order to minimize the impact of any incident for its clients and their end users. In order for Temenos to follow a consistent and effective process to address any actual or suspected security incidents that disrupt or threaten to disrupt Temenos operations and information systems or which involve loss or the potential loss of corporate, employee, client or Partner data which may include confidential or sensitive data, a Security and Privacy Committee was formed in May 2017. Its purpose is to oversee our senior management's efforts to implement global information security and privacy compliance programs within Temenos. The Security and Privacy Committee's role is to recognize that developing a culture of security and awareness of privacy and personal data among all employees is the responsibility of all involved within the organization. The responsibilities of the Security and Privacy Committee include overseeing global security and data protection efforts with the objective of ensuring that Temenos has established written policies, guidelines and standards in compliance with the laws, rules and regulations of the countries in which we operate and in accordance with internationally recognized standards. In addition, its role is to assess all security incidents, including incidents that may result in the breach of personal data, contain them and take immediate action in order to rectify the situation. Its membership includes IT, Product Security, Legal, HR, Data Protection and Compliance, Internal Audit and Risk. The Committee meets every month. It held seven meetings during 2017.

Temenos Information Security team works alongside the Temenos Security and Privacy Committee and the Product Security team in order to develop and oversee the implementation of information security controls to ensure data confidentiality, integrity and availability. In parallel, the Security and Privacy Committee has developed the Temenos Security Incident Management Procedure, which describes the framework for early detection and responding to security incidents. Depending on the nature of the incident, this procedure outlines the steps to be taken when security incidents are identified or reported and establishes the organizational requirements, including roles and responsibilities for incident processing and protection. An incident is initially classified as of low, medium or high severity, which dictates the course of action to be taken, within a 24-hour window. All incidents are being archived and are followed by post incident reports, in order to ensure that all necessary measures have been put into effect.

Temenos will continue to seek ways to enhance its information and security systems and management to protect confidential and personal data used in the business and comply with GDPR, data security and other related local laws.

2018 Goals:

- > To strengthen and enhance the security and privacy governance through additional recruitment initiatives.
- > To identify Data Champions across Temenos functions and departments globally, where dedicated employees will be assigned with the overall data protection supervision and will report any deficiencies to their line managers and to the Security and Privacy Committee.

OPERATING RESPONSIBLY continued

RESPONSIBLE PROCUREMENT AND SUPPLY CHAIN

As a global software company, our business focuses on providing software solutions and services, relying on the sourcing of finished products, services and consultants for the delivery of our projects. Our supply chain includes a supplier base of around 3,000 suppliers globally as well as local suppliers for the procurement of goods and services to support our business as well as our operations. Responsible and sustainable sourcing is a material issue for Temenos. Temenos has adopted a risk-based approach to identify high-risk suppliers, identifying the areas where sustainability challenges are most likely to occur and working with its suppliers towards continual improvement.

Temenos establishes and maintains relationships with small local and large international suppliers who adhere to our business principles of highest standards of ethical behavior and regulatory compliance. Our supply base is very dynamic based on the Company's strategic objectives and immediate needs and includes strategic, key operational and tactical suppliers.

We have incorporated CSR considerations into our procurement practices. We constantly improve our responsible procurement by obtaining the understanding and support of suppliers for the procurement practices and building strong partnerships with them. We have also introduced effective audit mechanisms for identified cases of high-risk suppliers, as well as grievance mechanisms for both employees and suppliers on procurement issues.

In 2017, we have officially introduced the Global Procurement policy and procedure that extends compliance to include areas such as CSR, ABC, sanctions, human rights, environment, security and data protection and includes two main initiatives for suppliers: sourcing process for supplier qualification and an annual supplier performance and risk assessment. Furthermore, we have established a centralized governance model for supplier relationship management by building a brand new Global Procurement team.

The Global Procurement team's mission is to enforce responsible procurement practices between Temenos and its third party suppliers by conducting supplier risk assessments, performance monitoring and supply base optimizations.

As a first initiative of the centralized governance model for supplier relationship management, we have initiated evaluating supplier performance and risk assessment through a well-constructed methodology applicable at group level. This includes a supplier questionnaire covering areas such as business and ethical conduct, environment, human rights, impact on society, client privacy and information security apart from the financial and legal compliance requirements, while it is aligned with the 10 principles of the UN Global Compact. The supplier questionnaire is used both during the supplier qualification process and the annual supplier performance and risk assessment activities. In 2017, the supplier performance and risk assessment included approximately 200 current suppliers considered critical to our business in 2016. The suppliers that are critical for our business are defined as follows:

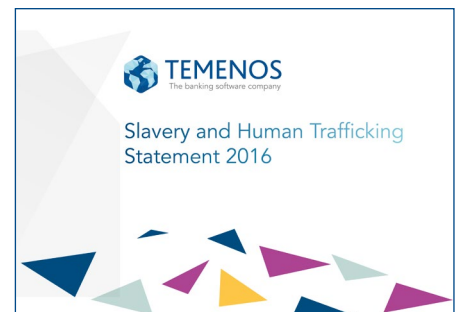
- > Supplier provides goods and/or services which are supplied to our Clients
- > Supplier has access and/or processes our Employee or Company data
- > Supplier connects to our Company systems or requires access to Temenos intellectual property or confidential information
- > Supplier provides technical or IT services and/or software products which involve intellectual property licensing

The supplier performance and risk assessment was concluded by assigning a performance and risk score to 74% of the suppliers, reclassifying to correct purchase categories 8% of the suppliers and not initiating contract renewals with 19% of the suppliers as business need was no longer forecasted. In addition to assigning a performance and risk score, we have documented clear risk-mitigating recommendation to be applicable to the Terms and Conditions of our purchasing agreements in order to improve our responsible procurement practices.

As part of Temenos' continued commitment to enhancing our internal compliance programs we extended the sanctions screening program to our suppliers residing in specific sanctioned countries and incorporated that as a new part in the Temenos export controls and sanctions policy.

In 2017, we introduced a Supplier Code of Conduct linked to the Temenos Business Code of Conduct. The Supplier Code of Conduct contains requirements for our suppliers to adhere to our business principles as well as encourage them to develop their own responsible practices. We also designed a supplier information section on the Temenos website where our suppliers can find all necessary resources to conduct business successfully with Temenos (i.e. purchase terms and conditions, Supplier Code of Conduct, invoicing guidelines, grievance mechanism).

In 2017, we complied with the UK Modern Slavery Act, by issuing a [Slavery and Human Trafficking Statement](#) where we outline Temenos' policies and procedures related to Fair Labor Standards and Respect for Human Rights throughout our operations and supply chain, while describing our efforts to address modern slavery.



Temenos' suppliers also encouraged to communicate any concerns they might have related to a possible breach of the Temenos Business Code of Conduct through the anonymous reporting mechanism, while the Company reserves the right to audit. Employees work only with Company approved suppliers and Partners, avoid all forms of one-sided preferential treatment of a supplier and have the anonymous reporting mechanism to report any concerns they might have related to a possible breach of the Company-supplier/Partner business relationship.

2018 Goals

- > To build, enhance and support our Global Procurement team's capability to most efficiently meet business requirements through a well-defined team plan including capability assessment, prioritized training and development program as well as key performance indicators
- > To further develop procurement strategies in consultation with business lines to deliver best value solutions to meet our Company's needs in a timely manner while maintaining policy compliance through a procurement management framework with defined category plans (which will extend beyond 2018 as required)
- > To implement technology solutions that simplifies procurement activity to support compliance and proactive risk mitigation through an electronic procurement database that will give easy access to information about our supply base
- > To further consolidate our centralized governance model for supplier relationship management by implementing supplier performance and risk assessment to approximately 200 of our top suppliers in 2017.

ENVIRONMENTAL RESPONSIBILITY

With the continued global spotlight on the critical issue of climate change, we recognize the importance of addressing the area in which we have the greatest impact – our use of energy – and protecting the environment. While fully complying with all relevant environmental laws and legislation at our office locations globally, we support a precautionary approach to environmental challenges on our own initiative and an environmentally responsible way of conducting our business operations. While our footprint is smaller compared to other resource-intensive industries, we are committed to continuously identifying opportunities to increase our energy efficiency. We are committed to:

- > Assessing, monitoring, managing and reporting on the environmental impact of our operations through innovation, technology and change of attitude
- > Respecting the principles of sustainable development, aiming at actively minimizing the environmental impact of our operations, while striving for continuous improvement by putting in place policies, management systems and targets to improve our performance
- > Meeting or exceeding all applicable environmental laws and government requirements at our office locations globally. Where environmental legislation is not clear or enforced, to ensure that all the necessary environmental practices are in place
- > Raising awareness among our employees about environmental sustainability through training opportunities in environmental matters
- > Being an environmentally responsible neighbor in the communities where we operate
- > Participating in global efforts to improve environmental protection and understanding
- > Conducting audits and self-assessments of compliance with our Global Environment policy and report annually to the CSR and Ethics Committee and the Board of Directors
- > Starting offsetting our scope 3 emissions towards community projects that create real and lasting socio-economic benefits.

Temenos has 4,559 employees in 64 offices in 41 countries. The Temenos offices are located in large leased office buildings close to city centers and outside protected lands and habitats. The offices are designed internally in such a way as to fully utilize natural resources, such as sunlight or make efficient room of the office space (open space externally used as patios), and to create an excellent working environment.

In 2017, we introduced a Global Environment policy, as part of the Temenos Business Code of Conduct. We have also incorporated CSR considerations into our corporate facilities management practices and developed a comprehensive facilities management strategy that incorporates both financial and non-financial criteria for new property leases (procedure and standards for selecting a new property) and for renewal of existing leases, focusing on the following areas:

- > Environmental Management Systems (EMS): Develop a Global EMS and align with international standards. We have already started designing and rolling out a Global EMS, starting with our four office locations in India with the biggest employee concentration, representing 48% of our total employee concentration. In parallel, we are working towards the direction of having it certified according to ISO 14001 Environmental Management requirements.
- > EMS Desk: Monitor, record and report environmental performance (energy, water, waste). We are currently in the process of analyzing and addressing the environmental impact of our operations in a more systematic way by establishing a uniform environmental management process across offices. In addition, we set up an internal Company-wide mechanism in order to map our environmental footprint in relation to business travel, employee commute, energy and water consumption and introduce ways to conserve resources in select locations globally with the largest employee concentration. We have started measuring our indirect energy consumption (electricity, heating, cooling) in 16 Temenos offices in five countries, representing around 68% of the total Temenos population. The energy consumption for these locations

OPERATING RESPONSIBLY continued

ENERGY EFFICIENCY PROJECT IN ROMANIA

In 2017, in order to promote energy efficiency, sustainability and operational cost reduction, we replaced traditional lighting sources with innovative LED technology in the Temenos Romania offices, where around 300 Temenos employees work. By replacing the fluorescent tubes and fluorescent compact bulbs with LED tubes and bulbs, we had a 56% saving in annual electricity consumption in indoor lighting, translating into €7,056 reduction in electricity and maintenance costs as well as the warm emissions with impact on environment protection.

56%

Savings in the annual electricity consumption

€7,056

Savings in electricity costs

We invested heavily in adopting the latest audio, video and web conferencing technologies and require any travel to be pre-approved electronically to ensure it is justified and necessary in light of both the needs of the business and our overall environmental impact. Furthermore, our employees use a number of tools to facilitate remote communication including teleconferencing, chat, and functionality to share digital content and even their laptop screen with others. Training is largely conducted through online sessions and webinars. We also support employees to work from home and participate in local environmental initiatives in the countries we operate in. In addition, during business travel, the vacant offices are used as meeting rooms or hot desks. In our new procurement policy, we also incorporated environmental requirements into our suppliers' risk assessment apart from financial and legal compliance requirements and aligned with the ten principles of the UN Global Compact.

With our greatest source of energy usage and emissions originating from purchased electricity at our offices and from employee travel, we will continue to invest in energy efficiency efforts at those types of facilities, as well as looking for ways to offset our emissions.

2018 goals

- > To fully measure our indirect energy consumption (electricity, heating, cooling) in all Temenos offices globally in the next two years
- > To fully map our environmental footprint in relation to business travel (flights)
- > To identify opportunities to offset emissions from employee travel
- > To design and roll out a Global Environmental Management System, starting with our four office locations in India
- > To implement energy efficiency measures in offices with large employee concentration
- > To introduce an energy champion within each Temenos office responsible for rolling out an energy efficiency and training program.

- is 6,095,857 kWh, while the respective emissions 3.9 ktons CO₂. The locations are as follows: Switzerland (three office locations), UK (five), Romania (one), Luxembourg (two) and India (five). In addition, we have mapped our environmental footprint in relation to business travel (flights) for 33 out of the 41 countries we operate, representing 92% of the total employee concentration. Our scope 3 CO₂ emissions are 12.9 ktons CO₂. Our target is to report on the 100% of our offices within the next two years.
- > Compliance: Manage compliance with environmental regulation. Compliance with the EU Energy Directive is a priority for certain Temenos offices meeting the threshold requirements, such as the UK, Luxembourg, Romania and Germany. In certain countries, we will support a precautionary approach to compliance with the Energy Directive.
 - > Policy and Procedure: Upgrade and manage new property leases and renewal of existing leases policy and procedure. No new leases will be signed or existing leases will be renewed without the approval of the Environment

Requirements' Checklist by the CSR and Ethics Committee. We have set up a procedure to monitor, analyze, assess and report our offices' footprint with the use of financial and non-financial KPIs. We are also in communication with the owners of the buildings we lease globally to introduce and include into the lease agreement ways to optimize energy, water and waste management.

We are particularly focused on minimizing CO₂ emissions as a result of our business activities through specific initiatives. Temenos encourages all its employees to integrate sustainable practices in their daily work and work-related activities, by:

- > offering office recycling capabilities in the offices
- > encouraging the use of environmentally friendly transportation means such as walking, cycling or carpooling
- > introducing ways to optimize energy management and water consumption in our offices in cooperation with building owners
- > reducing business travel through the use of technology

MAKING THE DIFFERENCE

INVESTING IN OUR PEOPLE

Our people are the key as they can make the difference. As one of our core values, we believe in the power of people, since people make things happen and define our destiny. Our people are the most important and valuable Company asset constituting the Temenos culture and helping the Company reach its business targets and bring exceptional value to our stakeholders.

Temenos aims to create an open, fair, equal opportunity and honest work environment where all employees are treated with respect and courtesy in an inclusive, productive and safe work environment. All employees and contractors are responsible for upholding this principle and work towards making Temenos a great place to work.

Our commitments to communicate openly and respectfully with each other, to provide for diversity and equal employment opportunity at all levels of our organization and to protect the health and safety of our employees are an integral part of the Temenos Business Code of Conduct.

Our Human Resources (HR) team is organized globally as well as across regions and countries to cater to the needs of our people at both local and global level, with policies in place attuned to local conditions. The team includes groups focused on HR operations, business partnering, compensation and benefits, mobility, data and systems, talent and development, recruitment and employee communication and branding. Temenos global as well as local HR policies serve as the overall strategic direction and a clear point of contact and support on HR issues for our employees and operations globally.

At the end of 2017, Temenos employed 4,945 people worldwide, including full-time employees and contractors. During 2017, we invested heavily in hiring new people in Sales and R&D, while at the same time increasing the skill level globally. Our partnerships increasingly allow us to deliver a complete range of implementation and support services to our clients and complement our growth strategies. Most of our employees work as full-time, permanent employees. In 2017, we had 69 part-time employees (24 women and

45 men) and seven fixed-term employees (three women and four men in Europe). All employee benefits are provided to full-time as well as temporary or part-time employees based on the requirements mandated by the laws in the countries where we operate and the locations where we recruit.

HUMAN RIGHTS

Temenos is committed to operating responsibly and establishing high ethical standards across our Company and in our supply chain. This commitment includes the promotion of and respect for Human Rights as recognized in international Human Rights standards. As a United Nations Global Compact participant, we respect and support the values of the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work by integrating human rights considerations into our business operations. We respect government policies in the countries where we operate, while seeking ways to honor these global principles. We conduct regular audits to check internal compliance with these standards.

In 2017, we complied with the UK Modern Slavery Act by issuing a Slavery and Human Trafficking Statement where we outlined Temenos' policies and procedures related to Fair Labor Standards and Respect for Human Rights throughout our operations and supply chain, while describing our efforts to address modern slavery. In addition, we have addressed our own as well as our suppliers' impact on human rights in our Business Code of Conduct and related training, Supplier Code of Conduct as well as our supplier performance and risk assessment processes of our Global Procurement policy and procedure.

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY

We pride ourselves on our diverse workforce at all levels of the Company, with 91 nationalities represented within the Company. We are committed to attracting, developing, promoting and retaining a diverse workforce to better serve our diverse clients and to excel in the global marketplace, while creating an inclusive environment in which all employees can

contribute their unique knowledge and experience to make a real impact on the world around us. We are committed to integrating diversity and inclusion principles into our business practices: from our hiring processes to the development of our people, as well as to the way we communicate with and reward our people. As a result, this past year, we have put renewed focus and thought into advancing the diversity and inclusion agenda within the Company. Through such diversity we have a dynamic work environment in which we continue to gather a wealth of knowledge that contributes to our commercial success.

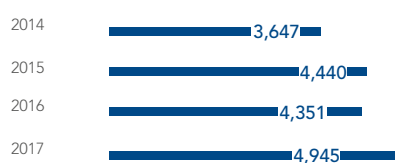
Since the IT industry is still male-dominated in many countries, we are actively seeking to recruit women and support them in their career development, with the aim of achieving a more equal representation of male and female employees in the business. The principles and goals of the Universal Declaration of Human Rights are at the center of our diversity initiatives. According to global studies, in 2016, fewer than 25% of IT jobs in developed countries were held by women. That figure is about the same in 2015. Gender imbalance in IT has been recognized as an issue since at least 2005. At Temenos, we have focused early on gender diversity in the IT workplace and have invested in an equal opportunity environment for both men and women and are currently 7% higher than the average in the IT industry in terms of male to female ratios.

DIVERSITY DASHBOARD

INVESTING IN OUR PEOPLE continued

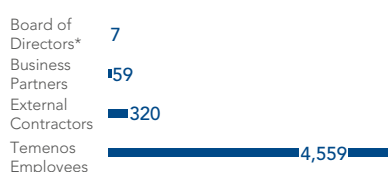
TOTAL HEADCOUNT

LAST FOUR YEARS

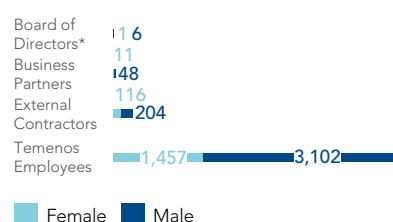


* Independent and Non-Executive Directors only.

BY EMPLOYMENT TYPE



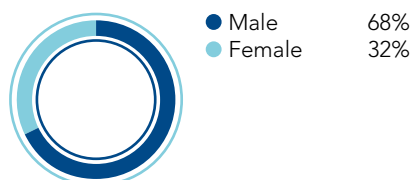
BY EMPLOYMENT TYPE AND GENDER



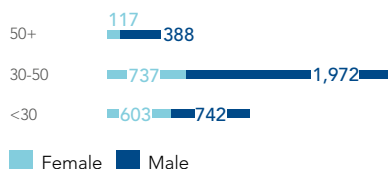
Female Male

TEMENOS EMPLOYEES

% BY GENDER

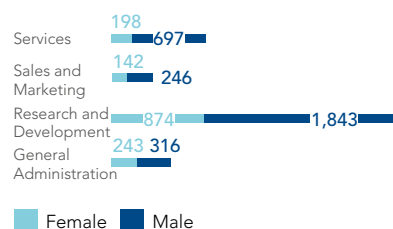


BY GENDER AND AGE



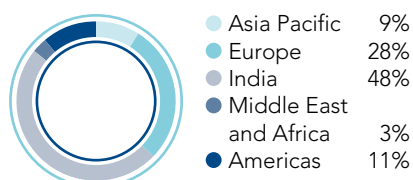
Female Male

BY FUNCTION AND GENDER

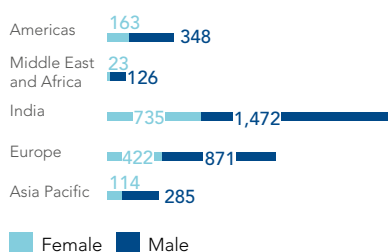


Female Male

% BY REGION

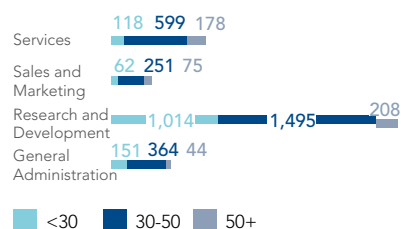


BY GENDER AND REGION



Female Male

BY FUNCTION AND AGE



<30 30-50 50+

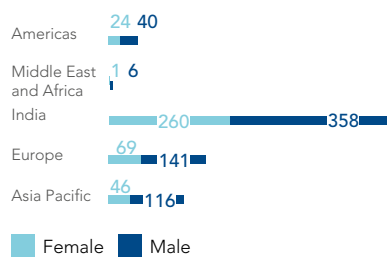
NEW EMPLOYEE HIRES

% BY GENDER

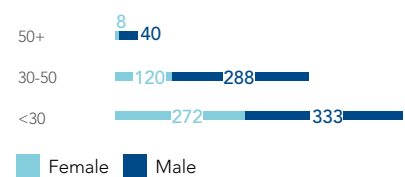


Female 38%
Male 62%

BY GENDER AND REGION



BY GENDER AND AGE

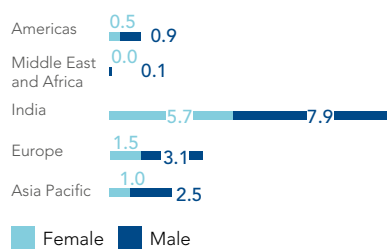


% BY REGION

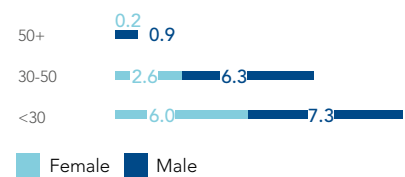


Asia Pacific 15%
Europe 20%
India 58%
Middle East and Africa 1%
Americas 6%

% RATE BY GENDER AND REGION



% RATE BY GENDER AND AGE



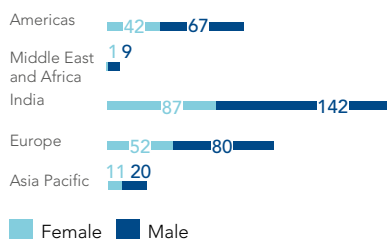
EMPLOYEE TURNOVER

% BY GENDER

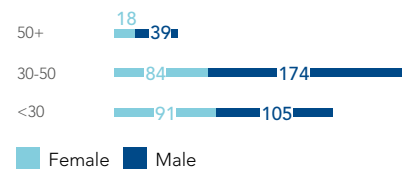


Female 38%
Male 62%

BY GENDER AND REGION



BY GENDER AND AGE

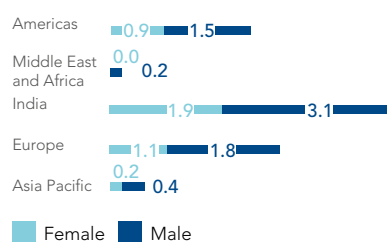


% BY REGION

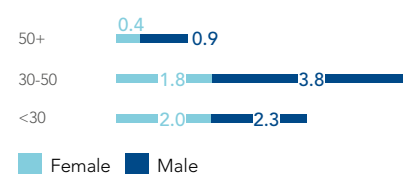


Asia Pacific 6%
Europe 26%
India 45%
Middle East and Africa 2%
Americas 21%

% RATE BY GENDER AND REGION



% RATE BY GENDER AND AGE



DIVERSITY DASHBOARD continued

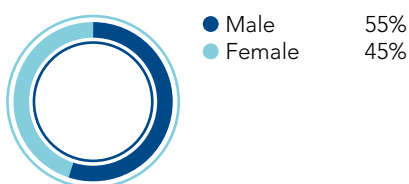
INVESTING IN OUR PEOPLE continued

WORKFORCE DIVERSITY BY AGE AND GENDER

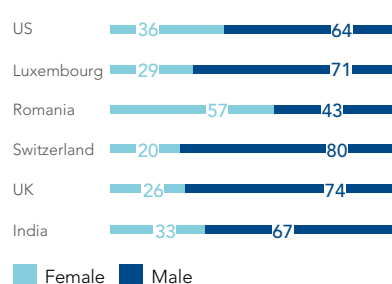
% WOMEN IN THE TOTAL TEMENOS WORKFORCE



GENDER LESS THAN 30

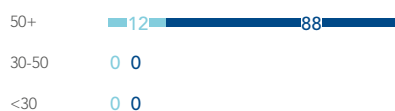


% EMPLOYEES BY GENDER IN CERTAIN REGIONS

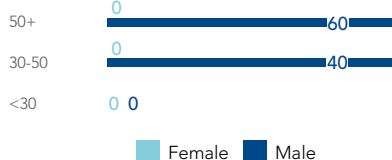


BOARD, EXECUTIVE COMMITTEE AND LEADERSHIP TEAM DIVERSITY

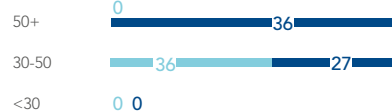
% BOARD OF DIRECTORS BY GENDER AND AGE



% EXECUTIVE COMMITTEE BY GENDER AND AGE

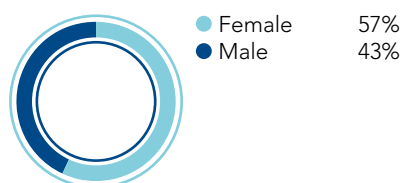


% LEADERSHIP TEAM BY GENDER AND AGE

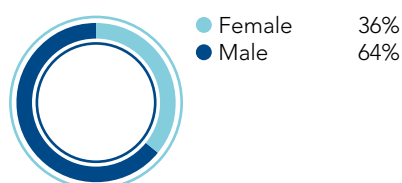


GENDER DIVERSITY

ROMANIA



UNITED STATES



We have incorporated gender diversity in our recruiting and hiring practices at all levels, with a special focus on the new generation, encouraging young women to choose a career in the IT industry, resulting in a female participation of 42% in the under 30 year-old age segment of our workforce.

By 31 December 2017, our leadership team (excluding the Executive Committee) consisted of seven men and four women. Our Board of Directors consisted of seven men and one woman, while the Executive Committee consisted of four men.

In certain countries, where we have incorporated gender diversity in our recruiting and hiring practices at all levels, we witness a higher female participation.

In 2016, the Welfare of Women was launched in India, a focus group that drives affirmative actions for the welfare of women working in Temenos India.

Temenos has a gender pay gap of around 35% similar to other software companies since the number of females as percentage of total employees reduces as the seniority increases.

During 2017, Temenos launched the Women's Leadership Forum, sponsored by the Group Human Resources Director, with a mission to provide support and development opportunities to Temenos' women employees in order to significantly increase the proportion of women within Temenos as well as in Senior Management roles. In 2017, the Women's Leadership Forum focused on bringing together local women's communities and creating an international women's community within Temenos that works together on concrete actions to attract, promote and retain women such as a mentorship program, dedicated communication as well as to increase women's visibility with articles of Inspiring Career Journeys within Temenos.

Being an equal opportunity employer, we do not mandate the disclosure of ethnicity and/or disability at the time of recruitment. Our business philosophy as well as our organizational structure are based on cultural diversity, as we operate 64 offices in 41 countries globally. The Company is managed using a matrix of regional and global business functions incorporating activities of sales, service operations, training, product development, product management, services management, marketing, key client relationship management and product support functions. The Company's product sales and services operations are divided into five main geographic regions: Europe, Middle East and Africa, Latin America, Asia Pacific and North America. Our principal software development facilities are located in Switzerland, the United Kingdom and India.

We also have other software development facilities in the United States, Canada, France, Romania, Belgium, Luxembourg and China as well as local development centers in a number of locations that give us proximity to our client base.

We encourage decentralized work processes and co-operation between our people across countries and regions, while having central processes on core activities, co-operation and decision-making. The Company's management structure is one with regional directors, responsible for all business lines in each region. Our people come from a diverse pool of countries

and regions and share skills, resources and support across geographies to promote synergies and learning across the organization, enhancing our reputation as a global but – at the same time – local company, and ensuring we are best positioned to meet the needs of our clients. In addition, thanks to the diversity model we support, Temenos' software has multiple country model platforms, tailored to the individual language, currency, regulatory and reporting requirements of each country. This enables our software to be seamless integrated into banks around the world, adding incremental value from the very beginning of each project.

Consistent success in our fast paced, demanding sector is only achievable with a team of diverse, highly committed and talented people. We strongly believe in making our commitment and focus on diversity and inclusion a truly integrated part of the Company's standard business practices that will bring added value to all our stakeholders.

ELIMINATION OF DISCRIMINATION AND PREVENTION OF HARASSMENT

Temenos is proud of the diversity of its people and believes in an equal employment opportunity for all. The work environment at Temenos is free of any type of harassment based on race, religion, national origin, color, gender, age, marital status, sexual orientation or disability or any other personal traits or characteristics that are not work-related. Any behavior contrary to this principle will not be tolerated. Through the respective communication channels, employees are encouraged to report any concern of discrimination and harassment. Any retaliation with regard to any such report is strictly forbidden. In case a concern is raised or detected, an inquiry will be launched as quickly as possible, which will be conducted carefully and with full discretion, and any corrective or punitive action taken if appropriate.

Our anti-discrimination and anti-harassment policies apply to employees and contractors, as well as suppliers, Partners and clients. In 2017, two concerns were raised by employees through the

Anonymous Reporting mechanism relating to a perceived feeling of discrimination. All filed cases have been successfully resolved.

EMPLOYEE RELATIONS

Freedom of Association and Collective Bargaining

As stated in the Temenos Business Code of Conduct, we respect the right of our employees to join or not to join trade unions or similar external representative organizations as defined in the ILO Declaration on Fundamental Principles and Rights at Work, while we engage in a constructive dialogue with employee representatives. Local employment laws and practices, collective bargaining agreements and individual contract terms are followed. Where mandated by local law, we have 100% employees covered by collective bargaining agreements.

We provide policies, fora and communication channels for hearing and addressing the concerns of our employees and resolving their issues in an open, fair and transparent manner. The minimum notice period for significant operational changes is included in the collective bargaining agreement as and where mandated by law. In countries where there is no such mandate, we follow as a minimum the local law requirements. 1.7% of Temenos employees are covered under collective bargaining agreements worldwide, as of 31 December 2017.

In France, Germany, Luxembourg and Brazil the employees maintain work councils and health and safety committees. The HR departments work as an enabler and to make sure that all agreements are followed through as agreed.

No. of employees covered under collective bargaining agreements	
Country	
France	76
Brazil	3
Total no. of employees	79
Percentage of total headcount	1.7%

INVESTING IN OUR PEOPLE continued

AGAINST FORCED AND CHILD LABOUR

At Temenos, we condemn forced or compulsory labor practices. We comply fully with local minimum age laws and requirements and do not employ children. We ensure this through our global and local HR and recruitment policies.

GLOBAL MOBILITY, HEALTH AND SAFETY

As a software company we rely heavily on our people to conduct our business. At Temenos, we are committed to supporting our employees' wellbeing and creating a healthy and safe work environment for all employees, contractors and visitors by integrating appropriate health and safety (H&S) practices within our operations, as well as when traveling on business trips. We have integrated H&S in the management of our business in such a way that all activities are considered through the protection and prevention perspective.

All employees and contractors are expected to perform their work in compliance with the H&S laws, regulations, policies and procedures of their locations. We meet the requirements of the H&S laws applicable in the countries in which we operate, having established local H&S procedures and identified and assigned responsibilities and accountabilities at the local level of our offices.

As a global organization, international mobility forms an integral part of our service delivery to clients and our strategic plans for future growth. A globally mobile and dynamic workforce is key to providing and developing our expertise across the globe and maintaining our competitive advantage. The Company has created global mobility and travel policies and procedures, so as to provide the framework for properly managing and addressing issues arising from working overseas on an international assignment or traveling globally. In that regard, Temenos offers all its employees extended coverage with additional benefits in our regular international travel insurance program to adapt to the latest developments related to global travel:

- > international travel insurance with worldwide cover with no territorial exclusion for all employees and their dependents traveling with them
- > international medical assistance when traveling and reimbursement of medical expenses for the employees and their dependents traveling with them
- > international liability and life insurance
- > approval from HR and monitoring of employees traveling in high-risk countries through the Temenos Travel Application and Global Travel Desk
- > travel security services and registration of high-risk travel on customized insurance company platform for tracking purposes
- > additional customized transportation and 24/7 security.

We are constantly enhancing the security measures and training of our employees, aiming at mitigating the travel risk for our employees. In 2017, we offered a customized H&S training to employees and contractors on security measures while traveling in high-risk countries in cooperation with an external international security expert company.

EMPLOYEE COMMUNICATION AND ENGAGEMENT

Direct communication and engagement with our employees is one of the most important aspects of the Temenos culture and philosophy and a way of building a stronger link between the Company and its people. We are committed to clearly communicating our corporate goals, objectives and successes, building strong working relationships between our employees, creating employee engagement and promoting an environment of ethics, transparency and trust within Temenos. Employee feedback is vital for Temenos, so as to shape the direction of our policies and initiatives and get assurance that they are tailored in such a way that cater to the needs of our people.

We have a Company culture that promotes transparent communication as well as easy access to all people at all levels. Our open door policy is greatly supported by the latest communication technologies. The Company has invested heavily in adopting the latest telecommunications, digital and web-conferencing technologies to facilitate project delivery and Company operation and ensuring each employee feels included and engaged in the Company culture. The Company has invested in Skype for Business software, which serves as the basic communication tool within Temenos globally. In addition, we have fully functional video conference rooms in all office locations globally with very advanced video, audio and web conferencing capabilities, supported by a global reservation system to facilitate the communication between employees. Some of other tools we use on a daily basis are our Company intranet, email, webex, blogs, yammer and Sharepoint.

We have established multiple channels to communicate and engage with our employees across countries and at all levels, including intranet, yammer, blogs, video updates, internal newsletters targeting different corporate areas, townhalls with leaders, employee engagement survey, new hire survey, other internal operational surveys, helpdesks and an anonymous reporting mechanism. All employees are provided regular updates throughout the year on the Company's strategy through CEO business updates, supplemented by clear communication from regional management, HR and Marketing.

MyVoice

Every two years we carry out MyVoice, an employee engagement survey to gain feedback on what it is like to work at Temenos and how we can work together to make Temenos an even better place to work. The survey is conducted on an anonymous and confidential basis by CEB, a third party survey provider, so that employees openly give their feedback and is administered under the Safe Harbour certification which guarantees confidentiality to all respondents that participate in their surveys. Previous surveys have identified career management, relevant training and communication as some of the key areas and these have all been addressed through improvement initiatives.

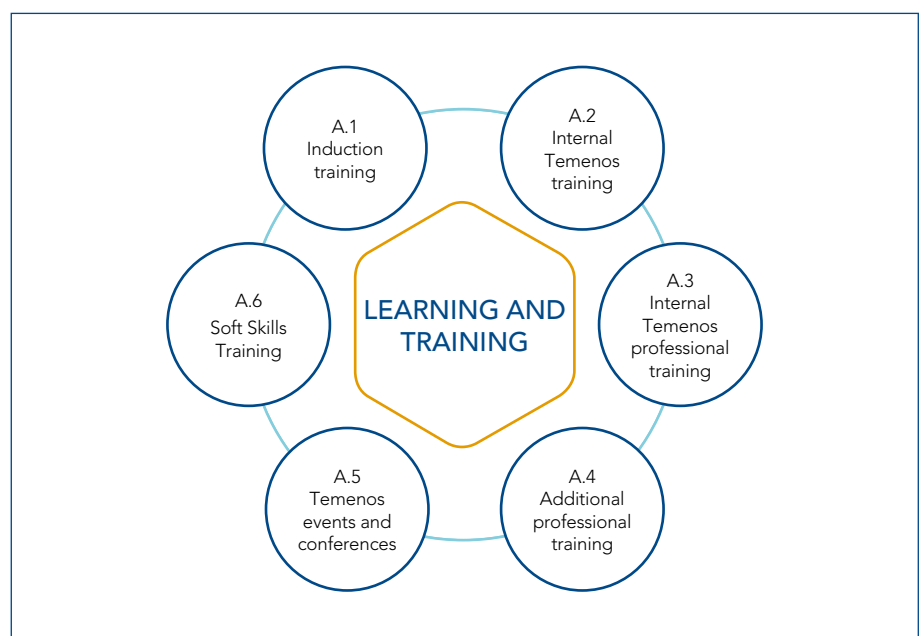
The 2016 MyVoice employee engagement survey took place during May-June 2016, with a 79% response rate vs 75% in 2014, covering all Temenos employees in all regions plus the employees that joined Temenos through merger or acquisitions. The objective of the MyVoice survey was to hear from our employees, design and align actions with employees' priorities. Using the MyVoice feedback, the Company shaped its global strategy accordingly and identified a number of key initiatives, as part of the HR action plan for 2016-18. In addition, we were also able to identify areas of improvement specific to geographies or divisions that were addressed locally. MyVoice is scheduled to be repeated in February-March 2018.

TALENT AND DEVELOPMENT

Training and development are of vital importance to both our employees' performance and engagement, as well as to Temenos' success and growth. We believe in our peoples' potential and consider this as our competitive advantage. We believe training is not limited to formal instruction and our training philosophy focuses on career development frameworks (Pathfinder), career and performance management (Compass), learning opportunities and employee recognition programs which overall support the leadership and organizational development strategies at Temenos.

At Temenos, we understand what competencies (skills, knowledge and behaviors) our people need to excel in their roles and what they need to develop to grow further in their career. Temenos offers a variety of training and development opportunities, including training available in the classroom, on the job, online, and through videos, mobile apps, podcasts, and other formats in multiple languages, to meet the learning needs of our employees around the world. We provide core training, professional training and personal development opportunities delivered

through various channels that form part of the employee's training portfolio. Various learning paths and training are provided through both internal and external training Partners which allow employees to execute their development approach using a style that suits their needs and personality. To emphasize flexible and collaborative learning opportunities, we have introduced a training calendar on our intranet, where employees can self-register for any ongoing training, follow up on any training sessions and engage with the Talent and Development team to improve the overall training experience at Temenos.



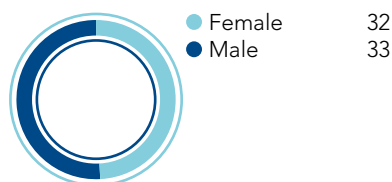
INVESTING IN OUR PEOPLE continued

In 2017, the median amount of training per person was 32 hours, excluding on-the-job training, coaching and other self-service development activities not recorded in our systems.

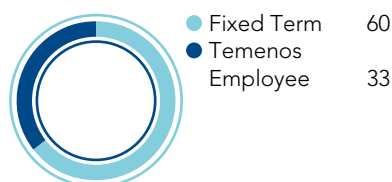
Throughout the year, employees get coaching on career development through meetings with their manager and HR. Managers receive training to enhance their skills in managing others and coaching and mentoring employees on how to achieve the greatest impact, as well as how to drive their own career development, providing tools and resources to support focused and actionable conversations. We also offer all new employees comprehensive induction training that covers a broad range of topics, such as on-boarding practices as well as organized global, divisional (Sales, Finance, Product, etc.) and local induction training to help them settle into their new roles quickly and effectively.

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE BY GENDER AND EMPLOYEE CATEGORY

BY GENDER



BY EMPLOYEE CATEGORY



TEMENOS SALES ACADEMY

Temenos Sales Academy is a one-year program targeting fresh graduates and early professionals designed to cultivate the next generation of Sales champions. In September 2017, 21 young people from around the globe joined the Temenos Sales Academy. Temenos is committed to attracting, developing and retaining untapped talent in the global market. The aspiration is to expand the Academy beyond the sphere of Sales and Business Solutions Group in the near-term.

The participants of the 2017-2018 program – 14 men and 7 women – were from regions around the world: Europe: 10, MEA: 2, LATAM: 1, NSA: 2, APAC: 6.

Their training focuses on fundamental concepts of Sales and Business Solutions. Based in Luxembourg for their first 3 to 6 months, depending on their respective sales profession, participants are taught a comprehensive set of skills from banking, industry knowledge, product and software

knowledge, to the soft skills of selling, communication and presentation. Once their classroom training is completed, participants move to their respective regions, where they put into practice what they have learned.

- > Sales Trainees will become members of the Regional Sales team and will work directly with Regional Marketing on lead generation for the remainder of their 12 months while participating and contributing to sales cycles.
- > Business Solutions Trainees will become members of their respective Temenos Regional Business Solutions teams and will be involved in indoor engagements first to get additional practice experience; they will then start to work outdoor at client sites after having developed their first hands-on knowledge and having been mentored and coached by successful industry leaders.

Temenos Incubation Center

The Temenos FinTech Services Incubator first opened its doors last year, bringing together Technical Consultants who wanted to fast-track their careers and combine the passion for FinTech with travel. With this first edition in 2017, the Incubator looks to on-board and prepare Technical Consultants and Business Consultants who will have the opportunity to work on some of our most exciting projects, spread across Europe. On joining the Incubator, the participants attend an intensive 3-month training program, introducing them to our product. In the second phase of their training, the trainees move into shadowing an experienced Temenos consultant on various projects, making their way to working independently on-site with our clients.

Career Development Framework (Pathfinder)

Using feedback from the annual employee engagement survey, a career development framework – Pathfinder – has been developed and rolled out that provides employees with a clear understanding of the expectations in their current roles and the opportunities they have to develop their future career at Temenos. Pathfinder's bespoke Career Development Framework sets out what skills, knowledge and behaviors (competencies) are needed in a particular job family and role at a specific level within a function. The framework defines a structure where all roles within a job family carry out similar tasks and require broadly similar skills and competencies, but operate at different levels of bands, where competencies are aligned as per career progression and growth. Pathfinder clarifies the "paths" for development of competencies and progression criteria that enables individuals to proactively manage their own career, performance, training and development needs at Temenos by aligning both their hard skills (technical/functional) and soft skills (behavioral).

Career and Performance Management (Compass)

At Temenos we urge our people to achieve their full potential by focusing on their career development and planning. Career management through Pathfinder is supported by a performance management process in the Compass tool, which provides employees with feedback on their work and helps them create a development plan to build on their strengths and improve their skills, knowledge and behaviors. The performance management process within 2017 has been split into two phases in the Compass platform: 2016 Year-end review and 2017 Start-of-year plan. As of 2017 year end, 77% (employees only) have submitted a 2017 Start-of-year Compass plan.

2016 YEAR END REVIEW

% EMPLOYEES



Completed	77%
Not eligible	12%
Pending	6%
Not initiated	5%

BY GENDER

Female



Completed	76%
Not eligible	16%
Pending	5%
Not initiated	3%

Male



Completed	77%
Not eligible	11%
Pending	7%
Not initiated	6%

CELEBRATING EXCELLENCE



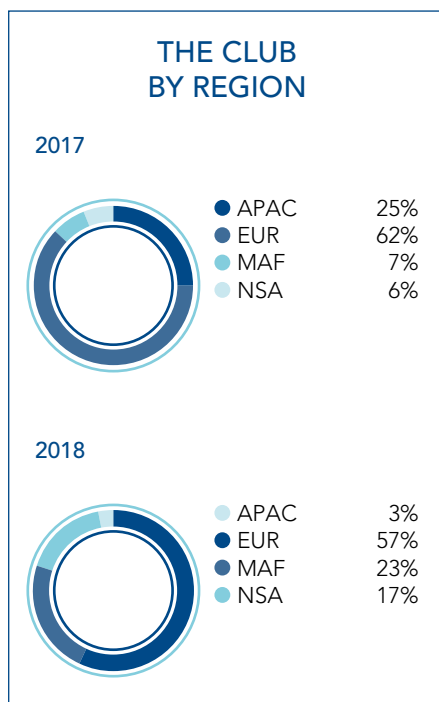
Recognition of great work and key contributions by both individuals and teams is critical to Temenos. Through these recognition programs, we encourage all employees at all levels to embrace the opportunity to appreciate great work and recognize efforts of performance excellence of their colleagues, team members, peers and supervisors.

INVESTING IN OUR PEOPLE continued

The Club and Chairman's Club

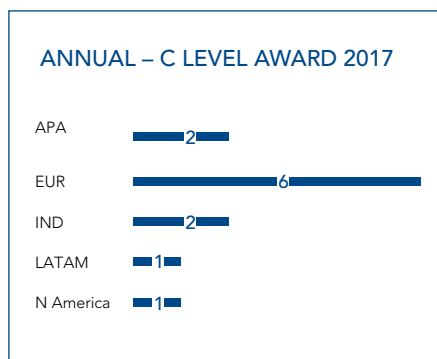
The Club celebrates our top performing Sales and Business Solutions colleagues from around the world in a unique way – a trip with our CEO. In 2017, 71 winners with their Partners visited India, spending quality time with our top management as a big Temenos family. In the past, the Club awardees traveled to Iceland, Vietnam, Barbados, Capri and Kenya. In 2018, 98 winners with their Partners will visit Scotland, accompanied by our senior management.

In addition, in 2017, we established the Chairman's Club to recognize people who for several years have significantly contributed to Temenos' growth. In 2018, the Chairman will invite the five winners (three men – two women) and their partners to an exclusive weekend hosted by himself and his wife.



C level award

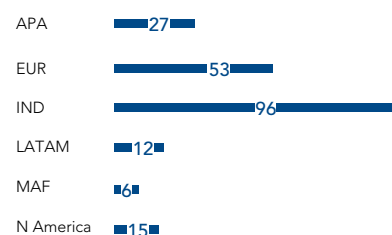
In 2016, Temenos launched the annual C-Level recognition award program that aims at recognizing 12 employees, excluding Sales/Presales, in the different regions or corporate business divisions for their outstanding contributions positively impacting the Temenos business and profitability beyond expectations by being instrumental in signing a new deal (i.e. beyond normal duties), or innovating a scalable tool, process or product significantly improving quality, lowering costs or risks for the organization beyond normal duties. The Awardees won USD 2,500 net cash and were invited to the next Global Sales Meeting with the opportunity to learn more about Temenos and spend time with the leadership team.



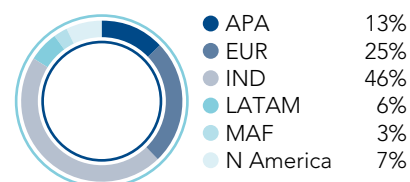
Regional recognition awards

The Company has been running Quarterly Regional Employee Awards, recognizing outstanding performance, dedication, innovation and professionalism at a regional level. In 2017, we celebrated 209 individual and team successes, compared to 194 individual and team successes in 2016.

REGIONAL RECOGNITION AWARD 2017



% REGIONAL RECOGNITION AWARDEES 2017 BY REGION



Shared Services Recognition Awards

To honor Shared Services employees and teams across the world for their outstanding contribution beyond the normal call of duty, Temenos Shared Services has designed awards that cover all such achievements:

- > GEM: Going the Extra Mile Award (Extra Miler)
- > Star of the Month
- > Star of the Quarter
- > Team of the Quarter.

OPENING DOORS

ENABLING ACCESS TO FINANCIAL SERVICES

According to the World Bank, around two billion people do not use formal financial services and more than 50% of adults in the poorest households are unbanked. Others are exploited by opportunistic micro lenders at usurious rates. The world's most vulnerable communities need access to affordable, trusted financial services. Financial inclusion is a key enabler to reducing poverty and boosting prosperity. At the same time, digital is creating world-changing innovations, but also disrupting industry and how people work.

STRENGTHENING LOCAL FINANCIAL INTERMEDIATION

Credit unions, savings banks, microfinance, community banks and other non-bank financial institutions are the foundation to sustainable financial inclusion and the development of healthy sustainable local financial markets. At Temenos we understand the need to strengthen and support community based banking. Our approach to support the development of healthy and productive local economies is to provide community banks, cooperative financial institution and various non-bank financial institutions with modern digital technology and services to strengthen their business to serve their communities and expand their outreach to the unbanked. We do this as part of our mainstream business. We bundle our latest release Temenos core banking technology in a mature model bank for community and cooperative banking and provide access to the integration and digital channels in a cloud based software-as-a-service (or local) basis. This helps smaller financial institutions gain access to the same technology used by some of the largest and most modern banks in the world but made accessible by subscription service and packaged for rapid implementation.

FINANCIAL INCLUSION STRATEGIES

Temenos financial inclusion strategy is to provide the same technology infrastructure used by modern digital banks in established financial markets to empower small financial institutions in emerging markets to compete and exponentially grow their client base providing quality, affordable, digital financial services to the poor. Temenos provides the technology and expertise to build digital

services to compete with mobile network operators, Fintech and commercial banks that are after the very valuable membership base community banks and credit unions have developed over decades. It is essential that the community banks keep their client spend within their own community-banking network, generate new revenue and build on their greatest asset – the trusted client relationship.

The biggest challenge to digitizing has always been the cost of software, computer services and the expertise to run new system. Temenos brings the technology used by the world's leading banks to community banking to grow the client base to make a real difference with quality services for inclusive banking in emerging markets in Africa, Latin America and Asia. Nine out of ten people live in emerging markets and without a safe place to save and a source of credit and other financial services will remain excluded from the formal economy.

LOWERING COSTS – ACCESS TO QUALITY FINANCIAL SERVICES

With our subscription based 'Software as a Service' clients can quickly implement the products their clients want without a high one-off capital investment in software, hardware or in house technical expertise. The first two or three transaction fees on an e-wallet payment account alone pays the entire cost of the service. By taking a network approach, sharing common software, computer infrastructure and service centers, community based financial institutions can have access to the same tools the big banks and mobile operators have, provided as a service. They need only to configure the services with Temenos and our business Partner expert assistance to launch their own business, running their own payments and digital services; services clients demand – keeping clients in the local community network and attracting the youth.

Doing nothing is not an option. Fintech and international payments schemes aimed at the two billion unbanked are now pushing microcredit under the rubric of financial inclusion, some at rates of upwards of 600% APR and with payments at transaction rates that are disproportionate to the transaction amount.

PAYMENTS AND ELECTRONIC DELIVERY TO REMOTE COMMUNITIES

The world's most vulnerable communities need access to affordable, trusted financial services. Community banks must digitize now or risk being dis-intermediated from their clients and their clients will become burdened with expensive consumer credit transferring wealth from the poorest to the top of the economic pyramid. Local community banks and non-bank financial institutions need to provide competitive, quality financial services to the poor and protect themselves from dis-intermediation. Without a clear digital strategy, local financial institutions will cease to be viable. Financial markets deepening is an incremental process. To reach the two billion unbanked we need local agents and institutions continuously pushing the frontier of finance.

At Temenos, we have aligned with this goal to continue to innovate and push the cost of intermediation down, ever expanding sustainable access to formal financial services. Temenos provides a complete end-to-end, customized, retail core banking and channel solution to help local financial institutions thrive. And as the sectors biggest investor in R&D, we will continue to innovate and support community banking to provide the services that are the key to financial inclusion, creating wealth and growing local economies.

DIGITAL TRANSFORMATION OF RURAL FINANCE

Digital banking is about strengthening client relationships, modernizing services and attracting young social network savvy clients in the mass markets of Asia, Africa and Latin America. Temenos helps this sector with a business engagement that is suited to the budget and practical realities of this important sector in emerging markets. Cognizant of the business realities and having 20 years of experience in financial inclusion, we believe that our best contribution is a business engagement that is self-sustaining and sets the stage for growing a strong and vibrant community banking foundation for financial inclusion.

CARING FOR OUR COMMUNITIES

INVESTING IN OUR COMMUNITIES

COMMUNITY INVESTMENT

As a global corporation, we are committed to supporting and enhancing the quality of life of the communities where our employees, Partners, and clients live and work. By using our technology and resources, offering financial support, sharing our business expertise as well as the passion, effort and talent of our employees, collaborating with clients and Partners, we are making positive, measurable contributions to the local communities, while responding in times of need.

Our Approach

- > corporate monetary contributions
- > corporate monetary contributions that complement the donations or volunteer efforts of our employees
- > corporate donations of used IT equipment
- > employee fundraising (volunteering their time and/or money) and
- > volunteering (donation of professional service, management expertise, skills and time to non-profit organizations or local communities).

At Temenos we are looking for ways to go beyond financial resources and consider how to make best use of our assets, resources, expertise, advocacy, and relationships to support and enhance the local communities. In addition, we aim to align our community investment with our mission and the strategic issues of our business to create shared value. We look for Partners rather than as the principal actor in promoting local development and creating long term benefits and sustainable results that can outlast Company support.

Corporate Monetary Contributions

We rely on the efforts of all our employees to help us identify emerging issues and local community needs where Temenos can reach out, design programs and contribute to the communities in the regions where we operate and monitor the progress. We cooperate with our people in our local offices on the review, evaluation and selection procedure that is based on local community-need assessments. Our community investment is aligned with our mission, business strategy, employee concentration and CSR strategic priorities, ranging from long term programs to short

term initiatives. Temenos evaluates the effectiveness and impact of its community investment by maintaining contact with organizations it supports both to improve management of existing projects and to identify future opportunities and by communicating its CSR program to the Company's stakeholders through the Company's communication channels.

In order to maximize the social impact of our corporate donations in 2017, we moved the focus from the donations budget (for example, the amount of money we are going to donate), to focusing instead on the social change we would like to create.

In addition, the Temenos Internal Audit team conducts yearly independent, objective audits of the Company's corporate monetary contributions, in relation to the Anti-bribery and Corruption and Conflict of Interest policies. The results of these audits are shared with the CSR and Ethics Committee and the Audit Committee. All donations and non-commercial sponsorships requests are submitted online through the Temenos intranet for review and evaluation by the CSR and Ethics Committee during its regular meetings.

Corporate Monetary Contributions and Employee Fundraising

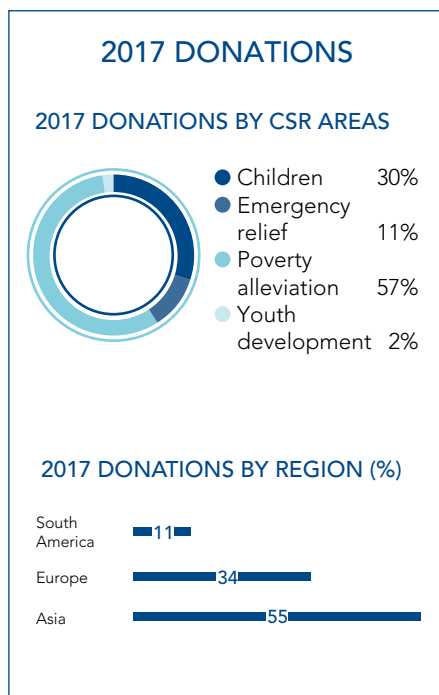
Temenos encourages all employees to actively engage in community service and fundraising activities for a social cause for non-profit organizations, based in the countries where we operate, by giving them the chance to boost their fundraising efforts through corporate matching of the raised funds.

Donations of Used IT Equipment

We work at a local level to donate desktops, laptops, screens, printers and other IT equipment that are no longer used by the Company to non-profit organizations or schools based in the countries where we operate. All laptops and desktops are cleaned of all data and software before being donated due to confidentiality, licensing and data protection issues.

EMPLOYEE VOLUNTEERING AND COMMUNITY SERVICE

Our people work with local non-governmental organizations around the world, volunteering their time and expertise to build sustainable communities. Temenos actively supports employee engagement in community service and volunteering projects. Employees are encouraged to offer their time and expertise to support local community organizations, as well as donate management time and expertise to support non-governmental organizations in the Company's core activities.



OUR STRATEGIC PRIORITIES

- > Poverty Alleviation and Local Economic Development
- > Children
- > Youth Development
- > Technology and Innovation
- > Environment
- > Emergency Relief

Poverty Alleviation and Local Economic Development: India CSR Program

Temenos is committed to finding ways to use technology to enable social change, by supporting disadvantaged local communities, enhancing their living standards as well as their work skills and capabilities and helping them gain access to finance, health and jobs.

India is a material location for Temenos as it represents 48% of our total employee concentration. Education is one of the most powerful instruments for reducing poverty and inequality and enhancing India's competitiveness in the global economy. Based on global research, while more than 95% of children attend primary school, just 40% of Indian adolescents attend secondary school (Grades 9-12). Curriculum and teaching practices need upgrading to impart more relevant skills, such as reasoning skills, problem-solving, learning-to-learn and critical and independent thinking. Public-private partnerships need to be expanded to tap into the potential offered by the 60% of secondary schools which are privately managed in India.

In 2017, Temenos launched a comprehensive CSR program in India "Adopt iT" to help improve the quality of secondary education in India and eventually access to quality education for more, as this is central to the economic and social development of India.

The concept was to identify secondary schools in need (government aided schools – privately managed) with the following key directions: to bridge the digital divide gap, improve access to information and knowledge and use technology to enable social change, by:

- > supporting disadvantaged local communities
- > providing children/youth with equal opportunities for education and employment
- > enhancing their living standards as well as their work skills and capabilities
- > helping them unleash future opportunity and gain access to jobs, health and finance.

The work of Temenos through this program is in line with the 17 UN Sustainable Development Goals (SDGs) and will contribute to the global effort of:

- > eradicating poverty (SDG no. 1)
- > ensuring inclusive and quality education for all and promote lifelong learning (SDG no. 4)
- > encouraging gender equality and the empowerment of women (SDG no. 5)
- > promoting inclusive and sustainable economic growth (SDG no. 8)
- > the importance of alliances for achieving the goals (SDG no. 17)

The program's main actions, depending on the school needs, are as follows:

- > Renovation of school buildings
- > Creation of computer smart labs
- > Provision of air conditioning and ceiling fans for computer rooms
- > Provision of sustainable electricity for computer rooms, for uninterrupted teaching during power outages
- > Provision of sports material for students' extra-curricular activities
- > Provision of play and learn material and software for children/youth with special needs (where applicable)

2018 Goal:

In 2018, the program is planned to be extended to more schools – currently under due diligence process – and expanded to address another CSR strategic direction for Temenos: Environment (water/energy) with the following key directions:

- > To create an enabling school environment, by providing water (through reverse osmosis system using renewable energy sources, hygiene and sanitation facilities in schools.

Global research has shown that by providing water, hygiene and sanitation facilities in schools, children's regularity to school can be substantially improved, as they will have fewer illnesses due to water borne infections and in the long term, it has the potential to reduce drop-out rates, especially among girls, in upper primary and secondary school levels.

The work of Temenos through this program expansion will contribute to the global effort of:

- > ensuring access to water and sanitation for all (SDG no. 6)
- > ensuring access to affordable, reliable, sustainable and modern energy for all (SDG no. 7) – in 2018.



In 2017, Mannur Chengalvaraya Naidu Higher Secondary School was identified and the first pilot project was implemented. The school is located in Chennai, 1.5 kilometers from one of the Chennai Temenos offices. The school has 273 students (250 boys and 23 girls).

During 2018, our India employees will volunteer their time and skills at the initial phase of this program to help with the setup of the computer labs and throughout the year they will teach the students how to use them.

INVESTING IN OUR COMMUNITIES continued

Children

Temenos, in cooperation with leading non-profit organizations in the communities where we operate, organizes and supports initiatives that help improve the living conditions of children irrespective of their color, race, religion, nationality, or socio-economic status, by providing them with a healthy start and the opportunity to learn, while advocating and protecting their basic human rights and providing them with emotional and psychological support.

In 2017, we continued to support three organizations at a global, as well as at a local level, where Temenos has a significant number of employees:

- > the Global Fund for Children (GFC)
- > the School for Children with Hearing Disabilities in Bucharest, Romania
- > the "Save a Child's Heart" initiative in Bucharest, Romania.



"GIVE A SMILE" PROJECT THE SCHOOL FOR CHILDREN WITH HEARING DISABILITIES – ROMANIA

For more than ten years, Temenos has been supporting the School for Children with Hearing Disabilities in Bucharest, Romania, in collaboration with Rotary Athenaeum Club from Rotary International.

In December 2017, in line with the "Give a Smile" project, 30 primary school children with hearing disabilities were accompanied by Temenos volunteers to do Christmas shopping and choose their presents.

"SAVE A CHILD'S HEART" GRIGORE ALEXANDRESCU CHILDREN'S HOSPITAL – ROMANIA

In September 2016, Temenos first supported the "Save a Child's Heart" project. The first pediatric cardiovascular clinic and a Center of Excellency opened in a new building at Grigore Alexandrescu Children's Hospital in Bucharest with an 85-bed capacity and equipped with the latest generation medical devices. During the first mission, Acad. Prof. Dr. Dan Mircea Enescu – supported by a US medical team – successfully operated on eight children between 11 months and 16 years at Grigore Alexandrescu Children's Hospital in only four days.

In January 2017, 18 American and European Doctors and Medical Assistants participated in the second mission organized by Gift of Life and Children's Heart Foundation. They have since operated on ten children with heart malformations and supported the Grigore Alexandrescu Children's Hospital doctors.

Emergency Relief: Earthquakes in Mexico

We are committed to supporting the local communities, where we operate, when affected by unexpected events or disasters of any kind as well as providing assistance to non-profit organizations and emergency relief agencies to prepare and respond to these humanitarian crises.

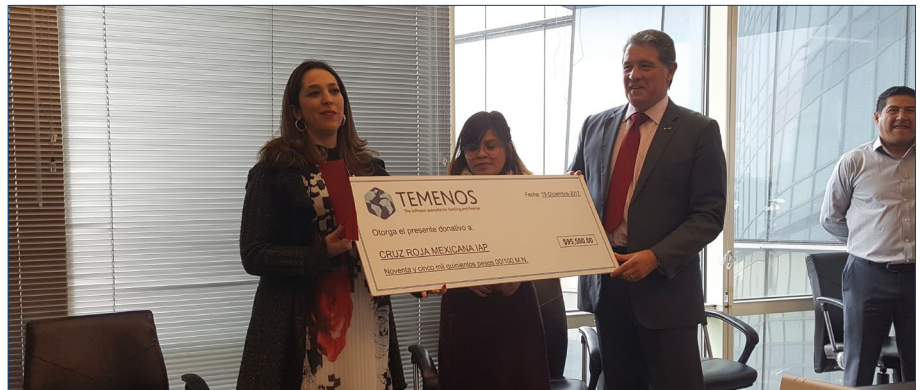
In September 2017, triggered by the two deadly earthquakes in Mexico that affected the regions of Mexico City, Puebla, Oaxaca and Morelos, Temenos employees organized an online fundraising campaign for the victims of these earthquakes. The raised funds – combined with matching donations by Temenos – were donated to two non-governmental organizations:

- > Mexican Red Cross and Rescue Brigade Topos, specializing in natural disaster relief such as search, rescue and first aid services
- > Three Ecatingo Families for the reconstruction of their houses.

The town of Ecatingo (30 kilometers out of Mexico City and toward the epicenter of the earthquake) was identified to be supported, as it was severely affected by the earthquakes. Temenos employees together with National University of Mexico students provided time and expertise to design and organize the construction of these three houses. Temenos Mexico employees will also participate in the reconstruction project offering community service, while monitoring the progress directly.

2018 Goals

- > To expand the Adopt iT program in India to address another CSR strategic direction for Temenos: Environment
- > To focus 2018 partnerships with NGOs on poverty alleviation and local development initiatives for a bigger impact
- > To organize more volunteering opportunities for our employees in line with our CSR strategic priorities
- > To match up to five employee fundraising activities in line with our Donations' policy focusing on poverty alleviation and local development
- > To raise awareness about Temenos' social campaign for financial inclusion within our client-Partner network.



ABOUT THIS REPORT

Unless otherwise indicated, the information provided in this report reflects the situation as of 31 December 2017 and covers all Temenos operations globally during the financial year 2017. This report is prepared in accordance with the Global Reporting Initiative's G4 Guidelines (Core), a set of internationally recognized reporting standards. Please see our online GRI G4 Index for detailed data and additional information. In addition, it serves as Temenos' annual Communication on Progress under the United Nations (UN) Global Compact. This is our second Corporate Responsibility Report. No restatements were done. This report has not been externally assured. We have assured the content through an internal review process, including Board of Directors and executive oversight of reviews and validation. Our first report was published in 2017. We plan to publish a progress report annually.

Temenos operates 64 offices in leased buildings in 41 countries. Temenos' energy reporting and corresponding Scope 1 and 2 emissions cover the time period from December 1, 2016 to November 30, 2017 for 16 Temenos offices in five countries, due to restrictions set by the availability and invoicing from the management companies of the buildings we lease. These locations – considered as significant locations of operation – were selected based on headcount, clients' demand in RFP and changing local regulation, representing around 68% of the total Temenos population. The locations are as follows: Switzerland (three office locations), UK (five), Romania (one), Luxembourg (two) and India (five). The energy consumption of these offices represent actual consumption as reported on invoices from utility providers and management companies.

Energy and emissions calculations follow the Greenhouse Gas Protocol and emissions are reported in CO₂. Some calculations are manually conducted. Our Scope 3 business travel related CO₂ emissions from flights reporting covers 32 out of the 41 countries in which we operate, representing 92% of the total employee population. Locations with major operations and a significant amount of travel are within the scope. The CO₂ factors used are DEFRA for flights. The data was collected from the Company travel management system as well as travel agency providers. In the report, the metric ton/UK tonne equivalent to 1,000 kilograms is stated solely as ton.

UN GLOBAL COMPACT INDEX

The table below describes the location of relevant report content for each of the UN Global Compact's ten principles.

PRINCIPLE	DESCRIPTION	REPORT SECTION
HUMAN RIGHTS		
1	Businesses should support and respect the protection of internationally proclaimed human rights; and	Investing in Our People
2	Make sure they are not complicit in human rights abuses.	Investing in Our People
LABOUR		
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Investing in Our People
4	The elimination of all forms of forced and compulsory labor;	Investing in Our People
5	The effective abolition of child labor; and	Investing in Our People
6	The elimination of discrimination in respect of employment and occupation.	Investing in Our People
ENVIRONMENT		
7	Businesses should support a precautionary approach to environmental challenges;	Operating Responsibly
8	Undertake initiatives to promote greater environmental responsibility; and	Operating Responsibly
9	Encourage the development and diffusion of environmentally – friendly technologies.	Operating Responsibly
ANTI-CORRUPTION		
10	Businesses should work against corruption in all its forms, including extortion and bribery.	Operating Responsibly

Our headcount related figures are based on the GRI G4 guidelines and cover all Temenos operations globally, in full alignment with the Annual Report and Financial Statements section. The data sources are the corporate internal IT and HR systems, which provide data on full-time and part-time employees and permanent and temporary employees.

CONTACT

The 2017 Temenos CSR Report explains our policies, procedures, programs and performance on our material, environmental, social and governance (ESG) issue areas as well as how we address other important CSR issues. We welcome your feedback on the activities and programs described in the report, as well as the issues you expect to see addressed in the future. Please email your comments to the below address.

Kalliopi Chioti
Group CSR Manager
Tel.: +30 211 1094604
csr@temenos.com

2017 GRI G4 INDEX – CORE

The table below describes the location of relevant report content correlating to the Global Reporting Initiative's G4 Guidelines. While most information is found in this report, other primary sources include: **Temenos Business Code of Conduct, Slavery and Human Trafficking Statement** and our corporate website: www.temenos.com.

GENERAL STANDARD DISCLOSURES

STRATEGY AND ANALYSIS		
G4-1	CEO Letter	Message from the CEO
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	About Temenos, p.1 Annual report: Welcome
G4-4	Primary brands, products, and services	About Temenos, p.10 Annual report: Our Solutions
G4-5	Location of the organization's headquarters	About Temenos p.98 Annual report: Group Structure and Shareholders
G4-6	Where the organization operates	p.98 Annual report: Group Structure and Shareholders; Temenos worldwide offices; Consolidated Financial Statements: 5. Group Companies
G4-7	Nature of ownership and legal form	p.98 Annual report: Group Structure and Shareholders
G4-8	Markets served	p.98 Annual Report: Group Structure and Shareholders
G4-9	Scale of reporting organization	About Temenos, About this Report, p.98 Annual Report: Group Structure and Shareholders; Temenos worldwide offices; Consolidated Financial Statements: 5. Group Companies
G4-10	Total number of employees by type	Investing in our People; no seasonal variations
G4-11	Percentage of total employees covered by collective bargaining agreements	Employee Relations
G4-12	Organization's supply chain	Responsible Procurement and Supply Chain
G4-13	Significant changes during the reporting period to the organization's size, structure, ownership, or its supply chain	p.162, p.98 Annual Report: Consolidated Financial Statements: 5. Group Companies; Group Structure and Shareholders
G4-14	Whether and how the organization applies the precautionary approach or principle	Environmental Responsibility
G4-15	External charters, principles or other initiatives	Our Endorsements
G4-16	Membership associations	Our Endorsements

2017 GRI G4 INDEX – CORE continued

IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in financial statements	About this Report
G4-18	Process for defining the report content and the Aspect Boundaries	About this Report, Materiality Analysis
G4-19	Material Aspects identified in the process for defining report content	About this Report, Materiality Analysis
G4-20	Aspect Boundary within the organization	About this Report, Materiality Analysis
G4-21	Aspect Boundary outside the organization	About this Report, Materiality Analysis
G4-22	Effect of any restatements of information provided in previous reports	About this Report
G4-23	Significant changes from previous reporting periods in Scope and Aspect Boundaries	About this Report
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups engaged by the organization	Stakeholder Engagement
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholder Engagement
G4-26	Approach to stakeholder engagement	Stakeholder Engagement
G4-27	Key topics and concerns raised through stakeholder engagement	Stakeholder Engagement Materiality Analysis
REPORT PROFILE		
G4-28	Reporting period	About this Report
G4-29	Date of most recent previous report	About this Report; March 2017
G4-30	Reporting cycle	About this Report; Annual
G4-31	Contact point for the report	Contact
G4-32	GRI Content Index for In accordance 'Core'	2017 GRI G4 INDEX; Core
G4-33	Policy regarding report assurance	About this Report
GOVERNANCE		
G4-34	Governance structure of the organization	Corporate Governance, p.97 Annual Report, CSR and Ethics Governance
G4-35	Process for delegating authority for sustainability topics from the board to senior executives and other employees	Corporate Governance, p.97 Annual Report, CSR and Ethics Governance
G4-36	High-level accountability for sustainability topics	Corporate Governance, p.97 Annual Report, CSR and Ethics Governance
G4-38	Composition of the board and its committees	Corporate Governance, p.97 Annual Report, CSR and Ethics Governance
G4-39	Whether the chair of the board is also an executive officer	Corporate Governance, p.97 Annual Report, CSR and Ethics Governance
G4-41	Board conflicts of interest	Conflict of Interest and Related Party Transactions
G4-48	Highest committee or position that formally reviews and approves the report	About this Report
G4-51	Remuneration policies for the highest governance body and senior executives	p.115 Annual Report: Compensation Report: Compensation Components

G4-52	Process for determining remuneration	p.111 Annual Report: Compensation Report: Organization and Competencies
G4-53	How stakeholders' views are sought and taken into account regarding remuneration	p.113 Annual Report: Compensation Report: Shareholder Engagement
ETHICS AND INTEGRITY		
G4-56	Organization's values, principles, standards and norms of behavior	Mission, Vision and Core Values, Ethical Business Conduct and Governance
G4-58	Mechanisms for reporting concerns about unethical or unlawful behavior	Ethical Business Conduct Monitoring and Reporting

SPECIFIC STANDARD DISCLOSURES

ECONOMIC		
ECONOMIC PERFORMANCE		
G4-DMA	Generic Disclosures on Management Approach	Economic Impact
G4-EC1	Direct economic value generated and distributed	Economic Impact, p.166 Annual Report: Consolidated Financial Statements: 7. Segment Information
G4-EC4	Financial assistance received from government	Economic Impact
PROCUREMENT PRACTICES		
G4-DMA	Generic Disclosures on Management Approach	Responsible Procurement and Supply Chain, Economic Impact
G4-EC9	Proportion of spending on local suppliers at significant locations of operations	Responsible Procurement and Supply Chain, Economic Impact
ENVIRONMENTAL		
ENERGY		
G4-DMA	Generic Disclosures on Management Approach	About this Report, Environmental Responsibility
G4-EN3	Energy consumption within the organization	About this Report, Environmental Responsibility
EMISSIONS		
G4-DMA	Generic Disclosures on Management Approach	About this Report, Environmental Responsibility
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	About this Report, Environmental Responsibility
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	About this Report, Environmental Responsibility
SUPPLIER ENVIRONMENTAL ASSESSMENT		
G4-DMA	Generic Disclosures on Management Approach	Responsible Procurement and Supply Chain
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Responsible Procurement and Supply Chain
ENVIRONMENTAL GRIEVANCE MECHANISMS		
G4-DMA	Generic Disclosures on Management Approach	Ethical Business Conduct Monitoring and Reporting, Responsible Procurement and Supply Chain
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Ethical Business Conduct Monitoring and Reporting, Responsible Procurement and Supply Chain

2017 GRI G4 INDEX – CORE continued

LABOR PRACTICES AND DECENT WORK		
EMPLOYMENT		
G4-DMA	Generic Disclosures on Management Approach	Investing in our People
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Investing in our People
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Investing in our People
TRAINING AND EDUCATION		
G4-DMA	Generic Disclosures on Management Approach	Talent and Development
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Talent and Development
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Talent and Development
DIVERSITY AND EQUAL OPPORTUNITY		
G4-DMA	Generic Disclosures on Management Approach	Diversity, Inclusion and Equal Opportunity
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Diversity, Inclusion and Equal Opportunity
LABOR PRACTICES GRIEVANCE MECHANISMS		
G4-DMA	Generic Disclosures on Management Approach	Ethical Business Conduct, Monitoring and Reporting
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Ethical Business Conduct, Monitoring and Reporting
HUMAN RIGHTS		
INVESTMENT		
G4-DMA	Generic Disclosures on Management Approach	Corporate Policies, Human Rights
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Corporate Policies, Human Rights
NON-DISCRIMINATION		
G4-DMA	Generic Disclosures on Management Approach	Elimination of Discrimination and Prevention of Harassment
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Elimination of Discrimination and Prevention of Harassment

SUPPLIER HUMAN RIGHTS ASSESSMENT		
G4-DMA	Generic Disclosures on Management Approach	Responsible Procurement and Supply Chain
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	Responsible Procurement and Supply Chain
HUMAN RIGHTS GRIEVANCE MECHANISMS		
G4-DMA	Generic Disclosures on Management Approach	Ethical Business Conduct, Monitoring and Reporting
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Ethical Business Conduct, Monitoring and Reporting
SOCIETY		
LOCAL COMMUNITIES		
G4-DMA	Generic Disclosures on Management Approach	Investing in Our Communities
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Investing in Our Communities
ANTI-CORRUPTION		
G4-DMA	Generic Disclosures on Management Approach	Ethical Business Conduct, Monitoring and Reporting Anti-Corruption and Bribery
G4-SO4	Communication and training on anti-corruption policies and procedures	Ethical Business Conduct, Monitoring and Reporting Anti-Corruption and Bribery
SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY		
G4-DMA	Generic Disclosures on Management Approach	Responsible Procurement and Supply Chain
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	Responsible Procurement and Supply Chain
GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY		
G4-DMA	Generic Disclosures on Management Approach	Ethical Business Conduct, Monitoring and Reporting
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Ethical Business Conduct, Monitoring and Reporting
PRODUCT RESPONSIBILITY		
PRODUCT AND SERVICE LABELING		
G4-DMA	Generic Disclosures on Management Approach	Focus on Client Engagement
G4-PR-5	Results of surveys measuring customer satisfaction	Focus on Client Engagement



GOVERNANCE

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FORWARD-LOOKING LEADERSHIP

BOARD OF DIRECTORS



ANDREAS ANDREADES 1

Executive Chairman
Cypriot, born in 1965

Mr. Andreas Andreades joined Temenos in 1999, initially in the position of Chief Financial Officer, before assuming the responsibilities of the Deputy Chief Executive Officer in 2001 and then the Chief Executive's role from July 2003 until July 2011, when he was appointed Chairman of the Board of Directors. In July 2012 he was appointed Executive Chairman of the Temenos Board of Directors. Since he joined Temenos, the Company has grown from less than 150 employees to more than 4,900 and to more than 3,000 clients generating in excess of USD 730 million in annual revenues and achieving a market capitalisation close to USD 9 billion, establishing it as the global leader in banking software. Since 2003 the market capitalisation of Temenos has grown by approximately 126 times or a compound average of 40% per annum.

Mr. Andreades started his career with KPMG in London in 1988 and then with PepsiCo between 1994 and 1999. Mr. Andreades holds a Master's engineering degree from the University of Cambridge and is a United Kingdom qualified chartered accountant.

As Executive Chairman Mr. Andreades supports, advises, counsels and provides guidance to the Executive Committee. He provides guidance and support directly to the Chief Executive Officer and Chief Financial Officer / Chief Operating Officer on a regular basis. He also attends the monthly Product Board where product strategy and funding are decided and execution is monitored. The Chairman is very heavily involved in acquisitions and in key client/prospect relationships that often require the Chief Executive Officer and/or Chairman's participation to bring key deals to fruition as well as representing Temenos on key project deliveries through Steering committee representation. He therefore works full time in an executive capacity and is jointly responsible together with the Chief Executive Officer and Chief Financial Officer / Chief Operating Officer to the Board of Directors for the development and delivery of the strategic plan and the annual business and financial plan.



SERGIO GIACOLETTO-ROGGIO 2

Vice-Chairman, Independent and Non-Executive Director
Swiss, born in 1949

Mr. Sergio Giacometto-Roggio is currently an Operating Partner with Advent International, a Global Private Equity firm. Mr. Giacometto-Roggio has served since 2009 in multiple public and private company Boards, after retiring from Oracle Corporation where he had been a Company Officer and Executive Vice President for Europe, Middle East and Africa since 2000. He was most recently Chairman of the Supervisory Board of Oberthur Technologies Group, Paris from April 2013 until May 2017. Prior to joining Oracle in 1997, Mr. Giacometto-Roggio was President, Value Added Services for Europe at AT&T. Earlier in his career, Mr. Giacometto-Roggio spent 20 years with Digital Equipment Corporation in various senior management and executive roles in services, sales, marketing and information management. Mr. Giacometto-Roggio holds a Master Degree in Computer Science from the University of Turin, Italy.

GEORGE KOUKIS 3

Non-Executive Director
Greek and Australian, born in 1946

As founder of Temenos, Mr. George Koukis was Chairman of the Board of Directors until July 2011. Mr. George Koukis has been active in the software industry for more than 40 years, having begun at Qantas where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America in Australia where he held various management positions, including managing director. Mr. Koukis holds a degree in Commerce from the University of Technology in Sydney, Australia and is a registered Certified Practising Accountant (CPA). Mr. Koukis is currently Chairman of the Board of Trustees of the Classical Opera, a non-profit organisation based in the United Kingdom and is a Board member in seven private companies operating mainly in IT and Green Technologies.

Mr. Koukis is a Fellow of King's College London and he is also an Adjunct Professor at the University of Technology Sydney, Australia.

IAN COOKSON 4

Independent and Non-Executive Director
Swiss, born in 1947

Mr. Ian Cookson has been active in the financial services sector for over 30 years and has built one of the most efficient IT operations in Private Banking worldwide. Mr. Cookson acted as Chief Operating Officer of EFG International and a member of the Executive Committee until September 2007, and he was previously a member of the Executive Committee of EFG Bank (since 2002). Prior to this, Mr. Cookson was the Deputy Chief Executive Officer of EFG Bank (1997-2002), Chief Operating Officer of Banque de Dépôts, Geneva (1991-1997) and the Head of Management Services of CBI-TDB Union Bancaire Privée (1986-1991).

THIBAUT DE TERSANT 5

Independent and Non-Executive Director
French, born in 1957

Mr. Thibault de Tersant is a member of the Board of Dassault Systèmes and has been executive vice president and Chief Financial Officer of the Company since 1988 and Senior EVP since 2006. During his tenure in Dassault Systèmes, Mr. de Tersant, who manages an organization in charge of Finance, Legal, Sales Administration, Pricing, Contracts Negotiations, Internal Control and M&A, has conducted more than 80 successful acquisitions totalling around USD 5 billion. He oversaw Dassault Systèmes' successful initial public offering on the Paris and Nasdaq stock exchanges in 1996, as well as a secondary offering in 1997. Mr. de Tersant has more than 25 years of experience in the software industry. Mr. de Tersant is a graduate of the ESSEC Business School and of the Institut d'Etudes Politiques de Paris.

ERIK HANSEN 6

Independent and Non-Executive Director
Danish, born 1952

Mr. Erik Hansen is a recognised software industry veteran with over 30 years of experience as a senior executive at leading software companies. Mr. Hansen is currently Chairman of the Board of Myriad Group AG having previously been Chief Executive Officer and Board Member at Day Software (2008-2011) which was acquired by Adobe in 2010. Prior to this, Mr. Hansen held several senior leadership roles at companies including TIBCO Software (2000-2004), Siemens Pyramid Technology Inc. (1997-2000), TA Triumph Adler (1994-1997) and Apple (1990-1994), both in Europe and in the United States. Mr. Hansen holds a degree from the business college in Horsens, Denmark.

AMY YIP 7

Independent and Non-Executive Director
Chinese (Hong Kong), born in 1951

Ms. Amy Yip has over 35 years of experience in global financial markets covering different aspects of the industry. She is currently a Managing Partner of RAYS Capital Partners Limited, an Executive Director of Vitagreen, Hong Kong, an independent and non-executive director of AIG Hong Kong, an independent non-executive director of Fidelity Funds Board and a member of the Supervisory Board of Deutsche Börse AG.

Ms. Yip began her career at the Morgan Guaranty Trust Company of New York (1978-1985), going on to hold progressively senior appointments at Rothschild Asset Management (1988-1991) and Citibank Private Bank (1991-1996).

Ms. Yip also served as an Executive Director of Reserves Management at the Hong Kong Monetary Authority from 1996 to 2006, where she was responsible for the investment of the assets of the Exchange Fund of Hong Kong. In 2006, Ms. Yip returned to the private sector as the Chief Executive Officer of DBS Bank (Hong Kong) Limited (2006 to 2010), where she was concurrently Head of the Wealth Management Group at DBS Bank.

Ms. Yip was awarded the Bronze Bauhinia Star in the Hong Kong Special Administrative Region in July 2000. Ms. Yip holds an M.B.A. from Harvard Business School and a BA from Brown University.

PETER SPENSER 8

Independent and Non-Executive Director
British and American, born in 1954

Mr. Peter Spenser has over 35 years of experience in the financial services sector and technology. Until June 2016 he was a senior Partner at Deloitte Consulting in the US where in addition to serving a number of major clients (Global Banks, Brokerages and Wealth and Asset Managers), he led a number of practice areas including the Investment Management practice and also the Global Financial Services IT and Data Analytics practices. Prior to this he was Director of Engineering at AcquiData, Inc. which he co-founded (1985-1990), Director of Software Systems at Magnaflux, Inc. (1982-1985) and a developer/analyst at Logica (1979-1982). Mr. Spenser has a BA and MA in Theoretical Physics from Cambridge University and a Ph.D. in Astrophysics from University College London.

EXPERT MANAGEMENT

EXECUTIVE COMMITTEE



DAVID ARNOTT 1
Chief Executive Officer
British, born in 1969

Mr. David Arnott has been Chief Executive Officer of Temenos since July 2012. Mr. Arnott previously served as Chief Financial Officer of Temenos from April 2001. Prior to joining the Group, he worked as Chief Financial Officer of Société Européenne de Communication in Luxembourg. Mr. Arnott also held a number of senior finance positions within the Anglo American group, a mining and precious metals trading company. Prior to this Mr. Arnott was a management consultant with Deloitte where he qualified as a Chartered Accountant. Mr. Arnott holds a Bachelor of Sciences from the University of Southampton and a Master's Degree from the University of Freiburg, Germany. Since Mr. Arnott joined Temenos, the Group has grown from 300 employees to more than 4,900, over 3,000 clients and exceeding USD 730 million in annual revenues – establishing it as a global leader in banking software.

MAX CHUARD 2
Chief Financial Officer/Chief Operating Officer
Swiss, born in 1973

Mr. Max Chuard has been Chief Financial Officer of Temenos since July 2012 and is responsible for finance, planning, treasury, information technology, investor relations, compensation and benefits and internal controls for the Company.



Mr. Chuard is also responsible for mergers and acquisitions, and has conducted more than 10 successful transactions totaling around USD 600 million over the last 11 years. In December 2015 and in addition to his Chief Financial Officer role, Mr. Chuard was appointed as Chief Operating Officer, having the responsibility to oversee all aspects of client delivery including on-premise implementations and the Partner program. Mr. Chuard has been with Temenos since 2002 where previously he held the position of Director of Corporate Finance and Investor Relations. Prior to joining the Group, Mr. Chuard started his career as a business analyst at JP Morgan and subsequently held a senior position at SWICORP, a Swiss merchant bank. Mr. Chuard holds a Masters of Science in Finance from the University of Lausanne (HEC Lausanne), Switzerland.

ANDRE LOUSTAU 3
Chief Technology Officer
British, born in 1958

Mr. André Loustau has been Chief Technology Officer of Temenos since 2001 and has worked with Temenos and its predecessor companies since 1984. Before that, Mr. Loustau was an application developer at Grindlays Bank. Mr. Loustau has held various roles in development, implementation and sales within Temenos, prior to assuming the responsibilities of the Chief Technology Officer. During his tenure, Temenos' product set has undergone constant

and significant progress, leading to a series of pioneering innovations in the industry including – the first banking systems to use a Windows GUI, first real-time, 24x7 banking system, and the first banking system to be running in the Cloud.

MARK WINTERBURN 4
Chief Product Officer
British, born in 1960

Mr. Mark Winterburn has been responsible for the product organization since joining in 2011. Mr. Winterburn has over 35 years' experience in IT, 30 of them in financial services. Prior to joining Temenos, Mr. Winterburn held the position of VP Solutions Management and Product Development at Misy, and held a number of senior positions at Lloyds TSB, with a proven track record of driving large and complex IT change programs. He has studied Leadership, Product, Cultural and Change Management at Harvard Business School, Cranfield University and Henley Management School. Mr. Winterburn studied a Software Engineering diploma at Coventry University, England.

JEAN-MICHEL HILSENKOPF 5
Chief Revenue Officer
French, born in 1963

Mr. Jean-Michel Hilsenkopf was appointed Chief Revenue Officer of Temenos and member of the Executive Committee in January 2018. Mr. Hilsenkopf is one of the original members of the Company, having joined in 1993. His deep understanding of the Company, its culture, and passion for delivery gives him the vision to drive the Company's regional strategy forward.

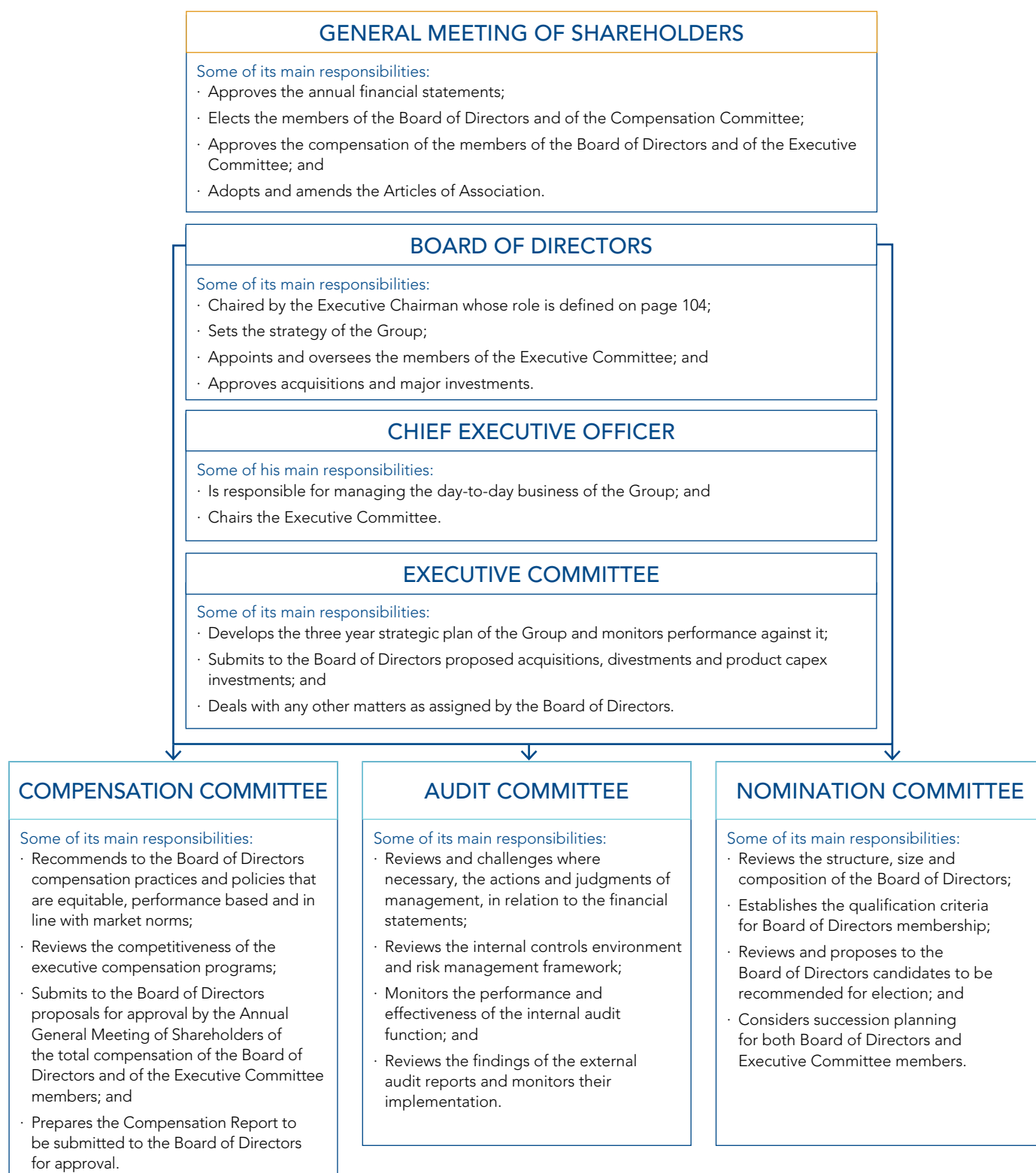
Prior to taking up his current role, Mr. Hilsenkopf was managing director for Temenos in Europe, Middle East, Africa and Latin American regions, as well as Temenos Cloud. He previously held the position of regional general manager for Europe and also successfully integrated several acquired companies, such as Odyssey and Viveo. Before joining Temenos, Mr. Hilsenkopf worked as a consultant in the banking sector.

Mr. Hilsenkopf holds an M.B.A in international marketing from the University of Geneva, Switzerland as well as a Master degree in Computer Engineering from the Polytech of Clermont-Ferrand, France.

GOVERNING THE GROUP

CORPORATE GOVERNANCE

OUR GOVERNANCE FRAMEWORK



CORPORATE GOVERNANCE continued

INTRODUCTION

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance as at 13 December 2016 (DCG), its Commentary issued by SIX Swiss Exchange available at <https://www.six-exchange-regulation.com/en/home/issuer/obligations/corporate-governance.html> and the Ordinance against Excessive Remuneration in Listed Companies limited by Shares as at 1 January 2014 (OaEC) available at <https://www.admin.ch/opc/fr/classified-compilation/20132519/index.html>.

In the present annual report, the corporate governance information has been summarized in a separate section, whereas references to other parts of the annual report have been included in certain instances in an effort to avoid duplication.

In order to enhance readability, the present corporate governance section follows the suggested structure as described in the annex of the DCG.

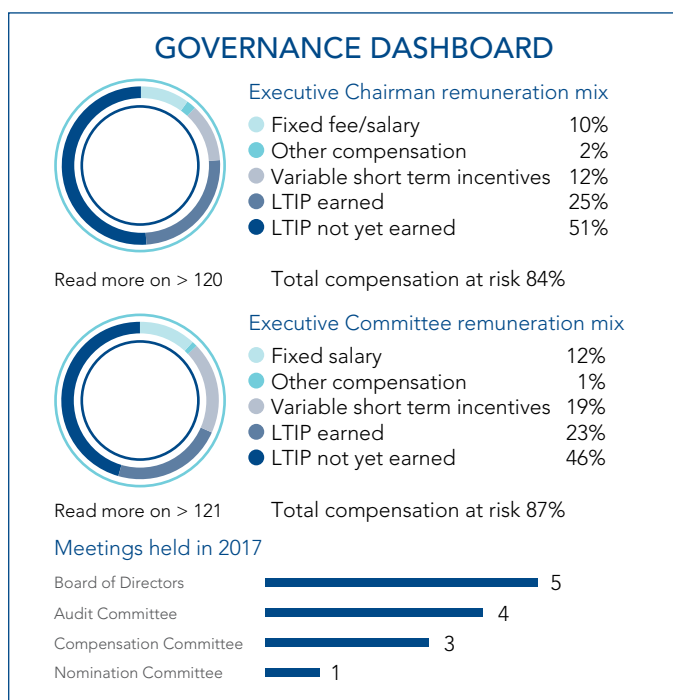
There are some references to the Articles of Association and to the Organization bylaws of the Company; both documents are available at <http://www.temenos.com/en/about-temenos/investor-relations/corporate-governance/>.

Unless otherwise indicated, the information provided in this report reflects the situation as of 31 December 2017.

Temenos Group AG is hereinafter referred to as 'the Company'.

Temenos Group AG and its affiliated companies are hereinafter referred to as 'Temenos Group', 'Temenos' or 'the Group'.

The executive management of the Group is hereinafter referred to as 'the Executive Committee'.



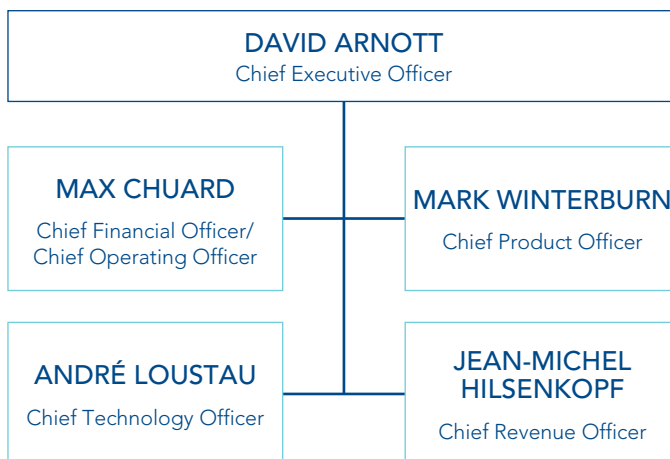
1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

The ultimate holding Company, Temenos Group AG, is registered in Geneva, where the Group is also headquartered.

1.1.1 The Temenos Group is organized and managed by the Chief Executive Officer who is heading and supported by the Executive Committee.

As of the publication date of this annual report, the Executive Committee is composed of the following members:



The Group is managed using a matrix of regional and global business functions incorporating activities of sales, service operations, product development, product management, services management, marketing, key client relationship management and product support functions.

The Group's product sales and services operations are divided into five main geographic regions:

- Europe;
- Middle East and Africa;
- Asia Pacific;
- North America; and
- Latin America and Caribbean.

Temenos being a truly global multi-product company leverages skills from around the world, having its principal software development facilities in Chennai and Bangalore (India). The Group has additional software development facilities in the United States, Canada, the United Kingdom, Switzerland, France, Romania, Belgium, Luxembourg and China.

1.1.2 Temenos Group AG is the sole listed Company of the Group.

Name	Temenos Group AG
Domicile	2 Rue de L'Ecole-de-Chimie 1205 Geneva, Switzerland
Listed at	SIX Swiss Exchange
First listing date	26 June 2001
Market capitalization	CHF 8,856,240,500*
Security Number	1245391
ISIN number	CH0012453913
Symbol	TEMN
Reuters	TEMN.S
Bloomberg	TEMN SW

* Based on the issued share capital as of 31.12.2017 composed of 70,849,924 shares.

Please refer to the Information for Investors' section on page 201 for statistics on Temenos shares.

1.1.3 Please find below the main non-listed companies belonging to the Group:

(All companies are directly or indirectly wholly owned subsidiaries of Temenos Group AG, unless otherwise indicated. A complete list of all companies belonging to the Group is available in the note 5 to the consolidated financial statements.)

NAME	DOMICILE	COUNTRY OF INCORPORATION	SHARE CAPITAL
Edge IPK Limited	London	United Kingdom	2,764 GBP
Fairs Limited	London	United Kingdom	50,000 GBP
Financial Objects (UK) Limited	London	United Kingdom	466,667 GBP
Financial Objects Limited	London	United Kingdom	950,528 GBP
Finch Software Limited	Port Louis	Mauritius	10,000 EUR
Genisys Technology Limited	London	United Kingdom	51,505 GBP
Igefi Canada Inc.	Winnipeg	Canada	10 class A shares (no par value)
Igefi Deutschland GmbH	Trier	Germany	100,000 EUR
Igefi France Sàrl	Paris	France	7,500 EUR
Igefi Group Sàrl	Strassen	Luxembourg	31,000 EUR
Igefi Hong Kong Limited	Hong Kong	Hong Kong	1,000 HKD
Igefi Ireland Limited	Dublin	Ireland	100 EUR
Igefi Singapore Pte Limited	Singapore	Singapore	20,000 SGD
Igefi UK Limited	London	United Kingdom	5,000 GBP
Igefi US LLC	Boston	USA	100 USD
Odyssey Financial Technologies GmbH	Frankfurt am Main	Germany	25,000 EUR
Odyssey Financial Technologies PLC	London	United Kingdom	50,000 GBP
Odyssey Financial Technologies SA	La Hulpe	Belgium	62,000 EUR
Odyssey Group SA	Bertrange	Luxembourg	21,904,670 EUR
Rubik ESOP Trusco Pty Limited	Sydney	Australia	100 AUD
Rubik IP Holdings Pty Limited	Sydney	Australia	100 AUD
Rubik Mortgages Pty Limited	Sydney	Australia	100 AUD
Stargate Information Systems Pty Limited	Sydney	Australia	261 AUD
TEMENOS (Malaysia) Sdn Bhd	Shah Alam	Malaysia	500,000 MYR
TEMENOS (NL) BV	Amsterdam	Netherlands	18,152 EUR
TEMENOS (Thailand) Co. Limited	Bangkok	Thailand	100,000,000 THB
TEMENOS Africa (Pty) Limited	Sandton	South Africa	100 ZAR
TEMENOS Australia Pty Limited	Sydney	Australia	2 AUD
TEMENOS Australia Financial Pty Limited	Sydney	Australia	85,977,680 AUD
TEMENOS Australia Messaging Pty Limited	Sydney	Australia	100 AUD
TEMENOS Australia Operations Pty Limited	Sydney	Australia	7,500,181 AUD
TEMENOS Australia Services Pty Limited	Sydney	Australia	100 AUD
TEMENOS Australia Technology Solutions Pty Limited	Sydney	Australia	1 AUD

CORPORATE GOVERNANCE continued

TEMENOS Belgium SA	La Hulpe	Belgium	200,000 EUR
TEMENOS Bulgaria EOOD	Sofia	Bulgaria	10,000 BGN
TEMENOS Canada Inc.	Vancouver	Canada	560,586 shares (no par value)
TEMENOS Denmark ApS	Copenhagen	Denmark	50,000 DKK
TEMENOS Deutschland GmbH	Frankfurt am Main	Germany	25,000 EUR
TEMENOS East Africa Limited	Nairobi	Kenya	10,000 KES
TEMENOS Ecuador SA	Quito	Ecuador	672,000 USD
TEMENOS Egypt LLC	Cairo	Egypt	200 EGP
TEMENOS Finance Luxembourg Sàrl	Bertrange	Luxembourg	37,500 EUR
TEMENOS France SAS	Paris	France	500,000 EUR
TEMENOS Headquarters SA	Geneva	Switzerland	100,000 CHF
TEMENOS Hellas SA	Athens	Greece	105,000 EUR
TEMENOS Hispania SL	Madrid	Spain	10,000 EUR
TEMENOS Holdings France SAS	Paris	France	28,010,000 EUR
TEMENOS Holdings Limited	Road Town	British Virgin Islands	40,105 USD
TEMENOS Holland BV	Amsterdam	Netherlands	19,000 EUR
TEMENOS Hong Kong Limited	Hong Kong	Hong Kong	2 HKD
TEMENOS India Private Limited	Chennai	India	2,962,000 INR
TEMENOS Investments BV	Amsterdam	Netherlands	18,000 EUR
TEMENOS Israel Limited	Ramat Gan	Israel	100 NIS
TEMENOS Japan KK	Tokyo	Japan	10,000,000 JPY
TEMENOS Kazakhstan LLP	Almaty	Kazakhstan	14,400,000 KZT
TEMENOS Korea Limited	Seoul	Republic of Korea	50,000,000 KRW
TEMENOS Luxembourg SA	Bertrange	Luxembourg	1,181,250 EUR
TEMENOS Mexico SA de CV	Mexico City	Mexico	10,760,900 MXN
TEMENOS Middle East Limited	Nicosia	Cyprus	17,100 EUR
TEMENOS North Africa LLC	Casablanca	Morocco	10,000 MAD
TEMENOS Philippines, Inc	Makati City	Philippines	10,000,000 PHP
TEMENOS Polska Sp. Zo.o	Warsaw	Poland	100,000 PLN
TEMENOS Romania SRL	Bucharest	Romania	120,000 RON
TEMENOS Singapore Pte Limited	Singapore	Singapore	65,010,000 SGD
TEMENOS Singapore FT Pte Limited	Singapore	Singapore	1 SGD
TEMENOS Software Brasil Limitada	Sao Paulo	Brazil	150,000 BRL
TEMENOS Software Luxembourg SA	Bertrange	Luxembourg	29,500,000 EUR
TEMENOS Software Shanghai Co. Limited	Shanghai	China	140,000 USD
TEMENOS Solutions Australia Pty Limited	Sydney	Australia	34,391,073 AUD
TEMENOS Systems Ireland Limited	Dublin	Ireland	4 EUR
TEMENOS UK Limited	London	United Kingdom	2,198,844 GBP
TEMENOS USA, Inc.	Wilmington	USA	1 USD
TEMENOS Vietnam Company Limited	Hanoi	Vietnam	890,000,000 VND
TriNovus Systems LLC	Lubbock	USA	1,741,651.85 USD
Viveo France SAS	Paris	France	5,300,000 EUR
Viveo Group SAS	Paris	France	16,248,900 EUR
Wealth Management Systems Limited	London	United Kingdom	525,000 GBP

1.2 Significant shareholders

Please find below the list of shareholders who hold more than 3% of the voting rights as of 31 December 2017 as per information that has been published on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange pursuant to Art. 120 of the Financial Market Infrastructure Act.

Beneficial owner	Number of voting rights	Percentage of share capital
Martin and Rosmarie Ebner	9,983,971	14.09%
Massachusetts Mutual Life Insurance Company ¹	5,134,794	7.25%
The Capital Group Companies, Inc.	3,491,249	4.93%
BlackRock, Inc. ²	3,314,483	4.68%

Based on the registered capital as of 31.12.2017 composed of 70,849,924 shares.

⁽¹⁾ Out of this number, 176,300 voting rights are delegated by a third party and can be exercised at one's own discretion.

⁽²⁾ Out of this number, 252,441 voting rights are delegated by a third party and can be exercised at one's own discretion.

For more recent information on major shareholders, please refer to page 201.

Disclosure notifications made in accordance with Article 120 of the Financial Market Infrastructure Act are publicly available on the SIX website at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

1.3 Cross-shareholdings

There are no cross-shareholdings to report.

2. CAPITAL STRUCTURE

2.1 Capital

On 31 December 2017, the registered ordinary share capital amounted to CHF 354,249,620 consisting of 70,849,924 registered shares, each with a par value of CHF 5. All the shares are fully paid-up. Each recorded share with voting rights entitles its holder to one vote.

The Company has an authorized capital totaling CHF 69,500,000 and a conditional capital totaling CHF 14,727,130 for shares that may be issued on the exercising of share options granted to employees of the Group. Additional conditional capital totaling CHF 33,039,520 exists for shares that may be issued in conjunction with financial instruments.

2.2 Authorized and Conditional capital

Authorized capital

Pursuant to the Articles of Association (Article 3ter), the Board of Directors is authorized to increase the share capital by 10 May 2019, by an amount not exceeding CHF 69,500,000 by issuing up to 13,900,000 fully paid-in registered shares with a nominal value of CHF 5 each. An increase in partial amounts is permitted.

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

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

Conditional capital for employee participation

Pursuant to the Articles of Association (Article 3 quarter (1)), the share capital may be increased by an amount not exceeding CHF 14,727,130 by issuing up to 2,945,426 new registered shares to be fully paid-in with a nominal value of CHF 5 each through the exercise of the rights that the direct or indirect subsidiaries of the Company (the 'Subsidiaries') or the Company itself may grant to officers, Directors and employees at all levels of the Company and the Subsidiaries. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

The issue of shares or respective option rights through the Subsidiaries or through the Company to officers, Directors and employees of the Company and the Subsidiaries, is subject to one or more regulations to be issued by the Board of Directors on the basis of the following general rules: (i) new shares may only be issued to the Subsidiaries or to the Company for purposes of distribution to Directors, officers or employees of the Company and the Subsidiaries; (ii) new shares to be issued through the Subsidiaries or through the Company to employees of the Company or the Subsidiaries shall be issued against paying-in the nominal value of CHF 5 per each share in cash.

CORPORATE GOVERNANCE continued

2.2 Authorized and Conditional capital continued

Conditional capital for financial instruments

Pursuant to the Articles of Association (Article 3 quarter (2)), the share capital may be increased by an amount not exceeding CHF 33,039,520, by issuing up to 6,607,904 new registered shares to be fully paid-in with a nominal value of CHF 5 each, to be divided as follows: first, for the amount of CHF 8,386,120, that corresponds to 1,677,224 new registered shares, through exercise of conversion and/or option rights, which are granted in connection with bonds or similar obligations or other financial instruments of the Company or one of its group companies; and second, for the amount of CHF 24,653,400, that corresponds to 4,930,680 new registered shares, by the exercise of option rights which are granted by the Company or one of its group companies to existing shareholders or third parties. In the case of the issuance of bonds, similar obligations, or other financial instruments linked with conversion and/or option rights, and in the case of the issuance of option rights, the pre-emptive rights of shareholders are excluded. The owners of conversion or option rights from time to time are entitled to the new shares.

The conditions of the option rights, including the exercise period and exercise price, are to be determined by the Board of Directors, whereby the exercise price may be fixed at a price lower than the market or intrinsic value.

The Board of Directors shall be authorized to restrict or exclude the advance subscription rights of shareholders: (1) if debt issues in connection with conversion rights or warrants or other financial instruments or options issues are for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, or participations or new investments; or (2) if such debt or other financial instruments or options are issued on the international capital markets and for the purpose of a firm underwriting by a banking institution or a consortium of banks with a subsequent offering to the public; or (3) if such debt or other financial market instruments or options are issued for the purpose of the participation of strategic Partners. In such cases, the following shall apply: the terms and conditions of the convertible bonds or warrants or other financial instruments or options shall correspond to market conditions (including dilution protection provisions in accordance with market practice), taking into account the specific situation, and the new shares shall be issued pursuant to the relevant conversion or exercise rights in connection with bond or warrant or options issuance conditions. Conversion rights may be exercised during a maximum ten (10)-year period, and warrants or options may be exercised during a maximum seven (7)-year period, in each case from the date of the respective issuance.

2.3 Changes in capital

	31.12.17 CHF 000	31.12.16 CHF 000	31.12.15 CHF 000
Ordinary issued share capital	354,250	348,106	333,088
Conditional share capital	47,767	53,911	68,928
Authorized share capital	69,500	69,500	71,524

As at **31 December 2013**, the registered share capital amounted to CHF 360,115,740 consisting of 72,023,148 registered shares, each with a par value of CHF 5. Further to the decision of the General Meetings of Shareholders held on 28 May 2014, the capital was reduced by cancellation of 2,134,786 shares repurchased under a share buyback program.

As at **31 December 2014**, the registered share capital amounted to CHF 349,441,810 consisting of 69,888,362 registered shares, each with a par value of CHF 5. Further to the decision of the General Meetings of Shareholders held on 6 May 2015, the capital was reduced by cancellation of 3,270,794 shares repurchased under a share buyback program.

As at **31 December 2015**, the registered share capital amounted to CHF 333,087,840 consisting of 66,617,568 registered shares, each with a par value of CHF 5.

As at **31 December 2016**, the registered share capital amounted to CHF 333,087,840 consisting of 66,617,568 registered shares, each with a par value of CHF 5. No change of capital occurred during 2016.

On **15 February 2017**, the registered share capital was increased to CHF 348,105,620 consisting of 69,621,124 registered shares, each with a par value of CHF 5, further to the registration of 3,003,556 shares that were created out of conditional capital during 2016 (for Employee Share Option Schemes).

As at **31 December 2017**, the registered share capital amounted to CHF 354,249,620 consisting of 70,849,924 registered shares, each with a par value of CHF 5 further to the registration on 19 October 2017 of 1,228,800 shares that were created out of conditional capital during 2017 (for Employee Share Option Schemes).

2.4 Shares and participation certificates

All equity securities of Temenos are in the form of registered shares, each with a par value of CHF 5. Each share confers the right to one vote at the Annual General Meeting of Shareholders and all shares are fully entitled to receive dividends. The Articles of Association do not provide for privileged voting rights shares. The Company does not issue participation certificates.

In compliance with Temenos policy to distribute a sustainable to growing dividend and taking into account the growing maturity of the Group and the strength of future cash flows, the Company intends to pay an annual dividend of CHF 0.65 on 23 May 2018, subject to shareholders' approval at the Annual General Meeting of Shareholders on 15 May 2018. The dividend record date will be set on 22 May 2018 with the shares trading ex-dividend on 18 May 2018. Like in the past years, the 2017 dividend will be paid as a distribution of reserve from capital contributions and therefore be exempted of withholding tax (share premium dividend).

2.5 Dividend-right certificates

The Company does not issue profit sharing certificates.

2.6 Limitations on transferability and nominee registrations

There are no restrictions on the transfer of shares.

2.7 Convertible bonds and options

Regarding options please refer to note 25 of the consolidated financial statements.

In April 2013, the Company issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.75% paid annually on 25 July. The bond was repaid on 25 July 2017 at a redemption price of 100% of the principal amount.

In March 2014, the Company issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.00% paid annually on 31 January. The bond will mature on 31 January 2019 at a redemption price of 100% of the principal amount.

In May 2015, the Company issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 2.00% paid annually on 17 June. The bond will mature on 17 June 2022 at a redemption price of 100% of the principal amount.

In April 2017, the Company issued a senior unsecured bond with a nominal value of CHF 150 million and a coupon rate of 1.75% paid annually on 5 April. The bond will mature on 5 April 2024 at a redemption price of 100% of the principal amount.

3. BOARD OF DIRECTORS

3.1 Members of the Board of Directors

As at 31 December 2017, the Board of Directors comprises the following members:

Name	Position
Andreas Andreades	Executive Chairman
Sergio Giacoletto-Roggio	Vice-Chairman, Independent and Non-Executive Director
George Koukis	Non-Executive Director, Temenos founder
Ian Cookson	Independent and Non-Executive Director
Thibault de Tersant	Independent and Non-Executive Director
Erik Hansen	Independent and Non-Executive Director
Amy Yip	Independent and Non-Executive Director
Peter Spenser	Independent and Non-Executive Director

Please refer to pages 94 and 95 for their biographies.

Except George Koukis who was Executive Chairman of Temenos until July 2011, none of the non-executive members of the Board of Directors has or has had any senior management position within the Group, nor any significant business connections with the Group.

3.2 Other activities and vested interests

Except those mentioned in the biographies section of this annual report, no member of the Board of Directors has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups; or
- Official functions and political posts.

CORPORATE GOVERNANCE continued

3.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC.

According to Article 29 of the Articles of Association, no member of the Board of Directors may hold more than four additional mandates in listed companies and ten additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

- mandates in companies which are controlled by the Company or which control the Company;
- mandates held at the request of the Company or any companies controlled by it. No member of the Board of Directors or of the executive management shall hold more than ten of such mandates; and
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or executive management shall hold more than ten of such mandates.

'mandates' shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

All members of the Board of Directors comply with these provisions.

3.4 Elections and terms of office

Name	First elected
Andreas Andreades	2001
Sergio Giacoletto-Roggio	2012
George Koukis	2001
Ian Cookson	2012
Thibault de Tersant	2012
Erik Hansen	2013
Amy Yip	2014
Peter Spenser	2017

3.5 Internal organizational structure

3.5.1 Allocation of tasks within the Board of Directors

The Board of Directors shall elect a Vice-Chairman from amongst its members and a secretary. It may also appoint one or more committees from amongst its members.

Executive Chairman

The Chairman is responsible for preparing and convening the meetings of the Board of Directors as well as for the implementation of the Board resolutions. In case of his absence, the Vice-Chairman shall call the Board meetings. The Chairman monitors the preparation of the General Meeting of Shareholders.

Temenos is a typical software company where product, technology vision and deep market knowledge are instrumental in the success of the Company and it is common to have executive chairmen structures where founders/near founders have a critical role to play in the running of the Company. It is of paramount importance that Temenos retains the vision that has established it as a leader in its industry.

The Executive Chairman attends the Product Board and some of the Executive Committee meetings. He therefore works full time in an executive capacity and is jointly responsible for the delivery of the strategic plan and financial results.

Taking into account his deep understanding of the market, his previous Chief Executive Officer and Chief Financial Officer roles within the Group, the Chairman's input and significant value add are key and instrumental for the other members of the Board of Directors and for the Executive Committee members, especially on all strategic matters.

Vice-Chairman

In case the Chairman is unavailable or absent, the Vice-Chairman calls meetings of the Board of Directors; also, in case the Chairman is unavailable or absent, the Vice-Chairman chairs meetings of the Board of Directors. The Vice-Chairman has the authority to call meetings reserved exclusively for independent Directors to allow them to discuss certain issues outside full Board of Directors meetings. The agenda of such meetings are set by the Vice-Chairman.

The Vice-Chairman serves as liaison between the independent Directors, the Chairman and the Chief Executive Officer. The Vice-Chairman acts as the preferred contact for the other independent Directors.

The Vice-Chairman makes himself available to hear the shareholders' comments and suggestions and, where possible, answers their questions after consulting with the Chairman.

In 2017, the Vice-Chairman acted as independent lead Director.

3.5.2 Members list, tasks and area of responsibility for each Committee of the Board of Directors

The Audit, Compensation and Nomination Committees are governed by terms of reference defining their duties and compositions which are available at <https://www.temenos.com/en/about-temenos/investor-relations/corporate-governance/>. These Committees are composed mainly of Independent and Non-Executive Directors. These Committees report regularly and make recommendations to the Board of Directors which is empowered to make decisions.

Name	Audit Committee	Compensation Committee	Nomination Committee
Andreas Andreades			Member
Sergio Giacoletto-Roggio	Member	Chairman	Member
George Koukis			
Ian Cookson	Member	Member	Chairman
Thibault de Tersant	Chairman		
Erik Hansen		Member	
Amy Yip		Member	Member
Peter Spenser	Member		

Audit Committee

The Audit Committee is composed of four members, each of whom being independent and holding relevant financial expertise and understanding of the IFRS accounting standards. The Audit Committee reviews the Group's financial reports, internal controls, compliance with corporate governance rules and any other matters that may be brought to its attention by the internal and/or external auditors. The Chairman of the Audit Committee regularly reports to the Board of Directors on the Audit Committee's findings and recommendations; the Board of Directors being ultimately responsible to approve the annual financial statements. Please also refer to paragraph 8.4 below.

Compensation Committee

The Compensation Committee shall support the Board of Directors in reviewing and making recommendations on compensation practices, guidelines and procedures and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the members of the Board of Directors and of the Executive Committee. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.

For more details on the role of the Compensation Committee please refer to its terms of reference at <https://www.temenos.com/en/about-temenos/investor-relations/corporate-governance/> and to the Compensation Report on page 111.

Nomination Committee

The main duties of the Nomination Committee are: (i) to annually review the structure, size and composition of the Board of Directors and make recommendations to the Board of Directors with regard to any changes, (ii) to establish qualification criteria for Board of Directors' membership and (iii) to give full consideration to succession planning for both members of the Board of Directors and Executive Committee.

3.5.3 Working methods of the Board of Directors and its Committees

The Board of Directors meets as often as business requires, but at least four times a year. The Audit Committee meets at least twice a year. The Compensation and Nomination Committees meet at least once a year.

In 2017, the following meetings were held:

	Number of meetings	Attendance	Average duration
Board of Directors	5	100%	3h
Audit Committee	4	100%	3h
Compensation Committee	3	92%	1h
Nomination Committee	1	100%	1h

All physical meetings were held at Temenos offices in Geneva with the exception of one session of meetings (Board, Audit, Compensation and Nomination) which was held in India, at the Temenos Chennai offices.

Both the external and internal auditors attended all the Audit Committee meetings in 2017.

At the meetings of the Board of Directors and of its Committees, those members of the Executive Committee who have the relevant information and expertise required for the respective body to perform its duties are present. However these persons do not take part in any resolutions.

At each Board of Directors' meeting, a business report is presented by the Chief Executive Officer. Together with the financial report presented by the Chief Financial Officer, this information enables the Board members to assess the course of the Company's business activities on a regular basis.

The Board of Directors conducts an annual evaluation of its performance. Such process is carried out by way of an anonymous self-evaluation questionnaire on the performance and effectiveness of the Board of Directors to be completed by each of its member. The results and comments are consolidated by the Company Secretary and then discussed at the next meeting during which proposed improvements are agreed. The 2017 evaluation results were discussed at the meeting held in July where it was concluded that the Board of Directors operates effectively.

3.6 Definition of areas of responsibility

The Board of Directors is the ultimate governing body of the Company. Together with its Committees, it exercises inalienable and non-transferable functions as provided by law, by the Company's Articles of Association and by its bylaws. The Board of Directors decides in particular on significant acquisitions, disposals, strategic alliances, changes in the Group's structure and share repurchase programs though its responsibilities are not limited to this.

Based on Article 17 of the Articles of Association and Article 3.5 of the bylaws of the Company, the Board of Directors has delegated the day-to-day operational management and conduct of business operations of the Company to the Chief Executive Officer who is heading and supported by the Executive Committee, except where the law or the Articles of Association provide differently.

The Executive Committee is responsible for execution of strategy and monitoring performance against it. The Executive Committee also sets targets for Group organic and acquisitions growth on a three year basis i.e. strategic plan to be then formally approved by the Board of Directors. Finally, the Executive Committee approves all product investments as well as acquisitions to be proposed to the Board of Directors.

CORPORATE GOVERNANCE continued

3.7 Information and control instruments vis-à-vis the Executive Committee

The Board of Directors is responsible for the Group's system of internal controls. Supervising the risk management process, effectiveness and efficiency of operations, accurate reporting, compliance with laws and regulations and safeguarding the interests of the Group are some of the main responsibilities of the Board of Directors.

- Prior to each meeting, members of the Board of Directors receive reports, summarizing recent financial results and operational developments.
- Chief Executive Officer and Chief Financial Officer/Chief Operating Officer personally report at each meeting of the Board of Directors.
- The performance management process ensures that Company's targets, as agreed with the Board of Directors, are delegated to senior management during the first quarter of every financial year.
- The Internal Audit function provides an independent assurance on effectiveness of internal controls. This function's independent status is assured by the fact that the Internal Audit Director reports functionally to the Chairman of the Audit Committee.
- Findings and related action plans from internal audit reviews and/or internal control self-assessments are reported to senior management; summary reports are provided to the Audit Committee on a regular basis. Implementation of action plans is monitored on a monthly basis and status is reported to the Audit Committee.
- Risk management is an integral part of the business process. Regular risk assessment is performed and key risks are reviewed by the Audit Committee and then by the Board of Directors itself.
- The organizational structure ensures that specialized functions like Quality, Security and IT continuously support the management of risks.

4. EXECUTIVE COMMITTEE

4.1 Members of the Executive Committee

As at 31 December 2017, the Executive Committee comprises the following members:

Name	Position
David Arnott	Chief Executive Officer
Max Chuard	Chief Financial Officer/ Chief Operating Officer
Andre Loustau	Chief Technology Officer
Mark Winterburn	Chief Product Officer

Mr. Hilsenkopf was appointed as a member of the Executive Committee (Chief Revenue Officer) on 12 January 2018.

Please refer to page 96 for their biographies.

4.2 Other activities and vested interests

Except those mentioned in the biographies section on page 96, no member of the Executive Committee has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups; or
- Official functions and political posts.

4.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC.

According to Article 29 of the Articles of Association, no member of the executive management may hold more than one additional mandate in a listed company and five additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

- mandates in companies which are controlled by the Company or which control the Company;
- mandates held at the request of the Company or any companies controlled by it. No member of the Board of Directors or of the executive management shall hold more than ten of such mandates; and
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or executive management shall hold more than ten of such mandates.

'mandates' shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

All members of the Executive Committee comply with these provisions.

4.4 Management contracts

No management tasks have been delegated to third parties.

5. COMPENSATION, SHAREHOLDINGS AND LOANS

5.1 Content and method of determining the compensation and the shareholding programs

The executive management compensation plans seek to align executive management and shareholders' interests by making a significant portion of compensation depend on achieving increased shareholder value for the long term and to enforce a performance-orientated environment that rewards superior value creation and the achievement of outstanding results.

Compensation of the non-executive members of the Board of Directors comprises fixed compensation only.

The executive members of the Board of Directors and the executive management may be paid fixed and variable compensation. Variable compensation is dependent on the achievement of certain performance criteria.

Temenos applies a policy for share ownership and retention that is applicable to the Executive Chairman of the Board of Directors and to the members of the Executive Committee. Further information is available in the Compensation Report on page 114.

5.2 Rules in the Articles of Association

5.2.1 According to Article 27 of the Articles of Association of the Company, performance criteria shall be determined by the Board of Directors or, where delegated to it, the Compensation Committee and may include criteria relating to individual performance, performance of the Company or parts thereof as well as performance in relation to the market or other companies, taking into account the position and level of responsibility of the employee. The Board of Directors or, where delegated to it, the Compensation Committee shall determine the performance criteria impact on variable compensation (short and long term incentives), including actual achievement and potential maximum achievement, the relative weight of the performance criteria and the respective target-levels.

Compensation may be paid or granted in cash, shares, or in the form of other types of benefits. Compensation of executive members of the Board of Directors or members of the executive management may also be granted in the form of stock appreciation rights and similar financial instruments. The Board of Directors or, where delegated to it, the Compensation Committee shall determine grant, vesting, blocking, exercise and forfeiture terms and conditions of these kinds of compensation; in particular, it may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employment agreement.

The Company may procure the required shares through treasury shares or upon creation of shares out of conditional capital.

Compensation may be paid by the Company or companies controlled by it.

According to Article 26 of the Articles of Association, if the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the executive management during a compensation period for which the General Meeting of Shareholders has already approved the compensation, the Company or companies controlled by it shall be authorized to pay to such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount per compensation period shall not exceed 40% of the aggregate amount of compensation of the executive management last approved by the General Meeting of Shareholders.

5.2.2 There are no rules in the Articles of Association on loans, credit facilities and post-employment benefits for members of the Board of Directors and Executive Committee.

5.2.3 According to Article 25 of the Articles of Association, the General Meeting of Shareholders shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

- Compensation of the Board of Directors for the next fiscal year;
- Compensation of the executive management for the next fiscal year.

The Board of Directors may submit for approval by the General Meeting of Shareholders proposals in relation to maximum aggregate amounts of compensation relating to different periods, in relation to amounts for specific compensation elements for the same or different periods.

In the event a proposal of the Board of Directors has not been approved by the General Meeting of Shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a General Meeting of Shareholders.

Notwithstanding the above provisions, the Company or companies controlled by it may pay out compensation prior to approval by the General Meeting of Shareholders subject to subsequent approval by a General Meeting of Shareholders.

CORPORATE GOVERNANCE continued

6. SHAREHOLDERS' PARTICIPATION RIGHTS

6.1 Voting-rights restrictions and representation

6.1.1 According to the Company's Articles of Association, only shareholders entered in the share register as shareholders or as usufructuaries may exercise the voting rights linked to the shares or the other rights connected with these voting rights. The Articles of Association do not contain any restrictions to voting rights.

6.1.2 Not applicable.

6.1.3 Not applicable.

6.1.4 Not applicable.

6.1.5 Shareholders registered in the share register with voting rights on a determined date are entitled to attend the General Meeting of Shareholders and to exercise their votes. Each shareholder may be represented at the General Meeting of Shareholders by any other person who is authorized by a written proxy, by a legal representative or by the independent proxy holder.

6.1.6 There are no rules in the Articles of Association about electronic participation to the General Meeting of Shareholders or instructions to the independent proxy holder. However the shareholders may provide electronically their voting instructions to the independent proxy holder.

6.2 Quorums required by the Articles of Association

There are no statutory quorums. The General Meeting of Shareholders shall pass its resolutions and carry out its elections by a simple majority, unless qualified majority is required by law for a specific agenda item.

6.3 Convocation of the General Meeting of Shareholders

The General Meeting of Shareholders is convened by publication of the invitation and the agenda, at least twenty days before the date of the meeting, in the Swiss Official Gazette of Commerce (*Schweizerische Handelsamtsblatt, Feuille Officielle Suisse du Commerce*). Shareholders representing at least 10% of the share capital may convene an Extraordinary General Meeting.

6.4 Inclusion of items on the agenda

One or more shareholders representing shares of an aggregate nominal value of at least CHF 1 million may, up to 45 days before the date of the General Meeting, request an item to be included on the agenda. Such request must be in writing and shall specify the items and the proposals of these shareholders.

6.5 Entries in the share register

Pursuant to Article 13 paragraph 1 of the Articles of Association, shareholders entered in the share register as shareholders with voting rights on a specific date determined by the Board of Directors are entitled to attend and vote at the General Meeting.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1 Duty to make an offer

There is no 'opting out' or 'opting up' clause in the Articles of Association.

7.2 Clauses on changes of control

In case of change of control in Temenos, all outstanding stock appreciation rights (SARs) will become immediately vested and exercisable.

SARs are considered to be outstanding only if the corresponding/ relevant service period has started (where such relevant service period is specified as part of the grant documentation). If not specified, they will be considered as outstanding automatically.

8. AUDITORS

8.1 Duration of the mandate and term of office of the lead auditor

8.1.1 PricewaterhouseCoopers SA was re-elected as the statutory and group auditor at the Annual General Meeting of Shareholders held on 10 May 2017 for a period of one year (first elected in 2003).

8.1.2 Since 2011 the lead auditor for the Group audit is Mr. Guillaume Nayet. Mr. Mike Foley shall become the new lead auditor on 15 May 2018 after the Annual General Meeting of Shareholders.

8.2 Auditing fees

Included in general and administrative expenses is an amount of USD 1,567,208 representing audit fees charged to the Company by PricewaterhouseCoopers for (i) the audit of the group consolidated financial statements and of statutory accounts in various jurisdictions (USD 1,473,208) and (ii) other audit fees related to work than can only be performed by the group auditor such as the audit of the compensation report (USD 94,000).

8.3 Additional fees

In addition, other fees of USD 1,132,000 have been incurred by PricewaterhouseCoopers through the provision of tax advisory and other professional services. Please find below a breakdown of the additional fees:

	USD 000
Tax Compliance	215
Transactions	139
Non Audit Fees – Audit related	354
Tax Advisory	689
Other Advisory	89
Non Audit related	778
Total Non Audit Fees	1,132

8.4 Information instruments pertaining to the external audit

The Audit Committee is responsible for monitoring the performance of external auditors, checking their independence, approving their annual audit plan and fees, and reviewing their findings on internal control procedures as well as steps taken by the auditors to respond to changes in regulatory audit standards and other requirements.

At the end of at least one Audit Committee meeting during the year, the Audit Committee members spend time with the external auditors without the presence of management. The external auditors formally report to the Audit Committee during its meetings and have direct access to its Chairman when necessary. The Chairman of the Audit Committee then reports at each meeting of the Board of Directors. Please also refer to paragraphs 3.5.2 and 3.5.3 above.

At the beginning of the year, the Audit Committee pre-approves an amount of permitted services that may be performed by the external auditors. Such services are then reviewed on a regular basis at Audit Committee meetings. For any other audit or non-audit related services beyond the above-mentioned limit, authorization is required from the Chairman of the Audit Committee upon recommendation from the Chief Financial Officer.

9. INFORMATION POLICY

Temenos is committed to open and transparent communication with its shareholders and wider stakeholders.

Updates

Temenos publishes an audited annual report for the year to 31 December and an unaudited interim report for the six months to 30 June. Temenos also reports figures on a quarterly basis. All of this information and additional company-specific information is available at <http://www.temenos.com/en/about-temenos/investor-relations/>.

In addition, those interested can sign up on the Temenos website by clicking to the Subscribe button at <http://www.temenos.com/en/about-temenos/investor-relations/> to receive financial news, key client signings as well as all press releases issued in accordance with the ad hoc publicity rules; moreover, all these press releases are available at <http://www.temenos.com/en/about-temenos/investor-relations/financial-press-releases/>.

Contacting Temenos

For any investor relations enquiries please contact the Company at TemenosIR@temenos.com and for management dealings enquiries/disclosures of shareholdings notifications at companysecretarial@temenos.com.

Meeting Temenos

On 15 May 2018, Temenos will hold its Annual General Meeting in Geneva, Switzerland. This occasion affords shareholders the opportunity to put their questions to the Board and learn more about the Group's strategic direction.

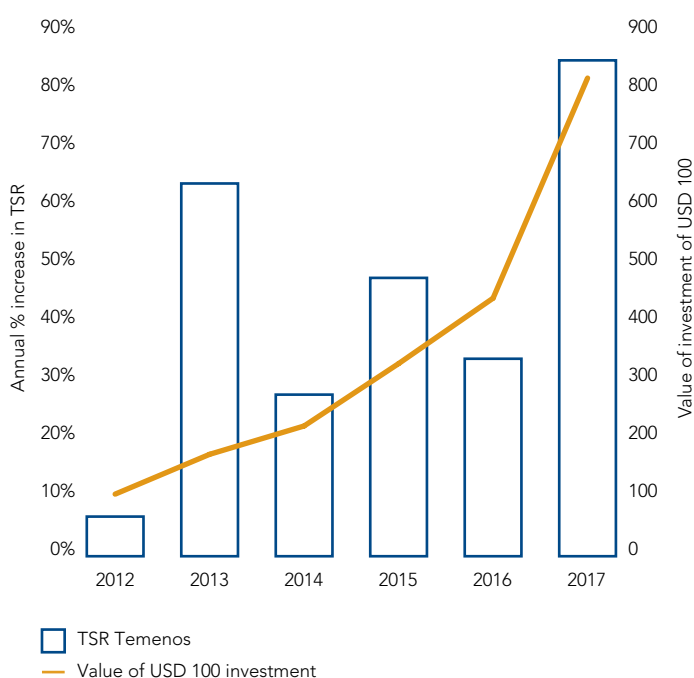
Meetings between Directors, institutional shareholders and other market professionals are held regularly as a part of Temenos' investor relations program. Furthermore, all Directors are available to meet shareholders if requested.

Dates of publication of 2018 quarterly results and Temenos conferences are published on the Company's website and updated regularly at <http://www.temenos.com/en/about-temenos/investor-relations/calendar/>.

COMPENSATION REPORT

"I am pleased to report that 2017 was another remarkable year in terms of growth in shareholder return, with the share price increasing by 76% from CHF 71 to CHF 125 in the 12 months."

The graph below shows the five year history of annual and cumulative growth, the CAGR being 50%.



Below is the comparison of the TSR to our peer group and to the S&P global software index:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Temenos	64.1%	27.8%	47.9%	34.0%	85.3%
Peer group average	50.8%	9.3%	11.7%	19.0%	30.4%
S&P Global Software Index	40.6%	17.0%	14.6%	11.3%	40.6%

LETTER FROM THE CHAIRMAN OF THE COMPENSATION COMMITTEE

The Compensation Committee is focused on ensuring that:

- We have a strong link between pay and performance and that the success of management mirrors that of our shareholders;
- We have the support of our shareholders on the compensation.

As such we have again gathered feedback from our major shareholders which we have taken into account and sought their advice on some modifications we considered making in 2018 and/or 2019, in particular, a change to the allocation of the LTIP targets.

In 2017, we have continued to make improvements to our governance:

- The Executive Chairman and members of the Executive Committee have all met their share ownership targets;
- Together with Willis Towers Watson (WTW), we performed a review of our peer group, both from the point of view of the companies included, and to benchmark the LTIP. Since the vast majority of software vendors are US based, and Temenos competes in a global market place, we believe it is right and fair to include a large proportion of US companies in our peer group. In order to also represent Swiss and other European practice to an adequate extent we have restricted the contribution of US companies in the peer group mix to 50%.

I would like to take this opportunity to congratulate Jean-Michel Hilsenkopf on his promotion to Chief Revenue Officer (CRO), effective from 12 January 2018. With global responsibility for sales and for the regions, the role merits being added to the Executive Committee and I warmly welcome him to this group.

The Compensation Committee remains committed to dialogue with shareholders, and we welcome regular feedback on our compensation policies. We look forward to receiving your support at the AGM in 2018.

Sergio Giacoletto-Roggio

Chairman of the Compensation Committee

COMPENSATION POLICY AND PRINCIPLES

This report has been prepared in accordance with articles 13-17 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies.

Temenos' executive compensation programs are designed with two main goals in mind:

- Pay for Performance alignment: by making the major portion of compensation dependent on achieving increased shareholder value for the long term; and
- Fostering a performance-based corporate culture through variable compensation.

Temenos is committed to building long term shareholder value. In order to ensure we encourage and drive this value creation, **87% of the compensation is performance driven and therefore at risk and will not be earned unless the executive team delivers on stretch long and short term targets.**

Executive compensation consists of:

- (i) fixed cash compensation and benefits;
- (ii) variable cash linked to short term performance targets (i.e. current financial year); and
- (iii) equity based variable compensation that is linked to long term performance targets.

Compensation of the non-executive members of the Board of Directors comprises fixed compensation only.

Performance criteria are set by the Board of Directors and may include criteria relating to the performance of the Company or parts thereof, performance in relation to the market or other companies, as well as individual performance. The Board of Directors determines the extent to which the performance criteria impact variable compensation, including maximum opportunity, and the relative weight of the performance criteria. The Board of Directors also oversees the conditions linked to the grant, vesting, exercise and the forfeiture of equity based incentive programs.

ORGANIZATION AND COMPETENCIES

Executives

The Executives who served in the 2017 financial year are:

Board of Directors:

- Andreas Andreades, Executive Chairman

Executive Committee:

- David Arnott, Chief Executive Officer (CEO)
- Max Chuard, Chief Financial Officer and Chief Operating Officer (CFO/COO)
- André Loustau, Chief Technology Officer (CTO)
- Mark Winterburn, Chief Product Officer (CPO)

The Executive Chairman and the Executive Committee are hereinafter referred to as the "Executives."

Non-Executive Directors

The Non-Executive Directors who served in the 2017 financial year are:

- Sergio Giacoletto-Roggio, Vice Chairman
- Ian Cookson
- Erik Hansen
- George Koukis
- Thibault de Tersant
- Amy Yip
- Peter Spenser, appointed to the Board of Directors on 10 May 2017.

THE ROLE OF THE COMPENSATION COMMITTEE

The Compensation Committee is authorized by the Board of Directors to:

- Recommend to the Board of Directors compensation practices and policies for Executives;
- Align the interests of the Executives and senior managers to the long term interests of the Company and its shareholders by recommending compensation practices and policies that are equitable and performance based;
- Review the competitiveness of the Company's executive compensation programs and thereby ensure the attraction and retention of the Executives and senior managers who are key in delivering the Company's business objectives;
- Confirm that compensation packages for Executives and senior managers are in line with market norms.

To fulfill its duties, the Compensation Committee typically meets at least three times during the year on the following cycle:

- **November** – to review the Compensation Committee terms of reference, to review compensation practices and policies for the forthcoming financial year, to approve fixed compensation and principles for variable short term and long term incentives for Executives;
- **February** – to approve the performance targets for variable short term incentive, and to approve the long term variable compensation grant including performance targets; and
- **March** – to recommend prospective compensation to be submitted for approval at the annual general meeting of shareholders.

In 2017, the Compensation Committee met three times as per the above cycle.

The Compensation Committee comprises four Independent and Non-Executive Directors:

- Sergio Giacoletto-Roggio, Chairman
- Ian Cookson
- Erik Hansen
- Amy Yip, appointed to the Compensation Committee on 10 May 2017.

The Compensation Committee members are elected annually by shareholders.

COMPENSATION REPORT continued

Approval process

Before submission to the shareholders for approval, the recommendation of compensation packages for Board and Executive Committee members are governed as follows:

Compensation of	Recommended by	Approved by
Executive Chairman of the Board	Compensation Committee	Board of Directors
Executive Committee	Compensation Committee	Board of Directors
Non-Executive members of the Board	Chief Executive Officer	Chairman of the Board

Benchmarking process

To ensure executive compensation is correctly set in the context of industry practice, the Compensation Committee reviews benchmark data collated from a range of organizations in the technology sector.

Temenos has reviewed its Comparator Group for 2017 together with Willis Towers Watson. The Group has been selected based on the following criteria:

- Companies targeted for hiring talent into Temenos;
- Software companies that have similar operating characteristics to Temenos in terms of global reach, target markets, competitive dynamics and complexity;
- Major European software companies;
- Financial services software companies that industry analysts' rank as global top performers.

AVG and Netsuite were acquired during 2017, and have been replaced by Citrix and Wirecard. All other companies are the same as those used in 2016. Temenos is close or about at the median market capitalization of our peer group of USD 10 billion, and at USD 0.7 billion of revenues in 2017 we are approaching the median revenue of our peer group.

A large part of our comparator group are companies based in the USA. This is due to the fact that the majority of the global software players originate in the USA (73 of the top 100 global software companies are based in the US according to research by PwC in 2014) and therefore they represent a significant part of our direct competitors.

As a result the following 17 companies have been selected for the benchmark:

Organization	Country	Organization	Country
ACI Worldwide	USA	Micro Focus International plc	UK
Broadridge Financial Solutions	USA	Quality Systems	USA
Citrix	USA	SDL	UK
Fidelity National Information Services	USA	Simcorp	Denmark
Fidessa Group plc	UK	Software AG	Germany
Fiserv	USA	SS&C	USA
Jack Henry and Associates	USA	The Sage Group	UK
Intuit	USA	Wirecard	Germany
Logitech International	Switzerland		

Shareholder engagement

We routinely engage with shareholders to discuss business, performance, compensation and governance matters.

Specifically with regard to executive compensation, in October 2017 we communicated by letter with our main shareholders outlining our compensation philosophy and inviting them to a meeting with Temenos management or Board members at their convenience.

The Chairman of the Compensation Committee engaged in face-to-face meetings or conference calls with our largest shareholders and a number of shareholder advisory groups.

We specifically sought advice on changes in our compensation structure, in particular views on the weighting of the KPIs for our 2018 LTIP plan which we are changing as follows:

	2017	2018
Non-IFRS EPS	60%	40%
Non-IFRS Product Revenues	40%	60%

The shareholder feedback has resoundingly been to push for growth and the majority have fully supported this change.

In addition, we sought feedback on adding an additional member to the Executive Committee which was understood. The feedback on our target EPS CAGR growth of 15% continues to be well received.

Regular shareholder dialogue is a key priority of our management and Board.

Votes on compensation

As set out in the Articles of Association, the General Meeting of Shareholders shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

- Compensation of the Board of Directors for the next fiscal year; and
- Compensation of the Executive Committee for the next fiscal year.

The Board of Directors may submit for approval by the General Meeting of Shareholders proposals in relation to maximum aggregate amounts of compensation relating to different periods, or in relation to amounts for specific compensation elements for the same or different periods.

In the event a proposal of the Board of Directors has not been approved by the General Meeting of Shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a General Meeting of Shareholders. The Company may pay out compensation prior to approval by the General Meeting of Shareholders subject to subsequent approval by a General Meeting of Shareholders.

As stated in the Articles of Association, if the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover compensation of one or more members who become members of, or are being promoted within, the Executive Committee during a compensation period for which the General Meeting of Shareholders has already approved the compensation, the Company is authorized to pay the member a supplementary amount during the compensation period already approved. The total supplementary amount per compensation period shall not exceed 40% of the aggregate amount of compensation of the Executive Committee last approved by the General Meeting of Shareholders.

COMPENSATION REPORT continued

SHARE OWNERSHIP

In 2016 Temenos introduced a policy for Stock Ownership and Retention for the Executive Chairman of the Board and members of the Executive Committee. Owning company stock helps align executives' financial interests with those of shareholders.

The following minimum amount of shares must be held:

Executive Chairman	4 times annual fixed salary
CEO	5 times annual fixed salary
CFO/COO	3 times annual fixed salary
CTO, CPO, CRO	1 time annual fixed salary

The Executive Chairman and all members of the Executive Committee met the requirements as at 31 December 2017.

The number of shares to be held are calculated based on the closing stock price of 31 December of the prior year and the fixed salary for the year. For example, the number of shares required to be held on 31 December 2017 is calculated based on the share price of 31 December 2016 and fixed salary for the year 2017. This allows the Executives sufficient time to take any required actions.

SARs do not count towards meeting the guidelines. The shares that count are Temenos ordinary shares.

PAY FOR PERFORMANCE APPRAISAL

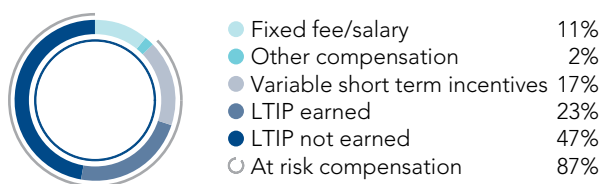
To align with stockholders' interests, Temenos' executive compensation program is designed to foster a pay-for-performance culture.

The chart below shows a percentage split of aggregate compensation of the Executives for 2017. The fixed salary and benefits are the only unconditional, ie non risk components; short term variable is dependent on the achievement of the results for 2018 and long term variable is dependent on the achievement of the results for the three year period 2018 to 2020 inclusive.

In 2017, 87% of total compensation was variable and conditional upon performance targets and therefore at risk. Based on the outstanding growth delivered in 2017 one third of the LTIP is earned and the STI targets were exceeded. For our peer group, the 'at risk' compensation for the CEO on average is 75% compared to 87% for the Temenos CEO.

The compensation for the Executive Chairman and Executive Committee was made up as follows:

2017 EXECUTIVE CHAIRMAN AND EXECUTIVE COMMITTEE



The 'LTIP earned' is the part of the 2017 grant relating to the delivery of non-IFRS EPS and non-IFRS product revenue targets for the financial year 2017. The target for 2017 has been met and the component of the 2017 LTIP grant can no longer be forfeited, even though subject to time vesting criteria until February 2020.

With regard to the Long Term Incentive Plan, the table below shows the trend of achievement of non-IFRS EPS targets:

SAR scheme	Proportion vested based on targets met
2007	100%
2008	forfeited
2009	60%
2010	30%
2011	forfeited
2012	12.8%
2013	101%
2014	100 %
2015	110%
2016	Achievement assessed on vesting in February 2019
2017	Achievement assessed on vesting in February 2020

Targets will continue to be set at challenging levels and reflect long term performance in order to maintain the direct link between pay and performance.

COMPENSATION COMPONENTS

Summary of Compensation elements for employees

The table below explains the compensation elements for 2017:

	Fixed Salary and Benefits	Variable Short Term Incentive (bonus or commission)	Variable Long Term Equity Incentive
Eligibility	All employees	All employees	Executive Chairman, Executive Committee members and senior managers
Basis for funding	Continuity of service, role and experience	Role and experience with a 90% threshold on the global or regional targets to be achieved prior to the fund accumulating, allocation based on performance	Continuity of service over three years plus achievement of three year non-IFRS EPS targets and non-IFRS product revenue targets
Payout	Monthly or bi-weekly depending on jurisdiction	After performance for the financial year has been audited	On Board of Directors approval of the results for the final year of the Stock Appreciation Rights (SAR) plan
Payout subject to	Forfeiture rules	No	Yes
	KPIs	No	Yes
Performance range for Executive Directors, Executive Committee members and senior managers	None	0% to 150% of fixed salary, 0% below 90% target threshold	Up to 140% of on target LTIP value if all targets are exceeded by 20%, 0% below 85% target threshold
Settlement	Cash	Cash and deferred shares	Shares on a net basis
Malus and clawback clauses	Not applicable	Yes	Yes

COMPENSATION REPORT continued

Compensation elements for the Executive Chairman and Executive Committee Members

The elements of the above table, together with their objectives, are as follows:

Fixed salary

- To compensate Executives for their expected day-to-day management, leadership and contribution to the business.

Benefits

- To provide a level of security in health and retirement and, should it be required, in disability and death.

Variable Short Term Incentive

- To make a significant portion of executive overall annual compensation variable and dependent on delivery of the Company's annual key targets of license revenue, cash collection, non-IFRS EBIT and/or non-IFRS EPS growth.
- The variable short term incentive is paid in cash.

Variable Long Term Equity Incentive

- To provide a balance of total compensation, via long term equity incentives, that is variable and linked directly to long term shareholder value creation.
- To incentivize sustainable future performance in non-IFRS EPS growth and non-IFRS product revenue growth. Product revenue is defined as software licensing, including Software as a Service, and maintenance revenues.
- To retain Executives for the long term.

The Executive Chairman works in an executive capacity full time and is jointly responsible, together with the Executive Committee for the delivery of the business plan. His role is described in more detail on page 104 of the Corporate Governance Report. His compensation reflects his executive role and as such is made up of a fixed salary, benefits, variable compensation as a short term incentive and Stock Appreciation Rights as a variable long term incentive.

2017 Variable Short Term Incentive

For 2017, the Variable Short Term Incentive became payable on 13 February 2018 after the year end results were approved by the Board of Directors and released to the market. The incentive for 2017 is due in cash on approval of the results for the financial year 2017 by the Board of Directors.

Performance criteria

Annual targets for Executives are set by the Board based on recommendations by the Compensation Committee.

In 2017, the short term incentive plan was based on the following targets:

- For Executive Chairman, CEO and CFO/COO:
 - Non-IFRS software licensing (40%)
 - Non-IFRS EPS (30%)
 - Operating cash flow (30%)
- For CTO:
 - Non-IFRS software licensing (50%)
 - Non IFRS operating profit (20%)
 - Cash inflows (30%)

On target performance is rewarded at 100% of fixed salary.

The variable short term incentive for the CPO is exceptionally based on strategic product objectives as well as the success of a major client related project for which he has been acting as Program Director in addition to his duties as CPO for the Company.

Annual incentive payouts for other senior managers are based on a mix of corporate and specific regional objectives.

The targets and respective achievements for Mr. Andreades, Mr. Arnott and Mr. Chuard are set out in the table below:

2017 Target	Percentage of Bonus	Target USD	Actual USD	Threshold	% of Achievement	% Paid
Non-IFRS software licensing	40%	291m	316m	90%	109%	117%
Non-IFRS EPS	30%	2.33	2.45	90%	105%	110%
Net Operating Cash flow	30%	280m	300m	90%	107%	114%

Note that in 2016, the above members of the Executive Committee had a cap at 100%. This was exceptional for 2016 only and in 2017 reverted to a cap of 150% as explained in the 2017 section of the 2016 Compensation Report.

2017 Long Term Equity Incentive

The Company grants Stock Appreciation Rights (SARs) to Executives and senior managers with performance and vesting criteria. We continue to favor the use of SARs over restricted stock as they necessitate a growth in the share price, which itself is dependent on strong Company performance, before they have any value to the receiving Executives. In this way we incentivize the management team to deliver strong revenue growth and profitability over the long term.

The tables below provide an overview of the schemes in place together with their performance criteria and pricing. The level and value of awards is commensurate with an executive's contribution to the business.

SARs are valued on a fair value basis by an independent organization using the Enhanced American Model so as to comply with IFRS2.

Overview of Executive SAR schemes

Target Population	Performance Criteria	Pricing of Long Term Equity Awards
Executive Chairman, Executive Committee members and senior managers	Grant conditions linked to the achievement of annual and three year cumulative non-IFRS EPS and/or non-IFRS product revenue targets, vesting after more than three years.	To ensure pricing integrity, long term equity awards are not issued at a discount to market price; they are priced at the closing market price on the day preceding the grant date.

The Schemes currently in place are outlined in the table below:

Year of Grant	No of SARs awarded for Executive Chairman and Executive Committee	Weighted average Exercise Price USD	Fair Value USD	Grant Date	Vesting date
2017	974,600	70.87	16.03	15 February 2017	On Board of Directors approval of the results for the year ending 31 December 2019
2016	1,316,000	44.30	10.00	15 February 2016 and 7 March 2016	On Board of Directors approval of the results for the year ending 31 December 2018
2015	1,230,000 plus 120,351 for overachievement	35.45	9.73	28 November 2014 ⁽¹⁾	On Board of Directors approval of the results for the year ending 31 December 2017

⁽¹⁾ Although the grant for 2015 was issued in November 2014 upon the approval of the strategic plan 2015-2017 by the Board of Directors, with service period starting 1 January 2015, the value was included in the 2015 Compensation Report as it constitutes compensation for 2015. No other grant was given in 2015.

COMPENSATION REPORT continued

Vesting conditions

Vesting of the SAR awards is subject to active employment until the end of the respective vesting period, and subject to achievement of performance targets described below.

The targets for the SAR schemes for 2015, 2016 and 2017 are outlined below:

KPI	Weighting
Non-IFRS EPS Targets	60%
Non-IFRS Product Revenues	40%

The targets for non-IFRS EPS are based on a CAGR of 15% for the three year period to the vesting of each grant. Targets for non-IFRS product revenues are considered commercially sensitive and it would be detrimental to the interests of the Company to disclose them in advance. The performance against those measures will be disclosed on vesting subject to sensitivity no longer remaining.

Vesting profile

The vesting profile of SARs awarded in 2015, 2016 and 2017 is the greater of:

- The sum of the result of each of the individual years, where one third of the plan is based on achievement of annual results for each year of the three year plan. There is no overachievement element on the awards linked to annual targets and achievement is binary either 0 or 100%.
- Cumulative target achievement being greater than 85% of the sum of the annual targets. On the cumulative target there is a potential overachievement as explained below.

Over/under achievement of SAR schemes

For achievement between 85% and 100% of target a pro-rated reduced amount will vest. For every 1% overachievement of the three years cumulative non-IFRS EPS and non-IFRS product revenue target, an additional 2% of SARs may be granted up to a maximum of 140% of the total grant.

Any over or underachievement is calculated based on the table below. Intermediate performance is pro-rated on a straight-line basis between the data points shown.

Cumulative non-IFRS EPS or non-IFRS product revenues:					
Achieved as % of Cumulative target	85%	92.5%	100%	110%	120%
Proportion vesting	0%	50%	100%	120%	140%

Achievement

Under the 2015 SAR scheme, which vested on 15 February 2018, the non-IFRS EPS performance targets and respective achievements were:

Year	Target	Actual achievement	Growth on prior year
2015	USD 1.73	USD 1.73	20%
2016	USD 2.07	USD 2.07	20%
2017	USD 2.28	USD 2.45	18%
Cumulative	USD 6.07	USD 6.25	19% CAGR

The cumulative non-IFRS EPS achievement of USD 6.25 equates to an achievement against target of 103%, a payout of 106%.

The non-IFRS product revenue cumulative performance target and cumulative respective achievements were as follows:

Year	Target USD m	Actual achievement USD m*	Growth
Cumulative 2015-2017	1,508	1,638	19% CAGR

* Actual results are restated at constant currency compared to plan. Due to commercial sensitivity we do not provide achievement by year.

The cumulative non-IFRS product revenue achievement of USD 1,638 million equates to an over achievement against target of 109%, a payout of 117%.

With 60% of the weighting on non-IFRS EPS targets and 40% of the weighting on non-IFRS product revenues, this equates to a total payout of 110%.

Contract Terms for the Executive Chairman and Executive Committee members

The contractual notice periods of the Executive Chairman, being the sole executive member of the Board of Directors, and members of the Executive Committee do not exceed 12 months; there are no severance payment clauses.

In case of a change of control of Temenos Group AG, all SARs granted will become immediately vested and exercisable provided that their respective vesting period has started. A case of change of control occurs when a third party acquires the control of more than 50% ownership in Temenos Group AG.

In case of dismissal for cause, all unvested options and stock appreciation rights are forfeited. In case of termination, conditions vary by role and are described in each plan.

Compensation elements for Non-Executive Directors

The Non-Executive Directors were compensated in 2017 with a fee for their Board duties, together with a supplementary fee for Audit and Compensation Committees' chairs.

Summary of Key Compensation changes in 2017

In 2017, the changes were as follows:

- As approved at the AGM in May 2016, the Executive Chairman and Executive Committee received a salary increase of 2.3% effective from 1 January 2017.
- The Board fees paid to Non-Executive Directors increased from USD 100,000 to USD 105,000. The fees for the Chairman of the Audit Committee and for the Chairman of the Compensation Committee increased from USD 35,000 to USD 40,000.

COMPENSATION FOR FINANCIAL YEAR UNDER REVIEW

This section (pages 119 starting from 'Compensation for the Financial Year Under Review' to page 122) has been audited by Temenos' auditors, PricewaterhouseCoopers SA.

As individuals are paid in currencies other than US dollars, the amounts in the tables below are converted into US dollars using the average exchange rate for 2017 and the average exchange rate for 2016 respectively. Comparison between these two years may be distorted through the exchange rate fluctuations.

The LTIP value included in the tables below represents the full fair value of the on target achievement at the time of grant. The SARs value to the individual is only realized once (i) non-IFRS EPS and non-IFRS product revenue targets are achieved (which triggers vesting), (ii) the time vesting criteria have been satisfied and (iii) when the stock price rises above the grant price. The valuation method, conditions and grant details are explained in the paragraph titled Compensation Components.

COMPENSATION REPORT continued

Board of Directors

The total compensation for the Board of Directors including social security charges totals USD 7.2 million compared to a total maximum compensation of USD 7.3 million approved by the shareholders at the AGM on 10 May 2017.

Out of the total Executive Chairman's 2017 compensation of USD 6.2 million, USD 3.1 million has been earned, and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2018-2019 are achieved and the time vesting criteria have been satisfied. The amount earned includes the proportion of LTIPs at fair value for which targets have been achieved even though time vesting criteria have not yet been satisfied.

The increase from 2016 to 2017 was approved by shareholders at the AGM in May 2016. The increase was due to the following reasons:

- To reflect the increased responsibility and complexity as a result of the steady growth in the Company since 2012, both organic and through acquisitions, when the current executive team was put in place. Revenues grew from USD 450 million to USD 700 million, number of employees grew from 4,000 to almost 5,000 and the increase in market capitalization from USD 1 billion to USD 9 billion which reflects the increased momentum, increased market share, position against the competition and more.
- To ensure retention and motivation of the Executives. Executive Compensation had not increased significantly for the previous three years.
- To reflect the increase in share price, which implies a lower number of SARs being granted for the same dollar value.

Name Board Function USD	Fiscal year	Fixed fee/ salary	Variable short term incentive	All other compensation ¹	Total compensation before LTIP	LTIP value	Total compensation	Employer social security charges ²	Total compensation including social security charges	Maximum shareholder approval
A. Andreades ³ Executive Chairman	2017	636,375	727,318	131,310	1,495,004	4,679,157	6,174,161	141,227	6,315,388	
	2016	619,136	619,136	131,972	1,370,244	3,710,250	5,080,494	194,457	5,274,951	
S. Giacoletto-Roggio ⁴ Vice Chairman	2017	145,000	–	–	145,000	–	145,000	9,736	154,736	
	2016	135,000	–	–	135,000	–	135,000	9,131	144,131	
G. Koukis Member	2017	105,000	–	13,504	118,504	–	118,504	7,722	126,226	
	2016	100,000	–	20,012	120,012	–	120,012	7,199	127,211	
T. de Tersant ⁵ Member	2017	145,000	–	–	145,000	–	145,000	12,629	157,629	
	2016	135,000	–	–	135,000	–	135,000	11,935	146,935	
I. Cookson Member	2017	105,000	–	–	105,000	–	105,000	6,691	111,691	
	2016	100,000	–	–	100,000	–	100,000	6,426	106,426	
E. Hansen Member	2017	114,186	–	–	114,186	–	114,186	–	114,186	
	2016	108,744	–	–	108,744	–	108,744	–	108,744	
A. Yip Member	2017	105,000	–	–	105,000	–	105,000	6,691	111,691	
	2016	100,000	–	–	100,000	–	100,000	6,426	106,426	
P. Spenser Member	2017	65,597	–	–	65,597	–	65,597	–	65,597	
	2016	–	–	–	–	–	–	–	–	
Total Board of Directors	2017	1,421,158	727,318	144,814	2,293,290	4,679,157	6,972,447	184,695	7,157,143	7,300,000
	2016	1,297,880	619,136	151,984	2,069,000	3,710,250	5,779,250	235,574	6,014,824	6,300,000

⁽¹⁾ All other compensation includes life, medical, disability, accident insurances, pension and car allowance.

⁽²⁾ Social security charges comprise actual charges on base salary and other compensation, and estimated social security charges to be paid for bonus and LTIPs (based on the fair value) granted in the year of compensation.

⁽³⁾ Mr. Andreades' total compensation includes fees of USD 105,000 for his Board duties, the remainder represents compensation for his executive duties. Mr. Andreades' long term incentive plan compensation corresponds to the full fair value, as at grant, of the 2017 executive team SAR award. The variable short term incentive is 114% of the on-target amount, payable in February 2018. The LTIP for Mr. Andreades consists of 291,900 SARs which were granted on 15 February 2017 at a grant price of USD 70.87 and a fair value of USD 16.03.

⁽⁴⁾ Mr. Giacoletto-Roggio's fees comprise a basic fee of USD 105,000 (USD 100,000 for 2016) annually plus USD 40,000 (USD 35,000 for 2016) annually for his duties as Chairman of the Compensation Committee. He does not receive additional fees for his duties as Vice-Chairman of the Company.

⁽⁵⁾ Mr. de Tersant's fees comprise a basic fee of USD 105,000 (USD 100,000 for 2016) annually plus USD 40,000 (USD 35,000 for 2016) annually for his duties as Chairman of the Audit Committee.

Executive Committee

The total compensation for the Executive Committee including social security charges totals USD 17.7 million compared to a maximum compensation of USD 18.5 million approved by the shareholders at the AGM on 10 May 2017.

The total of all compensation, in US dollars, earned in 2017 and 2016 by the members of the Executive Committee is shown below. From the total compensation of USD 16.0 million, USD 8.7 million has been earned and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2018-2019 as set out in the report are achieved. The amount earned includes the proportion of LTIPs for which targets have been achieved even though the time vesting criteria have not yet been satisfied.

The Executive Committee members included in 2016 and 2017 were Mr. Arnott, Mr. Chuard, Mr. Loustau and Mr. Winterburn. Mr. Davis stepped down from the Executive Committee on 9 March 2016 and as such, his compensation is only included for the first two months of 2016 in the table below. The table below includes the compensation of Mr. Arnott who is the highest paid member of the Executive Committee and of the Company.

The reason for the increase from 2016 to 2017 is explained on page 120 under the Board of Directors compensation.

Fiscal year	Base salary	Variable short term incentive ¹	All other compensation ²	Total compensation before LTIP	LTIP value ³	Total compensation	Employer social security charges ⁴	Total compensation including social security charges	Maximum shareholder approval
2017	1,895,994	3,006,253	202,835	5,105,082	10,943,681	16,048,763	1,634,513	17,683,277	18,500,000
2016	1,933,743	2,265,104	224,981	4,423,828	9,441,420	13,865,248	1,477,208	15,342,456	17,500,000

⁽¹⁾ The variable short term incentive is 114% of the on-target payable amount for CEO and CFO/COO. The variable short term incentive is payable in February 2018.

⁽²⁾ All other compensation includes life, medical, disability, accident insurances, pension and car allowance.

⁽³⁾ The LTIP for the Executive Committee consists of 682,700 SARs which were granted on 15 February 2017 at a grant price of USD 70.87 and a fair value of USD 16.03.

⁽⁴⁾ Social security charges comprise actual charges on base salary and other compensation, and estimated social security charges to be paid for bonus and LTIP's (based on the fair value) granted in the year of compensation.

Highest Paid Member of the Executive Committee

Mr. Arnott, our CEO, was the highest paid member of the Executive Committee in 2017 with compensation, in US dollars, as shown below. 87% of his total compensation in 2017 was variable and is still conditional upon the 2018-2019 performance targets that are yet to be achieved. Out of the total 2017 compensation of USD 7.5 million, USD 3.7 million has been earned, and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2018-2019 as set out in the report are achieved and the time vesting criteria have been satisfied.

Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	LTIP value ¹	Total compensation	Employer social security charges	Total compensation including social security charges
2017	817,896	932,402	55,113	1,805,411	5,674,620	7,480,031	647,513	8,127,544
2016	799,058	799,058	54,292	1,652,408	4,982,760	6,635,168	576,967	7,212,135

⁽¹⁾ The LTIP for the CEO consists of 354,000 SARs which were granted on 15 February 2017 at a grant price of USD 70.87 and a fair value of USD 16.03.

COMPENSATION REPORT continued

Compensation in CHF

Pursuant to Article 958d alinea 3 of the Swiss Code of Obligations compensation amounts may be quoted in the most significant currency of the business activity, in Temenos case it is USD, but must also be quoted in CHF. The amounts quoted below in CHF for the Board of Directors, the Executive Committee and highest paid Executive Committee member respectively are calculated taking the USD amount converted at the average exchange rate for the year. The exchange rate used in 2017 was 0.9847 (2016: 0.985).

Function CHF	Fiscal year	Fixed fee/ salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
Board of Directors	2017	1,399,516	716,243	142,609	2,258,367	4,607,902	6,866,269	181,883	7,048,152
	2016	1,278,834	610,051	149,753	2,038,638	3,655,803	5,694,441	232,117	5,926,558

Function CHF	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
Executive Committee	2017	1,867,121	2,960,474	199,746	5,027,341	10,777,028	15,804,369	1,609,623	17,413,991
	2016	1,905,366	2,231,865	221,679	4,358,910	9,302,870	13,661,780	1,455,530	15,117,310

Function CHF	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
David Arnott	2017	805,441	918,203	54,274	1,777,918	5,588,205	7,366,123	637,653	8,003,776
Chief Executive Officer	2016	787,332	787,332	53,495	1,628,159	4,909,640	6,537,799	568,500	7,106,299

LOANS GRANTED TO MEMBERS OF GOVERNING BODIES

As of 31 December 2017 and 31 December 2016 the Company has no outstanding loans to members of the Board of Directors and Executive Committee other than a bridging loan of USD 0.1 million to CPO which is to compensate his adverse tax position from his combined residence in both UK and Switzerland, where he spends time at the request of Temenos. No loans were granted to persons related to the Board of Directors or Executive Committee.

SHAREHOLDINGS AND EQUITY INCENTIVES

Non-Executive Directors

Name	Position	31 December 2017 Shares	31 December 2016 Shares
S. Giacoletto-Roggio	Vice-Chairman	11,000	11,000
I. Cookson	Member	15,500	18,250
T. de Tersant	Member	3,000	3,000
E. Hansen	Member	11,000	11,000
G. Koukis	Member	–	–
A. Yip	Member	–	–
P. Spenser	Member	–	N/A

Executive Chairman and Executive Committee members As at 31 December 2017

Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	Number of vested SARs	SARs Number of unvested SARs
A. Andreades	Executive Chairman	752,629	2014	2015 scheme ²	35.45		380,949
			2016	2016 scheme	43.69		325,000
					49.12		46,000
			2017	2017 scheme	70.87		291,900
D. Arnott	CEO	57,500	2014	2015 scheme ²	35.45		507,932
			2016	2016 scheme	43.69		432,000
					49.12		66,000
			2017	2017 scheme	70.87		354,000
M. Chuard	CFO/COO	65,000	2014	2015 scheme ²	35.45		253,966
			2016	2016 scheme	43.69		258,000
					49.12		35,000
			2017	2017 scheme	70.87		254,300
A. Loustau	CTO	3,673	2014	2015 scheme ²	35.45		49,689
			2016	2016 scheme	43.69		45,000
			2017	2017 scheme	70.87		29,400
M. Winterburn	CPO	3,975	2014	2015 scheme ²	35.45		82,815
			2016	2016 scheme	43.69		65,000
			2017	2017 scheme	70.87		45,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2015 scheme vested on 13 February 2018. The numbers above include the overachievement at 110.42%.

COMPENSATION REPORT continued

As of 31 December 2016

Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	SARs	
						Number of vested SARs	Number of unvested SARs
A. Andreades	Executive Chairman	1,057,134	2014	2014 scheme ²	34.38		360,000
				2015 scheme	35.45		345,000
			2016	2016 scheme	43.69		325,000
					49.12		46,000
D. Arnott	CEO	409,933	2014	2014 scheme ²	34.38		480,000
				2015 scheme	35.45		460,000
			2016	2016 scheme	43.69		432,000
					49.12		66,000
M. Chuard	CFO/COO	284,140	2014	2014 scheme ²	34.38		240,000
				2015 scheme	35.45		230,000
			2016	2016 scheme	43.69		258,000
					49.12		35,000
A. Loustau	CTO	500	2012	2013 scheme	14.75	227,504	
			2014	2015 scheme	35.45		45,000
			2016	2016 scheme	43.69		45,000
M. Winterburn	Group Product Director	500	2012	2013 scheme	14.75	227,508	
			2014	2015 scheme	35.45		75,000
			2016	2016 scheme	43.69		65,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.⁽²⁾ The SARs granted under the 2014 scheme vested on 14 February 2017.

No options and/or shares were held on 31 December 2017 and 2016 by persons related to the members of the Board of Directors and of the Executive Committee.

OPTIONS AND SARS OUTSTANDING

The following table lists all options and SARs outstanding as at 31 December 2017. This includes the SARs outstanding for the Executive Chairman and Executive Committee members shown in the tables on page 123 and all other staff eligible for options and SARs.

Grant year	Plan	Exercise price USD	Total number of outstanding SARs/options	Number of vested SARs	Number of vested options	Number of unvested SARs
2007	2007	13.44	3,531	3,531		
2007	2007	15.56	2,371	2,371		
2008	2008	22.02	13,008	13,008		
2008	2009	10.36	11,754	11,754		
2009	2009	6.75	15,144	15,144		
2009	2009	6.75	2,098	2,098		
2009	2009	13.91	590	590		
2009	2010	22.43	14,529	14,529		
2010	2010	24.43	24,695	24,695		
2010	2010	26.26	359	359		
2011	2011	15.20	35,268	35,268		
2011	2011	31.39	3,000		3,000	
2011	2012	15.33	2,657	2,657		
2012	2012	16.91	7,278	7,278		
2012	2012	15.60	1,912	1,912		
2012	2012	17.72	391	391		
2012	2012	13.15	4,995	4,995		
2012	2013	14.20	99,355	99,355		
2013	2013	18.10	15,210	15,210		
2013	2013	20.28	144,464	144,464		
2013	2013	22.40	3,000	3,000		
2013	2013	23.17	2,535	2,535		
2014	2014	35.33	26,000	26,000		
2014	2015	35.45	1,742,471			1,742,471
2014	2015	35.15	265,118			265,118
2015	2015	32.83	97,500			97,500
2015	2015	35.34	66,250			66,250
2015	2015	34.49	5,521			5,521
2015	2015	35.29	436,500			436,500
2015	2015	36.85	5,521			5,521

COMPENSATION REPORT continued

Grant year	Plan	Exercise price USD	Total number of outstanding SARs/options	Number of vested SARs	Number of vested options	Number of unvested SARs
2015	2015	46.79	3,313			3,313
2015	2015	47.19	27,605			27,605
2016	2015	46.53	15,459			15,459
2016	2015	44.00	18,771			18,771
2016	2016	43.69	1,739,000			1,739,000
2016	2016	49.12	169,000			169,000
2016	2016	54.07	3,000			3,000
2016	2016	53.38	2,000			2,000
2016	2016	57.07	15,160			15,160
2016	2016	57.07	176,500			176,500
2016	2016	63.17	5,000			5,000
2016	2016	63.10	3,000			3,000
2016	2016	65.92	8,000			8,000
2017	2017	70.87	1,632,600			1,632,600
2017	2017	75.04	10,000			10,000
2017	2017	80.86	2,000			2,000
2017	2017	88.81	1,000			1,000
2017	2017	90.20	15,000			15,000
2017	2017	90.20	34,000			34,000
2017	2017	96.59	60,000			60,000
2017	2017	103.74	15,000			15,000
2017	2017	101.86	1,000			1,000
Total			7,009,433	431,144	3,000	6,575,289

The weighted average exercise price is USD 46.89.

The SARs from the 2015 scheme vested on 13 February 2018. The numbers above include the overachievement of 110.42%.

DILUTION

A stock appreciation right (SAR) is an incentive given to employees that aligns their interest with shareholders and is equal to the appreciation of company stock over an established time period. Similar to employee stock options, SARs are beneficial to the employee when company stock prices rise; the difference with SARs is that employees do not pay the exercise price but only receive the sum of the increase in stock or cash. This means that the dilution on outstanding SARs is only known at the time of exercise as it is dependent on the share price at that time. As an example, if 1,000 SARs at a grant price of USD 50 are exercised when the share price is USD 100, then the gain is USD 50,000, equivalent to a 500 share dilution.

When issuing SARs the Compensation Committee reviews the planned dilution to ensure that it remains within our target of no more than 2% pa on a CAGR basis. The dilution for the period 2012-2017 on a CAGR basis was 1% pa. This compares to an EPS growth of 22% pa on a CAGR basis for the same period.

The total cumulative dilution as of 31 December 2017 from all outstanding SARs and stock options was 6%.

The historic dilution based on the closing price of each respective year was:

2013	6%
2014	6%
2015	9%
2016	6%
2017	6%

Up to a limit of 10% is a level of dilution which is considered generally acceptable dilution for fast growing companies.

THE YEAR AHEAD: COMPENSATION OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE FOR 2018

At the Annual General Meeting in 2017, the shareholders approved total compensation including social charges for year 2018 for the Board of Directors of USD 7.4 million and for the Executive Committee of USD 18.5 million.

Changes that affect 2018 fixed compensation

The key changes that are being made to compensation in 2018 are summarized below:

- Mr. Jean-Michel Hilsenkopf was appointed to the Executive Committee on 12 January 2018. His compensation will be included in the final 2018 numbers. As per the Articles of Association, if the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover compensation of one or more members who become members of the Executive Committee during a compensation period for which the General Meeting of Shareholders has already approved the compensation, the Company is authorized to pay the member a supplementary amount during the compensation period already approved. The total supplementary amount per compensation period shall not exceed 40% of the aggregate amount of compensation of the Executive Committee last approved by the General Meeting of Shareholders.
- The compensation for Mr Hilsenkopf is approximately equivalent to the average of the compensation of the 2017 Executive Committee.
- The fixed salary of the Executive Chairman and 2017 Executive Committee members will remain flat compared to 2017.
- The Board fees paid to Non-Executive Directors and the fees for the Chairman of the Audit Committee and for the Chairman of the Compensation Committee will remain flat compared to 2017.
- The variable Short Term Incentive will remain at a maximum of 150%.
- The cost of the variable Long Term Incentive will be the same as that in 2017 for the Executive Chairman, CEO and CFO/COO, thus resulting in a reduced amount of SAR's given the share price at the grant time. The cost of the CRO's variable Long Term Incentive will be added.

COMPENSATION REPORT continued

2018 Variable Short Term Incentive

For 2018, for the Executive Chairman and Executive Committee we shall maintain the variable Short Term Incentive plan that will pay out when annual targets are achieved. All members will be targeted on the same measures for 2018:

- 40% Non-IFRS Software Licensing
- 15% SaaS Annual Contract Value
- 20% Non-IFRS EPS
- 25% Non-IFRS Operating Cash

SaaS has been a focus for the sales teams and regional directors at Temenos for the last few years. SaaS is an important growing sector in the market and we would like to ensure the teams are driven to sell SaaS deals in the same way as on premise license deals. In 2018 we decided to align also the Executives to this strategic initiative through their variable component.

The targets are considered commercially sensitive and are not disclosed in advance.

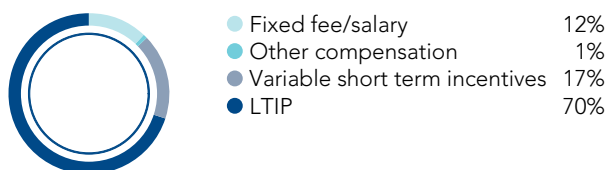
2018 Long Term Incentive Plan Awards

The LTIP award for 2018 was issued in February 2018. 40% of the award is comprised of non-IFRS EPS targets, 60% of the award is comprised of non-IFRS Product Revenue targets. The targets for non-IFRS EPS are based on a CAGR of 15% for the three year period. The targets for non-IFRS Product Revenues are considered commercially sensitive and it would be detrimental to the interests of the Company to disclose them before the start of the relevant performance period. The performance against those measures will be disclosed in the year of vesting subject to sensitivity no longer remaining.

2018 Compensation Plan

For 2018, the split of aggregate compensation for the Executive Committee at the on-target level is shown below. The majority of compensation (87%) is at risk and dependent on achieving the annual total software licensing, operating cash flow and annual non-IFRS EPS and non-IFRS product revenue targets for the 2018 to 2020 financial years. The only fixed compensation which is guaranteed is the fixed salary and benefits which, in aggregate amount to 13% of the on-target total compensation.

2018 EXECUTIVE CHAIRMAN AND EXECUTIVE COMMITTEE



The LTIP for 2018 is subject to delivery of the non-IFRS EPS and non-IFRS product revenue targets for the financial years 2018, 2019 and 2020 that are still at risk, hence not yet earned.

REPORT OF THE STATUTORY AUDITORS ON THE COMPENSATION REPORT

Report of the statutory auditor to the General Meeting of Temenos Group AG, Geneva

We have audited pages 119 starting from 'Compensation for Financial Year Under Review' to page 122 of the accompanying remuneration report of Temenos Group AG for the year ended 31 December 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Temenos Group AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA

Guillaume Nayet

Audit expert
Auditor in charge

Yazen Jamjum

Geneva, 16 February 2018



FINANCIAL STATEMENTS

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REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS

Report of the statutory auditor to the General Meeting of Temenos Group AG, Geneva

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of TEMENOS Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: USD 7,200,000

The group audit team performed the audit of the consolidation and directly the audit of consolidated revenue, accounts receivables, accrued and deferred revenue, cash balances, and capitalized development costs. We concluded one full scope audit work over a reporting entity located in Switzerland and audits of selected financial statement line items were performed on a further 17 reporting units in 11 countries.

Our audit scope addressed all of the Group's revenue, approximately 98% of the Group's total assets and approximately 76% of the Group's total expenses.

As key audit matters the following areas of focus have been identified:

- Software licensing revenue recognition
- Services revenue recognition
- Recoverability of accounts receivables and accrued revenue balances

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The group audit team audits directly selected financial statement line items (revenue, accounts receivables, accrued and deferred revenue balances, cash balances and capitalized development costs) in addition to auditing the consolidation which includes, amongst others, taxation, pension and share based compensation.

Furthermore, we performed a full scope audit over one entity located in Switzerland and instructed audits of selected financial statement line items to be performed on a further 17 reporting units in 11 countries.

We finally validated the compliance of the consolidated financial statements with IFRS and Swiss law.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	USD 7,200,000
How we determined it	1% of total revenue, rounded
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the industry is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above USD 360,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Software licensing revenue recognition

Key audit matter	How our audit addressed the key audit matter
<p>We focused on this area because of the significance of license revenue and the risks related to the numerous inherent complexities and critical judgments involved in the measurement, timing and presentation of revenues from multi-element contracts found in the software industry. In 2017, revenue from software licensing amounting to USD 249 million was reported by the group.</p> <p>Transactions with customers often have “bundled” components that typically include license, implementation and/or development services and maintenance elements. The separation of these elements requires management to use significant estimates in relation to the determination of the fair value of each component. In addition, there are critical judgments in assessing the probability of collection and determining whether existing uncertainties and contingencies preclude license revenue from being recognized.</p> <p>There is a risk that license revenue is overstated or recognized prematurely due to either the inappropriate assessment of the risks and uncertainties involved and/or inappropriate allocation between the various components.</p> <p>There is also a risk that judgments or estimates in relation to license revenue are not free from bias or that license revenue booked is manipulated to achieve financial targets.</p> <p>Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgments) of the consolidated financial statements.</p>	<p>Firstly, we reviewed Temenos’ revenue recognition policy and ensured it is in accordance with IFRS. We then tested all license revenue deals in excess of a certain threshold and a random sample of smaller deals. For each of the sample selected, we performed the following:</p> <ul style="list-style-type: none"> · Inspected the existence of a signed version of the customer contract together with evidence of software delivery. · Reviewed the contracts and assessed potential impact of any unusual clause on revenue recognition. When deemed necessary, we discussed the details of certain contracts with the commercial team who negotiated the deal to understand both the rationale of certain clauses and also the customer’s perspective. We also engaged in a discussion with the legal department to obtain their interpretation of certain contractual terms to assess their impact on revenue recognition. · Reviewed and challenged the fair value allocations between the various elements of the contract in accordance with Temenos’ revenue recognition policy. · Challenged management’s assessment of collectability. <p>We performed cut off procedures to ensure that revenue is recognized in the correct reporting period by reference to the contract and evidence of delivery.</p> <p>We also performed journal entry tests targeting license revenue deals with certain characteristics and obtained evidence that substantiates the revenue recognized. Finally, we conducted specific procedures to ensure the authenticity of customer contracts.</p> <p>Finally, we performed a look-back analysis on management’s past judgments and estimates by comparing previous estimates with actuals both quantitatively and qualitatively.</p> <p>We presented the results of our testing to the Audit Committee and highlighted deals involving significant judgments and estimates together with our view on those judgments and estimates made.</p> <p>Based on the work we performed the critical judgments and estimates made by management were deemed reasonable and justifiable and the accounting for license revenue appropriate.</p>

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS

continued

Services revenue recognition

Key audit matter	How our audit addressed the key audit matter
<p>In 2017, services revenue is reported as USD 146 million. We focused on this area because this is a material amount and because of the significant estimates involved in determining the percentage of completion of fixed price service implementation projects combined with the enhanced risk involved in medium to long term projects.</p> <p>Recognizing service revenue over time using the percentage of completion method requires management to estimate the total mandays of effort required at the start of the implementation period and the estimates to complete at every reporting period.</p> <p>There is a risk that total mandays for a given fixed price project are underestimated which leads to recognizing service revenue prematurely or the risk that reductions in revenue for the period are unrecognized.</p> <p>Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgments) of the consolidated financial statements.</p>	<p>We analyzed the quarterly and annual movements in the percentage of completion for a selected sample of significant fixed price projects. For those projects where we identified a significant variance in the percentage of completion or the total mandays estimated, we investigated further to obtain evidence of the status of the project and the reasonableness of the manday estimates. We corroborated the information obtained by reference to milestones achieved, invoices raised and cash received. When needed, we also inquired of the service project managers to understand the progress, difficulties associated with the implementation, if any, and likely future scenarios.</p> <p>In addition, we obtained a look-back analysis prepared by management for a sample of projects that compares actual total mandays to the estimates made in prior periods. We challenged management on the analysis performed and the explanations provided and ensured that new projections build on these experiences. All significant deviations in relation to manday estimates were explained and supported.</p> <p>We selected a sample of fixed priced projects and tested the accuracy of the calculated percentage of completion and the resulting service revenue recognized.</p> <p>The outcome of our procedures and the look back analysis were presented to, and discussed with, the Audit Committee.</p> <p>Based on the work performed, the manday estimates made by management were deemed reasonable.</p>

Recoverability of accounts receivables and accrued revenue balances

Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2017, accounts receivables and accrued revenue balances amount to USD 241 million.</p> <p>We focused on this risk as the balances are material and there are many significant judgments involved in assessing recoverability of accounts receivables and accrued revenue balances in the software industry. This is especially the case as some of these balances could be significant or overdue.</p> <p>There are many factors that need to be considered when concluding that a balance needs to be impaired including default or delinquency in payments, length of the outstanding balances and implementation difficulties that could result in future concessions. In addition, some of the customers might also be undergoing restructuring, a change in strategy or management or facing liquidity issues that undermine their intent or ability to pay the amounts due.</p> <p>Given the complexity, the size and the length of certain implementation projects, there is risk that an impairment charge is not recognized in a timely or sufficient manner.</p> <p>Refer to note 2.5 (accounting policies) and note 13 (trade and other receivables) of the consolidated financial statements.</p>	<p>We reviewed management's prepared analysis for all cases with potential exposure. This analysis includes background information of the customer, existing contractual relationships, balance outstanding, delays in collection, and operational issues together with a detailed legal analysis.</p> <p>In addition, we challenged the recoverability of accounts receivable and accrued revenue selected balances (significant and randomly selected) with license and service departments, project managers and with senior management when necessary. When deemed necessary, we also discussed certain potential exposures with the internal legal counsel and agreed it to available confirmations from external lawyers.</p> <p>We confirmed selected material customer balances to verify their intention to settle the balance outstanding in the future.</p> <p>We also reviewed the aging of accounts receivables and obtained external market evidence confirming the lack of significant doubt about the financial stability for selected customers.</p> <p>We presented the results of our procedures to the Audit Committee.</p> <p>The level of the provision made against accounts receivables and accrued balances was deemed appropriate and corresponds to the risks identified.</p>

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Temenos Group AG and our auditor's reports thereon. The other information in the annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS

continued

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers SA

Guillaume Nayet
Audit expert
Auditor in charge

Yazen Jamjum

Geneva, 16 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December

	2017 USD 000	2016 USD 000
REVENUES		
Software licensing	248,541	205,081
SaaS & subscription	66,244	50,058
Total software licensing	314,785	255,139
Maintenance	274,794	250,371
Services	145,784	128,526
Total revenues (note 7)	735,363	634,036
OPERATING EXPENSES		
Cost of sales	(206,903)	(191,259)
Sales and marketing	(123,637)	(100,374)
General and administrative	(79,194)	(74,349)
Other operating expenses	(147,324)	(118,831)
Total operating expenses (note 8)	(557,058)	(484,813)
OPERATING PROFIT	178,305	149,223
Finance income	1,859	7,239
Finance costs	(19,216)	(24,355)
Finance costs – net (note 10)	(17,357)	(17,116)
PROFIT BEFORE TAXATION	160,948	132,107
Taxation (note 19)	(22,542)	(16,273)
PROFIT FOR THE YEAR	138,406	115,834
ATTRIBUTABLE TO:		
Equity holders of the Company	138,406	115,834
Non-controlling interest	–	–
	138,406	115,834
Earnings per share (in USD) (note 11):		
basic	1.98	1.69
diluted	1.90	1.61

Notes on pages 142 to 188 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December

	2017 USD 000	2016 USD 000
PROFIT FOR THE YEAR	138,406	115,834
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment defined benefit obligations (note 21)	814	(1,925)
	814	(1,925)
Items that may be subsequently reclassified to profit or loss		
Available-for-sale financial assets (note 24)	(18)	(45)
Cash flow hedges (note 24)	(3,351)	(3,866)
Currency translation differences (note 24)	41,196	(17,173)
	37,827	(21,084)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	38,641	(23,009)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	177,047	92,825
ATTRIBUTABLE TO:		
Equity holders of the Company	177,047	92,825
Non-controlling interest	–	–
	177,047	92,825

Notes on pages 142 to 188 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	2017 USD 000	2016 USD 000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 12)	167,855	194,340
Trade and other receivables (note 13)	258,632	231,960
Other financial assets (note 14)	3,967	3,866
Total current assets	430,454	430,166
NON-CURRENT ASSETS		
Property, plant and equipment (note 15)	16,385	15,788
Intangible assets (note 16)	795,961	690,097
Trade and other receivables (note 13)	10,379	16,296
Other financial assets (note 14)	161	154
Deferred tax assets (note 19)	21,943	19,001
Total non-current assets	844,829	741,336
Total assets	1,275,283	1,171,502
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (note 17)	124,652	103,329
Other financial liabilities (note 14)	3,184	10,062
Deferred revenues	232,489	216,251
Income tax liabilities	41,042	28,992
Borrowings (note 18)	5,885	102,780
Provisions for other liabilities and charges (note 20)	3,085	936
Total current liabilities	410,337	462,350
NON-CURRENT LIABILITIES		
Trade and other payables (note 17)	–	1,542
Other financial liabilities (note 14)	27,752	11,563
Income tax liabilities	–	1,801
Borrowings (note 18)	434,299	269,182
Provisions for other liabilities and charges (note 20)	238	132
Deferred tax liabilities (note 19)	15,408	16,617
Retirement benefit obligations (note 21)	7,736	9,176
Total non-current liabilities	485,433	310,013
Total liabilities	895,770	772,363
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS		
Share capital	232,192	226,058
Treasury shares	(197,750)	(66,487)
Share premium and other reserves (note 23)	(186,287)	(154,249)
Other equity (note 24)	(93,341)	(131,168)
Retained earnings	624,699	524,985
	379,513	399,139
NON-CONTROLLING INTEREST	–	–
Total equity	379,513	399,139
Total liabilities and equity	1,275,283	1,171,502

Notes on pages 142 to 188 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

	2017 USD 000	2016 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT BEFORE TAXATION	160,948	132,107
Adjustments:		
Property, plant and equipment depreciation, intangible asset amortization and impairment of financial assets	96,083	85,589
Loss on retirements of property, plant and equipment and intangible assets (note 15 and 16)	220	164
Cost of share options (note 25)	32,661	24,813
Foreign exchange loss on non-operating activities	3,323	3,613
Interest expenses, net (note 10)	11,053	12,845
Net loss/(gain) from financial instruments (note 10)	1,254	(6,988)
Other finance costs (note 10)	3,811	4,016
Other non-cash items	1,196	(738)
Changes in:		
Trade and other receivables	(18,588)	(7,882)
Trade and other payables, provisions and retirement benefit obligations	5,645	2,821
Deferred revenues	2,100	7,267
Cash generated from operations	299,706	257,627
Income taxes paid	(11,930)	(10,356)
Net cash generated from operating activities	287,776	247,271
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,787)	(6,142)
Purchase of intangible assets	(4,646)	(4,518)
Capitalized development costs (note 16)	(50,468)	(45,560)
Acquisitions of subsidiary, net of cash acquired (note 6)	(49,780)	(1,581)
Disposal of subsidiary or business, net of cash disposed	–	489
Settlement of financial instruments	(2,276)	5,845
Interest received	1,735	132
Net cash used in investing activities	(111,222)	(51,335)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(39,506)	(31,733)
Acquisition of treasury shares	(189,624)	(61,821)
Repayments of borrowings	(11,576)	(79,366)
Proceeds from issuance of bond	148,781	–
Repayment of bond	(105,401)	–
Interest payments	(12,221)	(12,600)
Payment of other financing costs	(2,603)	(7,037)
Net cash used in financing activities	(212,150)	(192,557)
EFFECT OF EXCHANGE RATE CHANGES	9,111	(2,291)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR	(26,485)	1,088
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	194,340	193,252
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	167,855	194,340

Notes on pages 142 to 188 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital USD 000	Treasury shares USD 000	Share premium and other reserves (note 23) USD 000	Other equity (note 24) USD 000	Retained earnings USD 000	Total USD 000
BALANCE AT 1 JANUARY 2016	210,774	(19,686)	(148,516)	(110,084)	442,809	375,297
Profit for the year	–	–	–	–	115,834	115,834
Other comprehensive income for the year, net of tax	–	–	–	(21,084)	(1,925)	(23,009)
Total comprehensive income	–	–	–	(21,084)	113,909	92,825
Dividend paid	–	–	–	–	(31,733)	(31,733)
Cost of share options (note 25)	–	–	24,813	–	–	24,813
Exercise of share-based payment transactions	15,284	15,020	(30,304)	–	–	–
Acquisition of treasury shares	–	(61,821)	–	–	–	(61,821)
Costs associated with equity transactions	–	–	(242)	–	–	(242)
	15,284	(46,801)	(5,733)	(21,084)	82,176	23,842
BALANCE AT 31 DECEMBER 2016	226,058	(66,487)	(154,249)	(131,168)	524,985	399,139
Profit for the year	–	–	–	–	138,406	138,406
Other comprehensive income for the year, net of tax	–	–	–	37,827	814	38,641
Total comprehensive income	–	–	–	37,827	139,220	177,047
Dividend paid	–	–	–	–	(39,506)	(39,506)
Cost of share options (note 25)	–	–	32,661	–	–	32,661
Exercise of share-based payment transactions	6,134	58,361	(64,495)	–	–	–
Acquisition of treasury shares	–	(189,624)	–	–	–	(189,624)
Costs associated with equity transactions	–	–	(204)	–	–	(204)
	6,134	(131,263)	(32,038)	37,827	99,714	(19,626)
BALANCE AT 31 DECEMBER 2017	232,192	(197,750)	(186,287)	(93,341)	624,699	379,513

Notes on pages 142 to 188 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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. 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 13 February 2018.

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Available-for-sale financial assets and derivatives financial instruments – measured at fair value;
- Contingent consideration assumed in a business combination – measured at fair value; and
- Net defined benefit asset/liability – plan assets are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Standards, amendments and interpretations relevant to the Group's operation and adopted by the Group as at 1 January 2017

- IAS 7 (amendment) 'Statement of Cash Flows', effective for annual periods beginning on or after 1 January 2017. This amendment required disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Group has applied the amendment for the financial reporting period commencing on 1 January 2017.
- IAS 12 (amendment) 'Income Taxes', effective for annual periods beginning on or after 1 January 2017. This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The amendment did not have any impact on the Group's financial statements since the Group does not hold any debt instruments measured at fair value. The Group has applied the amendment for the financial reporting period commencing on 1 January 2017. The adoption of these amendments that became applicable for the financial reporting period commencing on 1 January 2017 had no significant effect on the Group's consolidated financial statements or on the Group's accounting policies.

Standards, amendments and interpretations relevant to the Group's operation that are not yet effective and have not been early adopted by the Group

The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but the Group has not early adopted them. Unless otherwise indicated, these publications are not expected to have any significant impact on the Group's financial statements:

- IFRS 2 (standard) 'Share-based Payment', effective for annual periods beginning on or after 1 January 2018. This amendment provides additional guidance on the accounting for cash-settled share-based payments and adds an exception that provides equity-settled accounting where the settlement of share-based payment awards is split between equity instruments issued to the employee and a cash payment to the tax authorities. This amendment is not expected to have an impact on the Group's financial statements since the Group's share-based payment transactions are all qualified as equity settled share-based payments. The Group will apply this amendment for the financial reporting period commencing on 1 January 2018.
- IFRS 9 (standard) 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018. This new standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and introduces revised guidance on the classification, recognition, derecognition and measurement of financial assets and financial liabilities as well as a new expected credit losses model for calculating impairment on financial assets. It also introduces new rules for hedge accounting. For classification and measurement of financial assets and liabilities as well as the impairment principles, the Group will apply this standard retrospectively with the use of the expedient so that prior periods need not to be restated and the effect of the initial application will be recognized as an adjustment to the opening retained earnings of the annual period ending 31 December 2018. For hedge accounting, the Group will apply this standard prospectively. The application of the new standard will have a limited impact on the classification and measurement of the Group's financial instruments and it is expected that the hedging relationships that would be existing at the date of initial application would be regarded as continuing hedging relationships.

The expected credit loss model for calculating impairment on financial assets is expected to have a minor impact on the Group's opening equity position and on the Group's results in the future as most of the impact on these balances would be accounted for as variable consideration under IFRS 15 since the Group's exposure to credit risk is rather limited in light of its customers profile.

- IFRS 15 (Standard) 'Revenue from Contracts with a Customer' effective for annual period beginning on or after 1 January 2018. The new standard replaces the current IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognizing, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognized based on a five-steps model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognized upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on the treatment of any costs to obtain and/or fulfill a contract that may be recognized as assets. The Group will adopt IFRS 15 with an effective date of 1 January 2018, using modified retrospective method and recognize the cumulative effect of the initial application of the standard as an adjustment to the opening balance of retained earnings on the effective date. IFRS 15 revenue recognition policies has been finalized by the Group.

The following differences have been noted between the current accounting standard and IFRS 15:

- Subscription software contracts are currently recognized rateably over the life of the contract. Following adoption of IFRS 15, the Group will separate out the revenue due under licensing performance obligations and the revenue due under maintenance service obligations. The revenue due under licensing performance obligations will be recognized at the point control of the software is given to the client. The revenue due under maintenance service obligations will be recognized rateably over the life of the contract. This will lead to an acceleration of revenue recognized in connection with the licensed software performance obligations.
- Non-generic development fees are currently recognized on a percentage of completion basis as noted in our current policies. IFRS 15 requires that licensing revenue be recognized upon delivery of the software, with any costs incurred to fulfill the contract to be deferred until such milestone is reached. This may result in some deferral of development revenue recognition and associated cost.
- In certain circumstances IFRS 15 requires that the cost of acquiring a contract be capitalized. On certain contracts and commission plans this could lead to additional cost capitalization
- Under current accounting practice, the Group would consider all amounts in a contract that are contractually fixed when making the initial revenue recognition assessment. IFRS 15 requires the assessment of potential variable consideration from the outset, which could include such items as right of refund, credits, price concessions, performance bonuses and penalties. This may result in some deferral of revenue recognition.
- Further to the points above, the Group has identified a small number of contracts with customers that contain options which under IFRS 15 would be seen as a material right that at the closing balance sheet date of 31 December 2017 have not been exercised or lapsed. This may result in some deferral of revenue recognition.

Whilst the above items will result in changes to the classification and timings of the revenues, the Group does not expect a material impact at the net earnings level. The Group estimates an reduction on net earnings after tax of less than USD 5 million as an adjustment to opening balance of retained earnings.

- IFRS 16 (standard) 'Leases', effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. This new standard supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The Group will adopt standard per its effective date of 1 January 2019, using modified retrospective approach. The Group has identified all the leases that are currently in use and majority of these leases are for office rentals. The application of new standard will result in an increase in non-current assets and borrowings on the Consolidated Statement of Financial Position, however the impact on net assets will not be material. On the Consolidated statement of profit or loss the Group does not anticipate a significant impact on net earnings however, there will be a reallocation of its current operating lease expense between operating profit and financing expenses.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (new interpretation), effective for annual periods beginning on or after 1 January 2018. This Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. This interpretation is not expected to have an impact on the Group's financial statements since the Group already measures the derecognition of its related non-monetary asset or non-monetary liability in accordance with rules of this new interpretation. The Group will apply this interpretation for the financial reporting period commencing on 1 January 2018.
- IFRIC 23 – 'Uncertainty over Income tax Treatments' (new interpretation), effective for annual periods beginning on or after 1 January 2019. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Group does not expect this interpretation to have a significant impact on the Group financial statements. The Group will apply this interpretation for the financial reporting period commencing on 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

2. ACCOUNTING POLICIES CONTINUED

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Temenos Group AG ('the Company') as well as its subsidiaries.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date when control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. If the consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognized in profit or loss in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Changes in ownership interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.3 Foreign currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in US dollars, which is the Group's presentation currency and the currency in which the majority of the Group's transactions are denominated. The Company's functional currency is Swiss francs.

Transactions in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The financial statements of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) with a different functional currency than the presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate at the date of the reporting period;
- Income and expenses for each statement presenting profit or loss and other comprehensive income are translated on a monthly basis at the average exchange rates of the month (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- Equity items are translated at the historical rates; and
- All resulting exchange differences are recognized in other comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in profit or loss as part of the gain or loss on sale.

Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are treated as a net investment in foreign operations (i.e. quasi-equity loans). The gains or losses recognized in the separate financial statements of the subsidiary are reclassified as cumulative translation adjustment to other comprehensive income in the Group's consolidated financial statements.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity. They are recognized in the functional currency of the acquired entity and translated to the presentation currency using the closing rate.

2.4 Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, the Group reports repayments and proceeds from borrowings on a net basis when it relates to short term roll-forward of the revolving credit facility with the same banks (note 18).

2.5 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, change of strategy and default or delinquency in payments are considered indicators that the trade receivable could be impaired. Given the complexity, the size and the length of certain implementation of service-related projects, a delay in the settlement of an open trade receivable does not constitute an objective evidence that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is either reduced through the use of an allowance account or directly written off when there is no expectation of future recovery. The impairment loss is recognized in profit or loss within 'Sales and marketing'. Subsequent recoveries are credited in the same account previously used to recognize the impairment charge.

Accrued income represents fees earned but not yet invoiced at the reporting date.

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

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows (in years):

Buildings	50
Furniture and fixtures	10
Office equipment	5
IT equipment*	4
Vehicles	4

* Computer software separately acquired is depreciated over the shorter of the license term and four years.

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

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

Repairs and maintenance are charged to profit or loss as incurred.

Gains or losses on disposals are determined by comparing the consideration received or receivable with the carrying amount and are recognized within 'General and administrative' in profit or loss unless otherwise specified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

2. ACCOUNTING POLICIES CONTINUED

2.7 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment. The carrying amount is allocated to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. CGU to which the goodwill is allocated represents the lowest level at which the goodwill is monitored for internal management purposes. The carrying value of the CGU is then compared to the higher of its fair value less costs of disposal and its value in use. Any impairment attributed to the goodwill is recognized immediately as an expense and is not subsequently reversed.

Computer software

Software licenses separately acquired are capitalized when the Group can demonstrate that:

- It controls the asset;
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
- The cost of the asset can be reliably measured.

The cost of the asset comprises its purchase price (including non-refundable purchase taxes) and any directly attributable cost of preparing the asset for its intended use. The cost of the asset is amortized using the straight-line method over its estimated useful life.

Software technologies acquired through business combinations are initially measured at fair value and then amortized using the straight line method over their estimated useful lives.

Customer related intangible asset

Customer related intangible assets are assets acquired through business combinations. They are initially measured at fair value and then amortized using the straight line method over their estimated useful lives. The assessment of useful life is set out at the time of acquisition, specific for each acquisition. Currently reported customer related intangible asset have useful life between 6 and 13 years.

Internally generated software development

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

The costs associated with the development of new or substantially improved products or modules are capitalized when the following criteria are met:

- Technical feasibility to complete the development;
- Management intent and ability to complete the product and use or sell it;
- The likelihood of success is probable;
- Availability of technical and financial resources to complete the development phase;
- Costs can be reliably measured; and
- Probable future economic benefits can be demonstrated.

Directly attributable development costs that are capitalized include the employee costs and an appropriate portion of relevant overheads. Directly attributable development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Development expenditures that are not directly attributable are recognized as an expense when incurred.

Internally generated software development costs are amortized using the straight-line method after the product is available for distribution. Development costs related to architecture developments are amortized over a five-year period and development costs related to functional developments are amortized over a three-year period.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group incurs withholding tax in various jurisdictions. An assessment is made to assess the ability to recover these withholding taxes against the normal tax liabilities occurring within the Group, and a provision is made to the extent that withholding tax is not recoverable.

2.10 Provisions

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

When the effect of the time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense within 'Finance costs'.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it.

A provision for onerous lease is recognized when the expected benefits to be derived from a lease are lower than the unavoidable costs of meeting the obligations under the contract.

2.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Effective interest costs are recognized within 'Finance costs' in profit or loss.

Fees directly attributable to the conclusion of 'bank facilities' are recognized as a prepayment for liquidity services that is subsequently amortized within 'Finance costs' over the life of the facilities.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

2. ACCOUNTING POLICIES CONTINUED

2.12 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased equipment or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities in the statement of financial position. The interest elements of the lease obligations are charged to profit or loss over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset (note 2.6) and the remaining lease term.

All other leases are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the lease term.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or other instruments are reported within share premium (note 23), net of tax, from the proceeds.

Where any subsidiary of the Group purchases the Company's shares (treasury shares), the consideration paid (including any directly attributable incremental costs) is presented as a deduction from equity. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is recognized as an increase in equity and the resulting gains or losses are presented within share premium (note 23).

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method.

The related interest expense is recognized in profit or loss within 'Finance costs'.

2.15 Employee share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the instrument granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the instruments are exercised, the Group issues new shares or re-issues treasury shares. The consideration received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium and capital reserves.

2.16 Employee benefits

Pension obligations

The Group operates various pension schemes including both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee's service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets. The defined benefit obligations are calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. For currencies where there is no deep market in such high quality corporate bonds, the market yields on government bonds that are consistent with the currency and the estimated terms of the post-employment benefit obligations shall be used.

When a surplus in a plan exists, the Group measures the net benefit asset at the lower of the surplus and the present value of the future economic benefits available to the Group in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in profit or loss.

For defined contribution plans, the relevant contributions are recognized as personnel costs when they are due. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some subsidiaries provide other post-retirement benefits to their retirees (e.g. gratuities). The entitlement of those benefits is usually conditional on the employee completing a specific length of service. The expected costs of these benefits are accrued over the period of employment using actuarial assumptions. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.17 Revenue recognition

The Group derives revenues from the following sources: (1) software licenses, software development services and hosting arrangements; (2) software maintenance (help desk services and rights to future product enhancements); and (3) software implementation and support services.

The Group recognizes revenues in accordance with IAS 18 'Revenue'. This requires the exercise of judgment and the use of estimates in connection with the determination of the amount of revenue to be recognized in each accounting period. In exercising such judgment, the Group draws upon guidance from specific software industry revenue recognition practices which comply with IAS 18 'Revenue'.

Revenues are recognized net of any tax collected on behalf of local tax authorities.

Software license

Software license revenues represent all fees earned from granting customers licenses to use the Group's software, either through an initial license or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software license arrangements that do not require significant modification or customization of the underlying software, revenue is recognized when the following criteria are met:

- Evidence of an arrangement exists;
- Delivery has occurred;
- The risks and rewards of ownership have been transferred to the customer;
- The amount of revenue can be reliably measured and is not subject to future adjustments (i.e. fixed and determinable);
- The associated costs can be reliably measured; and
- Collection is probable.

Unless collection is deemed virtually certain, license revenue due after 12 months is deferred until 1) the collection becomes due within 12 months, 2) there were no delinquency in prior payments, and 3) the remaining balance is free from any uncertainties and future adjustments.

Sale of software license to a customer which is not the end-user (i.e. reseller arrangement) is recognized when evidence of sell-through exists or when the Group has received non-refundable consideration.

Sale of software license that are on a subscription basis combined with the maintenance services, so that effectively a service over time is provided, are accounted for under 'Software-as-a-Service'. This is regardless of whether the software is taken on premise or hosted in the cloud.

Software development services revenue represents fees charged to clients for developing requested additional functionality. Generic developments relating to country-specific requirements or functionalities that are re-usable in future sales but not yet readily available at the time of the sale are deferred and recognized upon delivery. Non-generic development fees are recognized on a percentage-of-completion basis over the period when the service is performed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

2. ACCOUNTING POLICIES CONTINUED

2.17 Revenue recognition continued

SaaS & subscription

Revenue from 'Software-as-a Service' relates to hosting arrangements that provide the customer with the right to use Temenos' products over a certain period time. Fees for the ongoing hosting service are recognized either on a usage basis (if this can be reliably measured) or over the contractual term of the arrangement. Non-refundable one-time upfront fees consisting of standardization set-up, initiation or activation services are recognized over the term of the arrangement unless related costs can be reliably measured and revenue can be separately determined based on market pricing for the same obligation. Other professional services such as consulting or training constitute separate obligation and are recognized when revenue recognition criteria for services, as described below, are met.

The revenue from subscription arrangements where a client will pay periodic fees to keep the license active is recorded under 'SaaS & subscription'.

Hosting arrangements and subscription arrangements entitles the client to corrective maintenance and product updates without additional charge. The updates include improvements to the existing software product that is licensed but does not include new products.

Maintenance

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

Services

Software implementation and support services represents income from consulting, training and implementation services sold separately under services contracts. Fixed-price arrangements are accounted for on a percentage-of-completion basis in accordance with the rules applicable to long term contract revenue recognition as defined in IAS 11 'Construction Contracts', whereby revenue recognized during the period represents the man-days effort incurred up to the end of the reporting period as a percentage of the total estimated man-days to complete. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue due to changes in estimates are accounted for in the period in which the change in estimates occurs. Fees relating to time and material contracts are recognized when man-days efforts are provided and collection is deemed probable.

Multiple element arrangements

In many cases, the Group enters into transactions with customers that include multiple elements such as software license, maintenance, development services and services revenues. The revenues from these arrangements are generally accounted for separately. The factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e. whether they are essential to the functionality of the software license), the existence of the fair value for the separable elements (i.e. availability of services from other vendors), the timing of payments and the acceptance criteria on the realizability of the software license fee.

Revenue from multiple-element arrangements is allocated to the different elements based on their fair value. Fair value for professional service and software development service is determined by market pricing for equivalent performance obligation sold separately or the 'cost-approach plus reasonable margin' methodology when market data does not exist. When revenue is objectively determined for all undelivered elements with the exception of one delivered element, the residual method is used to allocate revenue to the delivered element. Revenue for delivered elements is recognized when the revenue recognition criteria described above are met and revenue is free from any future uncertainties or adjustments attributable to the undelivered elements from which a portion of the fees have been allocated. Revenue for any undelivered elements is deferred and recognized when the product is delivered or over the period in which the service is performed.

When the hosting arrangement is combined with a license sale of the software, the license revenue is recognized according to the revenue criteria above when, and only when, the customer can take possession of the product without significant penalties. Otherwise, license revenue is recognized on the same terms of the related hosting arrangement.

Fees collected in advance are reported within 'deferred revenues' and then subsequently recognized as revenue when the performance obligation starts. Fees that have been earned but not yet invoiced are reported under 'trade and other receivables'.

2.18 Earnings per share

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 year.

Diluted earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company, adjusted for the effect that would result from the conversion of dilutive ordinary shares, by the weighted average number of ordinary shares plus the weighted average of number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer (CEO).

2.20 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Regular purchases and sales of financial assets are recognized on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are initially recognized at fair value plus, in the case of financial assets not subsequently reported at fair value through profit or loss, transactions costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are financial asset held for trading. A financial assets is classified in this category if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Finance costs-net'.

FVTPL financial assets are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents (notes 2.4 and 2.5).

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method, except for the current portion where the recognition of interest would be immaterial.

The effective interest income is recognized in profit or loss within 'Finance costs – net'.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and allocating the interest income or expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Available-for-sale financial assets (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Available-for-sale financial assets are initially recognized at fair value and transaction costs are expensed in profit or loss. They are subsequently measured at fair value and the resulting gains or losses are recognized in other comprehensive income.

Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted.

Objective evidence could include, amongst others:

- Significant financial difficulty of the counterparty;
- Financial reorganization or change in strategy;
- Default or delinquency in payments;
- It becomes probable that the counterparty will enter bankruptcy.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets carried at amortized costs with the exception of trade receivables, where the carrying amount may be reduced through the use of an allowance account (note 2.5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

2. ACCOUNTING POLICIES CONTINUED

2.21 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost.

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities measured at amortized costs, net of directly attributable costs.

Subsequent measurement

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and contingent consideration incurred in a business combination. A financial liability is classified as held for trading if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Finance costs – net'.

FVTPL financial liabilities are classified as current liabilities.

Financial liabilities measured at amortized costs

Financial liabilities measured at amortized costs are initially recognized at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method. The resulting discounted interest charge is recognized in profit or loss within 'Finance costs'.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or expired.

2.22 Accounting for derivative financial instruments and hedging activities

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

The Group designates derivatives as either:

- (a) Held for trading; or
- (b) Used for hedging.

Derivatives held for trading

While providing effective economic hedges under the Group's risk management policies, these derivatives are not designated as hedging instruments according to IAS 39 'Financial Instruments: Recognition and Measurement'. They are classified as held for trading and the changes in the fair value are immediately recognized within 'Finance costs – net'. Related cash-flows are reported as cash flows from investing activities.

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

Cash flow hedge

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

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in other comprehensive income remains in equity and is recycled to profit or loss when the hedge item is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognized immediately in profit or loss.

The fair values of derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve in shareholders' equity are shown in note 24.

Derivatives used for cash-flow hedge are classified as non-current assets or liabilities when they are expected to be settled more than 12 months after the reporting period.

The Group does not currently hold derivatives used for fair value hedge.

2.23 Fair value measurement

The Group measures certain financial instruments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market or the most advantageous market must be accessible to or by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Group's consolidated financial statements are categorized within the fair value hierarchy, as follows:

- 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.

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

For items categorized within level 3, the Group's finance team reviews and assesses on a regular basis but, in all cases, at each interim period the inputs and reports to the Chief Financial Officer (CFO) any changes that may have a significant effect on the reported fair value.

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

2.24 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Group:

- Currently has a legally enforceable right to set-off the financial assets and financial liabilities; and
- Intends either to settle on a net basis, or to realize the financial assets and settle the financial liabilities simultaneously.

A enforceable right to offset financial assets and financial liabilities must not be contingent on future event and must be currently legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

3. FINANCIAL INSTRUMENTS

3.1 Accounting classifications

The Group holds the following financial instruments to which the accounting policies according to IFRS 7 'Financial Instruments: Disclosures' applies:

	2017 USD 000	2016 USD 000
FINANCIAL ASSETS		
Fair value through profit or loss (FVTPL)		
Held for trading	2,464	1,859
Derivatives instruments used for hedging	1,664	2,097
Available-for-sale financial assets	–	64
Loans and receivables (including cash and cash equivalents)	418,877	426,484
Total	423,005	430,504

FINANCIAL LIABILITIES

Fair value through profit or loss (FVTPL)		
Held for trading	1,298	943
Contingent consideration	–	1,542
Derivatives instruments used for hedging	29,638	20,682
Financial liabilities measured at amortized cost	561,713	469,670
Total	592,649	492,837

3.2 Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the Chief Financial Officer (CFO). The CFO and his team identify, evaluate and mitigate financial risks when deemed necessary.

Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to those described below. Foreign exchange risk arises from:

- Forecasted revenues and costs denominated in a currency other than the entity's functional currency;
- Monetary assets and liabilities denominated in a currency other than the entity's functional currency; and
- Net investments in foreign operations.

The Group makes efforts to mitigate its foreign exchange risk by aligning the revenue streams to currencies that match the cost base. The Group's policy is to protect its profit or loss from the variability in cash flows that is attributable to the movement in foreign exchange rates associated with its future transactions occurring within the next 18 months as well as with its monetary assets and liabilities. The Group uses forward contracts and cross currency swaps as hedging instruments.

Forecasted transactions, which are designated in a cash flow hedge relationship, comprises of future revenue streams as well as future recurring operating costs such as personnel costs and office related costs. They are expected to occur each month during the hedging period. With the exception of future maintenance streams for which gains or losses affect profit or loss over the subsequent periods after the cash flows occur (straight line basis over the maintenance period), gains or losses are recognized during the same period when the related cash flows occur.

The Group applies the cash flow hedge relationship for its future forecasted transactions and for certain borrowings. There was no ineffectiveness recognized during the period (2016: USD nil).

Unless already designated in a cash flow hedge relationship, the Group does not apply the hedge accounting for the exposure arising from its monetary assets and liabilities since gains or losses arising from both the position being hedged and the related forward contracts are recognized within the same period and within the same line in profit or loss.

The Group does not follow a defined strategy to hedge the risk from the net investments in foreign operations.

The table below illustrates the Group's principal foreign currency exposures:

	Net exposure	
	2017 FCY* 000	2016 FCY* 000
EURO	284	(427)
UK Pounds	3,716	2,023
Swiss Francs	(390)	1,361
India rupee	(116,866)	1,976

* Foreign currency.

A negative value represents a liability exposure.

These exposures represent monetary assets and liabilities that are either:

- Denominated in one of the currencies above and measured in an entity with a different functional currency; or
- Denominated in another currency but measured in an entity whose functional currency is one of the above.

These amounts also include the derivatives classified as held for trading but exclude the derivatives and the underlined liabilities that are qualified for cash flow hedge accounting.

Sensitivity analysis

The following table represents the effect of a reasonable shift in the currencies above against the US dollars.

	2017			
	EURO USD 000	UK Pounds USD 000	Swiss Francs USD 000	India rupee USD 000
Sensitivity assumption	+10%	+10%	+10%	+10%
Profit or (loss)	34	501	(40)	(183)
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	(4,001)	1,471	1,352	1,793
Cash flow hedging related to recognized liabilities	1,278	–	1,551	–
	(2,723)	1,471	2,903	1,793
Equity	(2,689)	1,972	2,863	1,610
Sensitivity assumption	-10%	-10%	-10%	-10%
Profit or (loss)	(34)	(501)	40	183
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	4,001	(1,471)	(1,352)	(1,793)
Cash flow hedging related to recognized liabilities	(1,278)	–	(1,551)	–
	2,723	(1,471)	(2,903)	(1,793)
Equity	2,689	(1,972)	(2,863)	(1,610)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

	2016			
	EURO USD 000	UK Pounds USD 000	Swiss Francs USD 000	India rupee USD 000
Sensitivity assumption	+10%	+10%	+10%	+10%
Profit or (loss)	(43)	250	133	3
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	(2,223)	1,365	1,116	1,987
Cash flow hedging related to recognized liabilities	(1,017)	–	2,289	–
	(3,240)	1,365	3,405	1,987
Equity	(3,283)	1,615	3,538	1,990
Sensitivity assumption	-10%	-10%	-10%	-10%
Profit or (loss):	43	(250)	(133)	(3)
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	2,223	(1,365)	(1,116)	(1,987)
Cash flow hedging related to recognized liabilities	1,017	–	(2,289)	–
	3,240	(1,365)	(3,405)	(1,987)
Equity	3,283	(1,615)	(3,538)	(1,990)

Given the implied volatility for the above currencies, the sensitivity assumption represents management's assessment of reasonably possible changes in spot rates.

(ii) Price risk

The Group is not exposed to price risk arising from equity securities as it does not hold any longer equity securities (note 14).

(iii) Cash flow and fair value interest risk

The Group is exposed to cash flow interest rate risks arising from cash and cash equivalents and borrowings at variable rates.

The Group is not exposed to any profit or loss impact from its fixed rate borrowings since they are measured at amortized cost.

The primary objective of the Group's policy is to effectively manage its interest expenses for the current and future periods by minimizing the effect of the cash flow variability due to the change of interest rates. When the risk is deemed to be substantial, the Group may enter into derivatives to hedge it. The Group analyses its exposure on a dynamic basis taking into consideration all the current terms of the financial assets and liabilities at variable rates, the current market forecasts and management's assessment of reasonable possible change in the interest rates. Given that the reported borrowings are all at fixed rates and measured at amortized costs, the Group is not exposed to any profit or loss risk at the reporting periods.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The carrying amount of the financial assets, as reported in the section 3.1 above, represents the maximum credit exposure.

The Group's policy is to determine the creditworthiness of any new prospective or existing customer at the initial phase of the negotiation. Assessment of credit risk is mainly based on assessing the creditworthiness of customers through external ratings, sanction checks, and in the case of existing customers, our past experience.

Every credit check performed on prospective or existing customers at the initial phase of the negotiation goes through an approval process. The approved customer credit check is considered during the revenue recognition process once contracts signed.

Payment terms and requirement of financial security are adapted according to the degree of the credit quality and the past experience.

The Group's policy also requires to continuously assess the credit risk for customers with significant balances. At present, the Group does not hold any collateral security.

In cases when delinquency in payments occurs, the Group may withhold services delivery under current implementation or limit the right to use its software.

The Group mitigates the credit risk related to cash and cash equivalents and derivative financial instruments by conducting all the substantial transactions and by holding balances with major reputable financial institutions.

Credit risk related to derivative financial instruments is minimized through legally enforceable master netting agreements such as ISDAs or equivalent.

As at 31 December 2017 and 2016, there is no geographical concentration of credit risk as the Group's customer base is internationally dispersed and no individual customer represents more than 10% of the Group's outstanding 'trade and other receivables' balances.

The Group's management believes that no impairment allowance is necessary in respect of trade and other receivables not past due other than those already provided for.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its exposure to liquidity risk through short and long term forecasts and by seeking to align the maturity profiles of its financial assets with its financial liabilities. The Group's policy is to maintain the level of liquidity that meets the liabilities expected to be settled in the short or near term. Excess of liquidity is primarily used to repay any drawn borrowing facilities (note 18) and then invested in instruments, which meets the definition of cash equivalent, with maturities of three months or less.

The following table details the remaining contractual maturity of the Groups' non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2017					
Trade and other payables	110,102	11,138	–	–	–
Property provision	51	–	238	–	–
Borrowings	2,089	6,335	110,916	198,208	159,058
Total non-derivatives financial liabilities	112,242	17,473	111,154	198,208	159,058
	Less than 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2016					
Trade and other payables	88,125	9,341	1,667	–	–
Property provision	111	–	132	–	–
Borrowings	5,443	100,823	5,451	285,589	–
Total non-derivatives financial liabilities	93,679	110,164	7,250	285,589	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

The following table details the Group's liquidity analysis for its derivative financial liabilities. These amounts represent the contractual undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to quoted prices in active markets for identical instruments.

	Less than 3 months USD 000	Between 3 and 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2017						
Cross currency swaps	–	2,436	–	2,436	27,698	–
Outflow foreign exchange derivatives	70,935	17,514	16,122	4,228	–	–
Inflow foreign exchange derivatives	(69,307)	(16,860)	(15,300)	(4,095)	–	–
Net settled foreign exchange derivatives	110	–	–	–	–	–
Total derivatives	1,738	3,090	822	2,569	27,698	–

	Less than 3 months USD 000	Between 3 and 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2016						
Cross currency swaps	–	1,894	8,936	1,894	13,210	–
Outflow foreign exchange derivatives	63,535	7,355	10,935	2,167	–	–
Inflow foreign exchange derivatives	(62,148)	(6,775)	(9,945)	(2,108)	–	–
Net settled foreign exchange derivatives	317	–	–	–	–	–
Total derivatives	1,704	2,474	9,926	1,953	13,210	–

3.3 Capital risk management

The Group's principal objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group is also subject to financial covenants under its facility agreement. These covenants require the Group to remain within certain thresholds used for calculating financial ratios that are primarily based on financial indebtedness, EBITDA and interest expenses.

The capital structure of the Group consists of the net debt (note 12) and the capital and reserves attributable to equity holders of the parent.

The capital risk management policy remains unchanged from the previous period.

3.4 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.

Year ended 31 December 2017

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts (note 14)	–	2,464	–	2,464
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	1,664	–	1,664
Total	–	4,128	–	4,128

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL				
Forward foreign exchange contracts (note 14)	–	1,298	–	1,298
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	2,017	–	2,017
Cross currency swaps (note 14)	–	27,621	–	27,621
Total	–	30,936	–	30,936

Year ended 31 December 2016

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts (note 14)	–	1,859	–	1,859
Equity securities (note 14)	64	–	–	64
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	2,097	–	2,097
Total	64	3,956	–	4,020

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL (re-presented)				
Forward foreign exchange contracts (note 14)	–	943	–	943
Contingent consideration (note 17)	–	–	1,542	1,542
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	2,363	–	2,363
Cross currency swap (note 14)	–	18,319	–	18,319
Total	–	21,625	1,542	23,167

There were no transfers between Level 1 and 2 in the current and prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.4 Fair value measurement continued

Assets and liabilities in level 2

Forward foreign exchange contracts:

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

Cross currency swaps:

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

There were no changes in valuation techniques during the period.

Assets and liabilities in level 3

Contingent consideration:

At 31 December 2016, the fair value represented the present value of the expected payments discounted at a risk-adjusted rate of 7.4%. The expected payments were determined by considering the underlined target revenue from the most recent financial budget approved by the management. A risk premium attributable to likelihood of the realization of the financial target was embedded into the discount rate.

Reconciliation from the opening balances to the closing balances:

	2017 USD 000	2016 USD 000
AT 1 JANUARY	1,542	4,640
Acquisition of business	–	–
Settlement	–	(1,667)
Amount reversed within 'Cost of Sales'	(1,598)	(1,667)
Earn out true-up to 'Cost of Sales'	31	145
Unwinding of discount to 'Finance costs' (note 10)	25	91
AT 31 DECEMBER	–	1,542
Loss attributable to the liability held at the end of the period		
Loss included in 'Cost of sales'	–	7
Loss included in 'Finance costs'	–	2
	–	9

The Group reversed the last portion of the contingent consideration related to the acquisition of Akcelerator Software LLC for the period covering the financial year ending 31 December 2017 as the annual target under the terms of the Sale and Purchase agreement was not achieved.

3.5 Offsetting financial assets and financial liabilities

Derivatives transactions entered into by the Group are governed by ISDAs or equivalent. Such agreements permit the Group for net settlement with the same counterparty in the normal course of business and, also, give the right to set-off exposure with the same counterparty in the event of default, insolvency or bankruptcy of either the entity or the counterparty.

The Group concluded a set-off agreement with one of its Partners in the current year. Under the terms of the agreement, the amounts payable are offset against receivable and the net amounts are settled between the parties.

Year ended 31 December 2017

	Gross amount USD 000	Amount set-off USD 000	Amount reported USD 000	Amount not set off USD 000	Net amount USD 000
Financial assets					
Trade receivables (note 13)	85,929	(1,450)	84,479	–	84,479
Derivatives financial assets (note 14)	4,128	–	4,128	(2,146)	1,982
Total	90,057	(1,450)	88,607	(2,146)	86,461
Financial liabilities					
Trade payables (note 17)	26,362	(1,450)	24,912	–	24,912
Derivatives financial liabilities (note 14)	30,936	–	30,936	(2,146)	28,790
Total	57,298	(1,450)	55,848	(2,146)	53,702

Year ended 31 December 2016

	Gross amount USD 000	Amount set-off USD 000	Amount reported USD 000	Amount not set off USD 000	Net amount USD 000
Financial assets					
Trade receivables (note 13)	78,397	(2,202)	76,195	–	76,195
Derivatives financial assets (note 14)	3,956	–	3,956	(2,102)	1,854
Total	82,353	(2,202)	80,151	(2,102)	78,049
Financial liabilities					
Trade payables (note 17)	28,914	(2,202)	26,712	–	26,712
Derivatives financial liabilities (note 14)	21,625	–	21,625	(2,102)	19,523
Total	50,539	(2,202)	48,337	(2,102)	46,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates and assumptions

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 16).

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

At 31 December 2017 the carrying amount of the goodwill amounts to USD 521.7 million (2016: USD 440.1 million).

Deferred income taxes

The Group recognizes deferred tax assets on carried forward losses and other temporary differences. The amount recognized is based on management's estimates and assumptions with regards to the availability of future taxable profits at the subsidiaries where the carried forward losses or temporary differences exist.

At 31 December 2017 the carrying amount of the deferred tax asset amounts to USD 21.9 million (2016: USD 19.0 million).

Critical judgments in applying the Group's accounting policies

Revenue recognition

As detailed in note 2.17, the Group is required to make an assessment for each new software license contract as to whether the underlying software requires significant modification or customization by the Group in order to meet the customer's requirements. If significant modification or customization is required, then the license fee is recognized based on percentage-of-completion. However, the majority of such modifications or customizations have not been deemed significant in current or prior periods.

The Group also exercises judgment in assessing uncertainties surrounding the probability of collection when payment terms are linked to service implementation milestones or other various contingencies exist. These assessments are made at the outset of the contract.

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

Internally generated software development

As detailed in note 2.7, the Group is required to make an assessment for each ongoing project in order to determine at what stage a project meets the criteria outlined in the Group's accounting policies. Such assessment may, in certain circumstances, require significant judgment. In making this judgment, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to reliably measure the expenditure attributable to the project. The total development expenses for the period was USD 203.2 million (2016: USD 178.7 million) and the total capitalized development costs was USD 50.5 million (2016: USD 45.6 million).

5. GROUP COMPANIES

The consolidated financial statements include the accounts of Temenos Group AG and the following entities as of 31 December 2017:

Company name	Country of incorporation	2017 Ownership interest	2016 Ownership interest
AMEE EASY SOFTWARE SOLUTIONS PTY LIMITED*	Australia	100%	0%
AMEE IP HOLDINGS PTY LIMITED*	Australia	100%	0%
INFINITIVE PTY LIMITED*	Australia	100%	0%
PROVISIO TECHNOLOGIES PTY LIMITED*	Australia	100%	0%
RUBIK ESOP TRUSCO PTY LIMITED*	Australia	100%	0%
RUBIK FINANCIAL TECHNOLOGY PTY LIMITED*	Australia	100%	0%
RUBIK IP HOLDINGS PTY LIMITED*	Australia	100%	0%
RUBIK MORTGAGES PTY LIMITED*	Australia	100%	0%

Company name	Country of incorporation	2017 Ownership interest	2016 Ownership interest
STARGATE INFORMATION SYSTEMS PTY LIMITED*	Australia	100%	0%
SWIFT EL-TEN SERVICES PTY LIMITED*	Australia	100%	0%
TEMENOS AUSTRALIA PTY LIMITED	Australia	100%	100%
TEMENOS AUSTRALIA FINANCIAL PTY LIMITED*	Australia	100%	0%
TEMENOS AUSTRALIA MESSAGING PTY LIMITED*	Australia	100%	0%
TEMENOS AUSTRALIA OPERATIONS PTY LIMITED*	Australia	100%	0%
TEMENOS AUSTRALIA SERVICES PTY LIMITED*	Australia	100%	0%
TEMENOS AUSTRALIA TECHNOLOGY SOLUTIONS PTY LIMITED*	Australia	100%	0%
TEMENOS SOLUTIONS AUSTRALIA PTY LIMITED*	Australia	100%	0%
TEMENOS OSTERREICH GMBH****	Austria	0%	100%
TEMENOS BELGIUM SA	Belgium	100%	100%
ODYSSEY FINANCIAL TECHNOLOGIES S.A.	Belgium	100%	100%
TEMENOS SOFTWARE BRASIL LTDA	Brazil	100%	100%
TEMENOS HOLDINGS LIMITED	British Virgin Islands	100%	100%
TEMENOS BULGARIA EOOD	Bulgaria	100%	100%
TEMENOS CANADA INC.	Canada	100%	100%
TEMENOS SOFTWARE CANADA LIMITED**	Canada	0%	100%
IGEFI CANADA INC.	Canada	100%	100%
TEMENOS SOFTWARE (SHANGHAI) CO. LIMITED	China	100%	100%
TEMENOS COLOMBIA SAS	Colombia	100%	100%
TEMENOS COSTA RICA SA	Costa Rica	100%	100%
TEMENOS (RUSSIA) LIMITED	Cyprus	100%	100%
TEMENOS MIDDLE EAST LIMITED	Cyprus	100%	100%
TEMENOS DENMARK APS	Denmark	100%	100%
TEMENOS ECUADOR SA	Ecuador	100%	100%
TEMENOS EGYPT LLC	Egypt	100%	100%
TEMENOS FRANCE SAS	France	100%	100%
TEMENOS HOLDINGS FRANCE SAS	France	100%	100%
VIVEO GROUP SAS	France	100%	100%
VIVEO FRANCE SAS	France	100%	100%
IGEFI FRANCE SARL	France	100%	100%
ODYSSEY FINANCIAL TECHNOLOGIES GMBH	Germany	100%	100%
TEMENOS DEUTSCHLAND GMBH	Germany	100%	100%
IGEFI DEUTSCHLAND GMBH	Germany	100%	100%
TEMENOS HELLAS SA	Greece	100%	100%
TEMENOS HONG KONG LIMITED	Hong Kong	100%	100%
IGEFI HONG KONG LIMITED	Hong Kong	100%	100%
TEMENOS INDIA PRIVATE LIMITED	India	100%	100%
FINANCIAL OBJECTS SOFTWARE (INDIA) PRIVATE LIMITED	India	100%	100%
IGEFI SOFTWARE INDIA PRIVATE LIMITED	India	100%	100%
TEMENOS SYSTEMS IRELAND LIMITED	Ireland	100%	100%
IGEFI IRELAND LIMITED	Ireland	100%	100%
TEMENOS ISRAEL LIMITED	Israel	100%	100%
TEMENOS JAPAN KK	Japan	100%	100%
TEMENOS KAZAKHSTAN LLP	Kazakhstan	100%	100%
TEMENOS EAST AFRICA LIMITED	Kenya	100%	100%
TEMENOS KOREA LIMITED	Korea	100%	100%
TEMENOS FINANCE LUXEMBOURG SARL	Luxembourg	100%	100%
TEMENOS LUXEMBOURG SA	Luxembourg	100%	100%
TEMENOS SOFTWARE LUXEMBOURG SA	Luxembourg	100%	100%
ODYSSEY GROUP S.A.	Luxembourg	100%	100%
IGEFI GROUP SARL	Luxembourg	100%	100%
TEMENOS (MALAYSIA) SDN BHD	Malaysia	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

5. GROUP COMPANIES CONTINUED

Company name	Country of incorporation	2017 Ownership interest	2016 Ownership interest
TEMENOS MEXICO SA DE CV	Mexico	100%	100%
TEMENOS NORTH AFRICA LLC	Morocco	100%	100%
TEMENOS (NL) BV	Netherlands	100%	100%
TEMENOS HOLLAND BV	Netherlands	100%	100%
TEMENOS INVESTMENTS BV	Netherlands	100%	100%
TEMENOS PANAMA S.A.	Panama	100%	100%
TEMENOS PHILIPPINES INC.	Philippines	100%	100%
TEMENOS POLSKA SP.Z.O.O	Poland	100%	100%
FINCH SOFTWARE LIMITED	Republic of Mauritius	100%	100%
TEMENOS ROMANIA SRL	Romania	100%	100%
TEMENOS SINGAPORE PTE LIMITED	Singapore	100%	100%
IGEFI SINGAPORE PTE LIMITED	Singapore	100%	100%
TEMENOS SINGAPORE FT PTE LIMITED*	Singapore	100%	0%
TEMENOS AFRICA (PTY) LIMITED	South Africa	100%	100%
DBS GLOBAL SOLUTIONS (PTY) LIMITED	South Africa	100%	100%
TEMENOS HISPANIA SL	Spain	100%	100%
TEMENOS HEADQUARTERS SA	Switzerland	100%	100%
IGEFI SA***	Switzerland	0%	100%
IGEFI LICENSING SARL***	Switzerland	0%	100%
TEMENOS (THAILAND) CO. LIMITED	Thailand	100%	100%
TEMENOS EURASIA BANKA YAZILIMLARI LTD SIRKETI	Turkey	100%	100%
TEMENOS USA, INC.	USA	100%	100%
TRINOVUS SYSTEMS LLC	USA	100%	100%
IGEFI US LLC	USA	100%	100%
TEMENOS UKRAINE LLC	Ukraine	100%	100%
TEMENOS UK LIMITED	United Kingdom	100%	100%
FE MOBILE LIMITED	United Kingdom	100%	100%
FINANCIAL OBJECTS LIMITED	United Kingdom	100%	100%
FINANCIAL OBJECTS (UK) LIMITED	United Kingdom	100%	100%
FINANCIAL OBJECTS INTERNATIONAL LIMITED	United Kingdom	100%	100%
WEALTH MANAGEMENT SYSTEMS LIMITED	United Kingdom	100%	100%
FAIRS LIMITED	United Kingdom	100%	100%
GENISYS TECHNOLOGY LIMITED	United Kingdom	100%	100%
IGEFI UK LIMITED	United Kingdom	100%	100%
LYDIAN ASSOCIATES LIMITED	United Kingdom	100%	100%
FINO SOFTWARE SERVICES LIMITED	United Kingdom	100%	100%
WEALTH MANAGEMENT SOFTWARE LIMITED	United Kingdom	100%	100%
ODYSSEY FINANCIAL TECHNOLOGIES PLC	United Kingdom	100%	100%
EDGE IPK LTD	United Kingdom	100%	100%
TEMENOS VIETNAM COMPANY LIMITED	Vietnam	100%	100%

In addition to the Group companies listed above, some Group subsidiaries maintain branches or representative offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); Riyadh (Saudi Arabia); Moscow (Russia); Prague (Czech Republic); Kiev (Ukraine); Taipei (Taiwan); Islamabad (Pakistan); Jakarta (Indonesia); New-York (USA); Tunis (Tunisia); Nantes (France); Hong Kong (Hong Kong); Helsinki (Finland); Colombo (Sri Lanka) and Renens (Switzerland).

* Companies acquired/set up as part of acquisition of business in 2017.

** Merger of company Temenos Software Canada Limited with Temenos Canada Inc in 2017.

*** Merger of companies IGEFI SA and IGEFI Licensing Sarl with Temenos Headquarters SA in 2017.

**** Liquidation of Temenos Osterreich GMBH in 2017.

Significant restrictions

Other than those described in note 12, there is no significant restriction on the Group's ability to access or use assets, and settle liabilities of the above entities.

6. BUSINESS COMBINATIONS

Prior year acquisitions

There was no acquisition in year ending 31 December 2016.

Current year acquisitions

Rubik Financial Limited

On 22 May 2017, the Group acquired 100% of the share capital of Rubik Financial Limited based in Australia.

Founded in 2007, Rubik is an Australia based software company providing banking, wealth management and mortgage broking solutions, primarily in Australia and also internationally across Asia and the Middle East. Rubik has more than 150 employees servicing 930 direct clients.

The combination of Rubik and Temenos creates a leader in the Australian market, enabling Temenos to benefit from increased scale and to accelerate growth across its key target segments. The Australian market represents a significant opportunity for Temenos, with spending on banking software forecast to grow at an 8% CAGR in the medium term and with the 4th largest investment market globally driven by the superannuation scheme.

The goodwill arising from the acquisition is mainly attributable to the cross-selling opportunities with the acquired customer base and the expansion of the Group's presence into the Australian market.

The goodwill recognized is not tax deductible for income tax purposes.

Fair value of the consideration transferred at acquisition date	USD 000
Cash consideration	52,645
	Total
Fair value of the identifiable assets acquired and liabilities assumed	USD 000
Cash and cash equivalents	2,865
Trade and other receivables	5,735
Property, plant and equipment (note 15)	480
Intangible assets (note 16)	34,531
Deferred tax asset (note 19)	4,162
Trade and other payables	(9,099)
Provision for other liabilities	(208)
Deferred tax liabilities (note 19)	(1,137)
Borrowings	(11,551)
Deferred revenues	(2,084)
Total	23,694
Goodwill (note 16)	28,951
Acquisition-related costs included in 'General and administrative' line in the statement of profit or loss	1,529
Net consideration paid in cash	52,645
Cash and cash equivalents acquired	(2,865)
Cash outflow on acquisition	49,780

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

The revenue and profit or loss contributed by the acquired business in the period between the date of acquisition and the reporting date are USD 18.3 million and USD 0.4 million loss, respectively. This information includes the amortization of the acquired intangible assets and the fair value adjustment of the acquired deferred income liability with the related tax effect.

Had the acquisition occurred on 1 January 2017, the Group's consolidated statement of profit or loss would have reported a pro-forma revenue of USD 747 million and a pro-forma profit of USD 136.1 million. These amounts reflect the adjustment of the acquired deferred income liability and the amortization of the acquired intangible assets with the related tax effect, assuming that the fair value adjustments applied from 1 January 2017.

The initial accounting has been provisionally completed at 31 December 2017. The Group does not expect any significant adjustments to the fair value of the net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

7. 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, developing and maintaining the Group's software solutions, including software development fees for requested functionality, as well as providing hosting and subscription arrangements. The 'Services' segment represents various implementation tasks such as consulting and training.

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

Assets attributed to the reporting segments represent the net trade receivables and the accrued income (note 13).

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

	Product		Services		Total	
	2017 USD 000	2016 USD 000	2017 USD 000	2016 USD 000	2017 USD 000	2016 USD 000
Revenues	590,882	506,569	145,784	128,526	736,666	635,095
Operating contribution	293,328	245,308	28,419	23,576	321,747	268,884
Total assets	151,562	137,394	89,013	84,210	240,575	221,604

All revenues are derived from external customers. The Group has a large number of customers and no individual customer contributed more than 10% of the total Group's revenue in the current and prior year.

The accounting policies applied to the reportable segments are the same as the Group's accounting policies described in note 2 with the exception of the fair value adjustment on deferred income liability acquired in business combination.

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

For goodwill impairment testing purposes, goodwill of USD 521.7 million was allocated to the segment products.

	2017 USD 000	2016 USD 000
Reconciliation to Group's consolidated financial statements		
Total operating contribution from the reportable segments	321,747	268,884
Fair value adjustment on acquired deferred income liability	(1,303)	(1,059)
Depreciation and amortization (note 8)	(85,007)	(76,074)
Unallocated expenses	(57,132)	(42,528)
Finance costs – net (note 10)	(17,357)	(17,116)
Profit before taxation	160,948	132,107

	2017 USD 000	2016 USD 000
Total assets		
Total assets allocated to the reportable segments	240,575	221,604
UNALLOCATED ITEMS:		
Other receivables	28,436	26,652
Cash and cash equivalents	167,855	194,340
Other financial assets	4,128	4,020
Property, plant and equipment	16,385	15,788
Intangible assets	795,961	690,097
Deferred tax assets	21,943	19,001
Total assets per the statement of financial position	1,275,283	1,171,502

Geographical information

	2017 USD 000
Revenues from external customers	
Switzerland (country of the Group's domiciliation)	30,883
United Kingdom	50,833
Luxembourg	51,908
United States of America	56,195
Denmark*	37,474
Ireland	36,660
TOTAL – MATERIAL COUNTRIES	263,953

Rest of Europe	144,597
Middle-East and Africa	107,907
Rest of Asia*	139,907
Rest of America*	78,999

TOTAL REVENUES	735,363
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* Singapore and Canada are not separately reported in the 2017 geographical information as the revenues from external customers attributed to it was not material. Denmark has been added to 2017 geographical information as the revenue from external customers is deemed material.

	2016 USD 000
Revenues from external customers	
Switzerland (country of the Group's domiciliation)	36,924
United Kingdom	40,319
Luxembourg	54,644
United States of America	37,549
Singapore	41,482
Ireland	33,658
Canada	33,504
TOTAL – MATERIAL COUNTRIES	278,080

Rest of Europe	163,574
Middle-East and Africa	97,288
Rest of Asia	68,665
Rest of America	26,429

TOTAL REVENUES	634,036
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Revenues are based on the location where the license and maintenance is sold or the service is provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

7. SEGMENT INFORMATION CONTINUED

	2017 USD 000
Non-current assets other than financial instruments and deferred tax assets	
Switzerland (country of the Group's domiciliation)	123,618
Luxembourg	358,389
United Kingdom	56,502
France	64,307
United States of America	69,635
Australia	65,236
Other countries	74,659
Total	812,346

	2016 USD 000
Switzerland (country of the Group's domiciliation)	110,644
Luxembourg	343,711
United Kingdom	52,227
France	56,533
United States of America	75,032
Other countries	67,738
Total	705,885

8. EXPENSES BY NATURE

	2017 USD 000	2016 USD 000
Third party licenses and commissions	18,503	14,227
Personnel costs and external consultants	409,540	356,002
Depreciation and amortization (notes 15 and 16)	85,007	76,074
Travel expenses	27,368	25,113
Rent and other occupancy costs	19,871	18,186
Marketing and other professional costs	17,992	14,958
Other costs	29,245	25,813
Capitalized development costs (note 16)	(50,468)	(45,560)
	557,058	484,813

9. EMPLOYEE BENEFIT EXPENSES

	2017 USD 000	2016 USD 000
Wages and salaries	253,068	214,775
Termination benefits	5,741	2,479
Social charges	50,901	44,266
Defined contribution pension costs	6,256	5,701
Defined benefit pension costs (note 21)	1,626	2,478
Cost of employee shares schemes (note 25)	32,661	24,813
	350,253	294,512

Included in the employee benefit expenses, is the remuneration of the key management personnel as illustrated below:

	2017 USD 000	2016 USD 000
Key management personnel of Temenos Group AG		
– Short-term cash compensation and benefits	6,426	5,655
– Post-employment benefits	138	142
– Share-based payment	15,623	14,400
	22,187	20,197

Non-Executive Directors

– Short-term benefits	788	662
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Remuneration of the Board of Directors and the Executive Committee in accordance with the Swiss Code of Obligations and the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies can be found in the Compensation report of the annual report.

10. FINANCE COSTS – NET

	2017 USD 000	2016 USD 000
Finance income:		
– Interest income on short term bank deposits and investments	1,738	132
– Interest income on non-current trade and other receivables	121	119
– Net gain on derivatives not designated as hedging instruments	–	6,988
Total finance income	1,859	7,239
Finance costs:		
– Interest expense on financial instruments measured at amortized costs	(12,887)	(13,005)
– Change in fair value of contingent consideration	(25)	(91)
– Other financing costs*	(3,811)	(4,016)
– Net loss on derivatives not designated as hedging instruments	(1,254)	–
– Foreign exchange loss, net	(1,239)	(7,243)
Total finance costs	(19,216)	(24,355)
Finance costs – net	(17,357)	(17,116)

* Other financing costs mainly comprise of transaction fees relating to the issuance of financing facilities, commitment fees attributable to the undrawn portion of banking facilities and fees related to guarantees in issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

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 year.

	2017	2016
Profit attributable to equity holders of the Company (USD 000)	138,406	115,834
Weighted average number of ordinary shares outstanding during the year (in thousands)	69,927	68,718
Basic earnings per share (USD per share)	1.98	1.69

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 financial statements, the Group has only one category with a potential dilutive effect: 'Instrument granted to employee under share based payment'.

For the period ended 31 December 2016 and 31 December 2017, this category was fully dilutive.

	2017	2016
Profit used to determine diluted earnings per share (USD 000)	138,406	115,834
Weighted average number of ordinary shares outstanding during the year (in thousands)	69,927	68,718
Adjustments for:		
– Share options and restricted shares (in thousands)	3,012	3,309
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	72,939	72,027
Diluted earnings per share (USD per share)	1.90	1.61

12. NET DEBT ANALYSIS

	2017 USD 000	2016 USD 000
Cash at bank and in hand	103,452	140,265
Short term deposits with banks	46,455	49,068
Other short term liquid investments	17,948	5,007
Cash and cash equivalents*	167,855	194,340
Borrowings – repayable within one year (including overdraft) (note 18)	(5,885)	(102,780)
Borrowings – repayable after one year (note 18)	(434,299)	(269,182)
Cross currency swaps – cash flow hedges (note 14)	(27,621)	(18,319)
Net Debt	(299,950)	(195,941)

* Included in the cash and cash equivalents is USD 6.3 million (2016: USD 10 million) that is held in jurisdiction where regulatory exchange controls exist and, therefore, are not available for general use by the Group outside of such jurisdiction at the reporting date.

	Changes in liabilities arising from financing activities				Total USD 000
	Cross currency swaps – Principal USD 000	Cross currency – Interest USD 000	Borrowings short term USD 000	Borrowings long term USD 000	
At 31 December 2016	(18,319)	(1,759)	(102,780)	(269,182)	(392,040)
Cash flows	(82)	3,561	125,719	(148,781)	(19,583)
Acquisition of business (note 6)	–	–	(11,551)	–	(11,551)
Fair value and foreign exchange movement	(9,220)	–	(7,923)	(15,902)	(33,045)
Other non-cash movements	–	(3,036)	(9,350)	(434)	(12,820)
At 31 December 2017	(27,621)	(1,234)	(5,885)	(434,299)	(469,039)

13. TRADE AND OTHER RECEIVABLES

	2017 USD 000	2016 USD 000
Trade receivables	93,498	86,425
Provision for impairment	(9,019)	(10,230)
Trade receivables – net	84,479	76,195
Accrued income	156,096	145,409
VAT and other taxation recoverable	8,649	7,490
Other receivables	4,610	4,510
Prepayments	15,177	14,652
Total trade and other receivables	269,011	248,256
Less non-current portion	(10,379)	(16,296)
Total current trade and other receivables	258,632	231,960

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. As the total carrying amount of the current portion of the trade and other receivables is due within the next 12 months after the reporting date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals to the contractual amount or the fair value initially recognized.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The credit quality of these receivables are periodically assessed by reference to external credit ratings (if available) or to historical information about their default rates. The Group does not hold any collateral as security.

Fair values of the trade and other receivables qualified as financial assets and measured at amortized cost

	Carrying amount		Fair value	
	2017 USD 000	2016 USD 000	2017 USD 000	2016 USD 000
Current trade and other receivables	240,643	215,848	240,643	215,848
Non-current trade and other receivables.	10,379	16,296	10,057	15,864
	251,022	232,144	250,700	231,712

The carrying amounts of the current trade and other receivables approximate their fair value. The fair value measurement of the non-current trade and other receivables is based on a discounted cash flow approach using a free-risk yield curve adjusted for credit risk and is within level 2 of the fair value hierarchy.

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31 December 2017 continued

13. TRADE AND OTHER RECEIVABLES CONTINUED

Aging of the net trade receivables past due but not impaired

	2017 USD 000	2016 USD 000
Past due less than 30 days	30,207	23,083
Past due 31-90 days	14,568	8,761
Past due 91-180 days	8,878	8,184
Past due 181-360 days	6,219	7,315
More than 360 days	9,149	10,804
	69,021	58,147

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation.

Movements in the provision for impairment

The allowance account is used for impairment of trade receivables. The other classes do not contain any impaired assets.

	2017 USD 000	2016 USD 000
At 1 January	10,230	23,552
Provision for impairment	3,064	2,803
Used amounts	(3,505)	(16,033)
Recoveries	(251)	(8)
Unused amounts	(529)	(119)
Exchange loss or (gain)	10	35
At 31 December	9,019	10,230

Management acknowledges that there is an inherent risk linked to the Group's trade receivables in respect of the complexity of the Group's business and the existence of mid to long projects.

Included in 'Sales and marketing', is USD 11.1 million (2016: USD 9.5 million) of impairment loss related to trade receivables. The Group has provided for the adverse probable outcome on a limited number of projects that are facing some implementation difficulties or funding issues.

14. OTHER FINANCIAL ASSETS AND LIABILITIES

	2017		2016	
	Assets USD 000	Liabilities USD 000	Assets USD 000	Liabilities USD 000
Forward foreign exchange contracts – cash flow hedges	1,664	2,017	2,097	2,363
Forward foreign exchange contracts – held for trading	2,464	1,298	1,859	943
Cross currency swaps – cash flow hedges	–	27,621	–	18,319
Available-for-sale investment	–	–	64	–
At 31 December	4,128	30,936	4,020	21,625
Reported as follows:				
Current	3,967	3,184	3,866	10,062
Non-current	161	27,752	154	11,563
At 31 December	4,128	30,936	4,020	21,625

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets as reported in the statement of financial position.

Available-for-sale investment financial assets reported in 2016 represented equity securities of a publicly listed company in Australia. These instruments were disposed of in 2017.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements USD 000	Vehicles USD 000	Fixtures fittings & equipment USD 000	Land and buildings USD 000	Total USD 000
Year ended 31 December 2017					
COST					
At 1 January 2017	14,266	471	45,337	2,524	62,598
Foreign currency exchange differences	497	20	2,199	133	2,849
Additions	1,035	42	4,706	–	5,783
Acquisition of business (note 6)	180	–	300	–	480
Retirements/Disposals	(893)	(18)	(4,503)	–	(5,414)
31 December 2017	15,085	515	48,039	2,657	66,296
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	11,857	320	34,260	373	46,810
Foreign currency exchange differences	339	10	1,627	22	1,998
Charge for the year	1,100	55	5,149	47	6,351
Retirements/Disposals	(803)	(11)	(4,434)	–	(5,248)
31 December 2017	12,493	374	36,602	442	49,911
NET BOOK VALUE					
31 December 2017	2,592	141	11,437	2,215	16,385
Year ended 31 December 2016					
COST					
At 1 January 2016	13,553	473	43,172	2,578	59,776
Foreign currency exchange differences	(572)	(6)	(1,697)	(54)	(2,329)
Additions	1,491	140	4,733	–	6,364
Retirements/Disposals	(206)	(136)	(871)	–	(1,213)
31 December 2016	14,266	471	45,337	2,524	62,598
DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	11,671	384	31,777	334	44,166
Foreign currency exchange differences	(490)	(4)	(1,333)	(7)	(1,834)
Charge for the year	857	56	4,568	46	5,527
Retirements/Disposals	(181)	(116)	(752)	–	(1,049)
31 December 2016	11,857	320	34,260	373	46,810
NET BOOK VALUE					
31 December 2016	2,409	151	11,077	2,151	15,788

Leased assets, where the Group is a lessee, mainly comprise of Information Technology (IT) hardware and some office equipment.

	Fixtures fittings & equipment USD 000
Net book value at 31 December 2017	–
Net book value at 31 December 2016	3

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

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31 December 2017 continued

16. INTANGIBLE ASSETS

	Internally generated software development costs USD 000	Goodwill USD 000	Computer software USD 000	Customer related USD 000	Total USD 000
Year ended 31 December 2017					
COST					
At 1 January 2017	375,059	440,066	150,906	127,900	1,093,931
Foreign currency exchange differences	9,846	52,654	13,349	14,318	90,167
Additions	50,468	–	3,018	–	53,486
Acquisition of business	–	28,951	18,850	15,681	63,482
Retirements/Disposals	–	–	(568)	–	(568)
31 December 2017	435,373	521,671	185,555	157,899	1,300,498
AMORTIZATION					
At 1 January 2017	244,934	–	93,669	65,231	403,834
Foreign currency exchange differences	6,750	–	7,805	8,005	22,560
Charge for the year	39,921	–	23,938	14,797	78,656
Retirements/Disposals	–	–	(513)	–	(513)
31 December 2017	291,605	–	124,899	88,033	504,537
NET BOOK VALUE					
31 December 2017	143,768	521,671	60,656	69,866	795,961
Year ended 31 December 2016					
COST					
At 1 January 2016	332,202	462,541	152,410	133,038	1,080,191
Foreign currency exchange differences	(2,703)	(22,475)	(4,865)	(5,138)	(35,181)
Additions	45,560	–	3,492	–	49,052
Acquisition of business	–	–	–	–	–
Retirements/Disposals	–	–	(131)	–	(131)
31 December 2016	375,059	440,066	150,906	127,900	1,093,931
AMORTIZATION					
At 1 January 2016	211,532	–	75,894	54,767	342,193
Foreign currency exchange differences	(1,691)	–	(3,418)	(3,666)	(8,775)
Charge for the year	35,093	–	21,324	14,130	70,547
Retirements/Disposals	–	–	(131)	–	(131)
31 December 2016	244,934	–	93,669	65,231	403,834
NET BOOK VALUE					
31 December 2016	130,125	440,066	57,237	62,669	690,097

Amortization charge of USD 74.9 million (2016: USD 66.8 million) is included in the 'Cost of sales' line; USD 0.3 million (2016: USD 0.4 million) in 'Sales and marketing' line; USD 1.3 million (2016: USD 1.5 million) in 'Other operating expenses' line and USD 2.2 million (2016: USD 1.8 million) in 'General and administrative' line.

Impairment tests for goodwill

Goodwill is allocated to the 'Product' reportable segment.

	2017			2016		
	Carrying amount USD 000	Growth rate %	Discount rate %	Carrying amount USD 000	Growth rate %	Discount rate %
'Product' segment	521,671	1	10.17	440,066	1	10.75
	521,671			440,066		

The recoverable amount of the cash-generating unit (CGU) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the most recent financial budget approved by the management covering a four-year period (2016: a four-year period) and then inflated over a perpetual period using the estimated growth rate assigned to the countries where the cash-generating unit operates. The growth rate does not exceed the long term average growth rate for the software industry in which the CGU performs its operations. The growth rate and the pre-tax discount rate used in the calculation are presented above.

Budgeted cash flow projections are determined based on the expectation of the future client signings of the Group's current pipeline. Budgeted gross margin is based on expectations of market development and efficiency leverage. Management believes that any reasonable change in 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.

The discount rate represents the Group's Weighted Average Cost of Capital adjusted for tax effect to determinate the pre-tax rate as required by IFRS.

17. TRADE AND OTHER PAYABLES

	2017 USD 000	2016 USD 000
Trade payables	24,912	26,712
Accrued expenses	86,228	61,423
Contingent consideration (note 3.4)	–	1,542
Other payables	13,512	15,194
Total trade and other payables	124,652	104,871
Less non-current portion	–	(1,542)
Total current trade and other payables	124,652	103,329

Except for contingent consideration, trade and other payables are initially recorded at fair value and subsequently measured at amortized cost. As the total carrying amount is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals to the contractual amount or the fair value initially recognized.

Contingent consideration reported in 2016 was initially and subsequently measured at fair value.

Fair values of the trade and other payables qualified as financial liabilities and measured at amortized cost

	Carrying amount		Fair value	
	2017 USD 000	2016 USD 000	2017 USD 000	2016 USD 000
Current trade and other payables	121,240	97,466	121,240	97,466
Non-current trade and other payables	–	–	–	–
	121,240	97,466	121,240	97,466

The carrying amounts of the current trade and other payables approximate their fair value. The fair value measurement of the non-current trade and other payables is based on a discounted cash flow approach using a free-risk yield curve adjusted for credit risk and is within level 2 of the fair value hierarchy.

The carrying amounts of the current trade and other payables measured at fair value as well as their level in the fair value hierarchy are disclosed in note 3.4.

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31 December 2017 continued

18. BORROWINGS

	2017 USD 000	2016 USD 000
CURRENT		
Other loans	58	33
Unsecured bonds	5,827	102,747
	5,885	102,780
NON-CURRENT		
Other loans	145	68
Unsecured bonds	434,154	269,114
	434,299	269,182
Total borrowings	440,184	371,962

Fair values of the borrowings

	Carrying amount		Fair value	
	2017 USD 000	2016 USD 000	2017 USD 000	2016 USD 000
Other loans	203	101	197	101
Unsecured bonds	439,981	371,861	449,149	373,320
	440,184	371,962	449,346	373,421

The fair value measurement of the non-current other loans is based on a discounted cash flow method using the LIBOR or Swaps curve adjusted for credit risk and is within level 2 of the fair value hierarchy. The fair value measurement of the bonds is derived from their quotation on the SIX Swiss Exchange and is within level 1 of the fair value hierarchy.

The carrying amounts of the borrowings are denominated in the following currencies:

	2017 USD 000	2016 USD 000
Swiss Francs	439,981	371,861
Other currencies	203	101
	440,184	371,962

Unsecured bonds

The Group holds the following unsecured bonds:

- CHF 100 million with a coupon of 2% paid annually on 31 January. The bond will mature on 31 January 2019 at par and was issued in 2014;
- CHF 175 million with a coupon of 2% paid annually on 17 June. The bond will mature on 17 June 2022 at par and was issued in 2015; and
- CHF 150 million with a coupon of 1.75% paid annually on 5 April. The bond will mature on 5 April 2024 at par and was issued in 2017.

Bank facilities

The Group holds a multicurrency revolving credit facility of USD 500 million. The pertinent details are as follows:

- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants;
- The facility terminates on 19 February 2021; and
- Commitment fees are due on the undrawn portion.

As at 31 December 2017, a total of nil (2016: nil) was drawn under this new agreement.

The facilities granted are subject to various financial covenants which have been adhered to during the reported periods.

19. TAXATION

Tax expense

	2017 USD 000	2016 USD 000
Current tax on profits for the year	24,469	22,800
Adjustments in respect of prior years	1,063	1,599
Total current tax	25,533	24,399
Deferred tax – origination and reversal of temporary differences	(2,990)	(8,126)
Total tax expense	22,542	16,273

Temenos Group AG is incorporated in Switzerland but the Group operates in various countries with various tax laws and rates. Consequently, the effective tax rate may vary from period to period to reflect the generation of taxable income in tax jurisdictions. A reconciliation between the reported income tax expense and the amount computed using a basic Swiss statutory corporate tax rate of 24.1% (2016: 24.1%), is as follows:

	2017 USD 000	2016 USD 000
Profit before tax	160,948	132,107
Tax at the domestic rate of 24.1%	38,789	31,839
Non-taxable income and expenses	(39,915)	(2,891)
Net deferred tax impact on utilization and recognition on losses	2,786	(3,665)
Tax adjustments related to prior periods	1,063	1,599
Reversal of deferred tax assets on intellectual property	56	739
Non-taxable consolidation adjustment on intellectual property amortization	(5,374)	(6,369)
Other movement on deferred tax assets and liabilities, including rate changes	(458)	1,168
Effects of different tax rates	17,926	(18,368)
Overseas withholding tax	4,249	7,497
Other tax and credits	3,420	4,724
Total tax expense	22,542	16,273

There is no income tax expense or tax credit arising relating to components of other comprehensive income (2016: USD nil) and no income tax charged or credited directly to equity (2016: USD nil).

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

	2017 USD 000	2016 USD 000
Deferred tax assets – to be recovered after more than 12 months	10,144	6,898
Deferred tax assets – to be recovered within 12 months	11,799	12,103
Deferred tax assets	21,943	19,001
Deferred tax liabilities – to be recovered after more than 12 months	(14,107)	(16,240)
Deferred tax liabilities – to be recovered within 12 months	(1,301)	(377)
Deferred tax liabilities	(15,408)	(16,617)
Net deferred tax assets/(liabilities)	6,535	2,384

An assessment of the realizability of deferred tax assets is made on a country by country basis, based on the weight of available evidence including factors such as recent earnings history and expected future taxable income. Deferred tax assets are recognized to the extent that realization of the related tax benefit through the future taxable profits is probable.

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19. TAXATION CONTINUED

The Group has not recognized deferred tax assets of USD 55,866 thousand (2016: USD 53,612 thousand) in respect of losses amounting to USD 457,686 thousand (2016: USD 246,060 thousand) that can be carried forward against future taxable income. Losses amounting to USD 209,631 thousand (2016: USD 118,851 thousand) will expire within the next five years, USD 54,417 thousand (2016: USD 22,425 thousand) will expire within five to ten years and USD 10,254 thousand (2016: USD 28,558 thousand) will expire within ten to 20 years. There are no unrecognized deferred tax liabilities.

The Group has recognized deferred tax assets of USD 204 thousand (2016: USD 260 thousand) in respect of temporary differences arising on an intra-group transfer of intellectual property.

The gross movement on the deferred income tax account is as follows:

	2017 USD 000	2016 USD 000
At 1 January	2,384	(5,874)
Income statement credit	2,990	8,126
Foreign currency exchange differences	(1,864)	132
Acquisition of business	3,025	–
At 31 December	6,535	2,384

The movement in deferred tax assets is as follows:

	Tax losses USD 000	Taxable intellectual property USD 000	Taxable goodwill USD 000	Other USD 000	Total USD 000
At 1 January 2016	15,757	1,032	518	–	17,307
Credited (charged) to the income statement	2,502	(739)	(109)	–	1,654
Foreign currency exchange differences	73	(33)	–	–	40
At 31 December 2016	18,332	260	409	–	19,001
Credited (charged) to the income statement	(1,295)	(56)	(121)	–	(1,472)
Acquisition of business	–	–	–	4,162	4,162
Foreign currency exchange differences	43	–	–	209	252
At 31 December 2017	17,080	204	288	4,371	21,943

The movement in deferred tax liabilities is as follows:

	Intangible fair value adjustment USD 000	Other USD 000	Total USD 000
At 1 January 2016	(23,181)	–	(23,181)
Credited to the income statement	6,826	(355)	6,471
Acquisition of subsidiaries	–	–	–
Foreign currency exchange differences	93	–	93
At 31 December 2016	(16,262)	(355)	(16,617)
Credited to the income statement	5,496	(1,034)	4,462
Acquisition of business	(1,137)	–	(1,137)
Foreign currency exchange differences	(2,064)	(52)	(2,116)
At 31 December 2017	(13,967)	(1,441)	(15,408)

20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal provision USD 000	Property provision USD 000	Termination benefits USD 000	Total USD 000
At 1 January 2017	461	243	364	1,068
Foreign currency exchange differences	54	22	61	137
Increase in provisions recognized in profit or loss	–	373	2,882	3,255
Acquisition of business	–	208	–	208
Used during the year	(56)	(541)	(657)	(1,254)
Unused amounts reversed during the year	(60)	(16)	(16)	(92)
31 December 2017	400	289	2,634	3,323

Reported as follows:

2017				
Current	400	51	2,634	3,085
Non-current	–	238	–	238
31 December 2017	400	289	2,634	3,323

2016				
Current	461	111	364	936
Non-current	–	132	–	132
31 December 2016	461	243	364	1,068

Legal provision

The amounts represent provisions for certain legal claims brought against the Group. The balance at 31 December 2017 is expected to be utilized in 2018. Management believes that the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2017.

Property provision

The amounts represent the net present value of the estimated future costs associated with onerous leases and dilapidations. Provision for onerous lease represents the lowest cost to exit the lease contract. Provision for dilapidations represents the estimated costs to be incurred at the date of exit.

The non-current portion has not been discounted as the effect of the time value was not material.

The non-current portion of USD 238 thousand relates to dilapidation costs that will be settled when the related leases are terminated which is not expected to occur within the next 12 months.

Termination benefits

The amounts represent the benefits payable for the period with no future economic benefits to the Group. The carrying amount is expected to be fully utilized in 2018.

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21. RETIREMENT BENEFIT OBLIGATIONS

The Group maintains defined contribution plans for its employees of which many are state-sponsored. The relevant contributions are charged to the statement of profit or loss when incurred. No assets or liabilities are recognized in the Group's statement of financial position in respect of such plans, apart from prepayments and accruals not settled at the reporting date.

In certain countries, the Group has a legal obligation to make one-time payments to employees reaching retirement age or departing. Such gratuities are based on the amount of the employees' final salary and their length of service. With the exception of India, these plans are unfunded. These plans are categorized as defined benefit plans.

The Swiss funded defined benefit pension plans represents the principal portion of the Group's defined benefit obligation at the reporting periods.

Pension plans in Switzerland

Swiss based plans entitle retired employees to receive either a capital or an annual pension payment. Final benefit is based on retirement savings accumulated over the working life period of the employees. The plans are administrated by separate funds that are legally separated from the entity. One plan is funded through institutional investments and one plan is funded by the conclusion of an insurance contract.

Swiss based pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), which stipulates that pension plans are to be managed by independent and legally autonomous units. Plan participants are insured against the financial consequences of old age, disability and death. The various insurance benefits are governed in regulations, with the LPP specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. In case the plan's statutory funding falls below a certain level, various measures can be taken such as the increase of the current contribution, lowering the interest rate on the retirement account balances or a reduction of the additional prospective benefits. The employer can also make additional restructuring contributions.

The Swiss based pension plans are administrated by a legal foundation under the supervision and management of one of the largest insurance company for pension plans based in Switzerland. The Board of Trustee is composed of equal numbers of employee and employer representatives. Its responsibilities are to set-out the strategy of the plans, approve the budget for the administrative expenses etc. Each individual plan is then governed by a sub-committee that is equally composed of representatives of employer and plan participant. The primary objective of this committee is to implement the investment strategy set out by the Board of Trustee. It mainly consists of determining the asset allocation, the investment structure and approving the delegation to an asset manager. The committee is also responsible for the appropriation of the prospective result within the framework set out by the LPP.

As all the plans within the Group are not exposed to materially different risks and as a significant portion of the Group's obligation is contributed by the Swiss plans, the management has decided not to present additional disaggregation of the disclosures presented below unless explicitly required by IAS 19 'Employee Benefits'.

The amounts recognized in the statement of financial position at 31 December are as follows:

	2017 USD 000	2016 USD 000
Present value of funded obligations	40,884	36,360
Fair value of plan assets	(36,942)	(29,965)
Deficit of funded plans	3,942	6,395
Present value of unfunded obligations	3,794	2,781
Net liability in the statement of financial position	7,736	9,176

The movement in the net defined benefit liability (asset) over the year is as follows:

	Present value of obligation USD 000	Fair value of plan assets USD 000	Total USD 000	Effect of asset ceiling USD 000	Total USD 000
BALANCE AT 1 JANUARY 2017	39,141	(29,965)	9,176	–	9,176
Current service costs	2,467	–	2,467	–	2,467
Past service costs	(1,162)	–	(1,162)	–	(1,162)
Other cost	102	18	120	–	120
Interest expense/(income)	537	(336)	201	–	201
	1,944	(318)	1,626	–	1,626
Remeasurements (included in OCI):					
– Return on plan assets, excluding interest income	–	(1,846)	(1,846)	–	(1,846)
– Actuarial loss (gain) from:					
– demographic assumptions	202	–	202	–	202
– financial assumptions	(310)	–	(310)	–	(310)
– experience adjustment	1,140	–	1,140	–	1,140
– Change in asset ceiling	–	–	–	–	–
	1,032	(1,846)	(814)	–	(814)
– Exchange differences	1,924	(1,470)	454	–	454
Contributions:					
– Employers	–	(2,706)	(2,706)	–	(2,706)
– Plan participants	862	(862)	–	–	–
Payment from/to plans:					
– Benefit paid	(225)	225	–	–	–
– Settlements	–	–	–	–	–
	2,561	(4,813)	(2,252)	–	(2,252)
BALANCE AT 31 DECEMBER 2017	44,678	(36,942)	7,736	–	7,736
BALANCE AT 1 JANUARY 2016	33,600	(25,711)	7,889	19	7,908
Current service costs	2,076	–	2,076	–	2,076
Settlements	117	–	117	–	117
Other cost	–	116	116	–	116
Interest expense/(income)	449	(280)	169	–	169
	2,642	(164)	2,478	–	2,478
Remeasurements (included in OCI):					
– Return on plan assets, excluding interest income	–	(522)	(522)	–	(522)
– Actuarial loss (gain) from:					
– demographic assumptions	311	–	311	–	311
– financial assumptions	157	–	157	–	157
– experience adjustment	1,998	–	1,998	–	1,998
– Change in asset ceiling	–	–	–	(19)	(19)
	2,466	(522)	1,944	(19)	1,925
– Exchange differences	(1,012)	803	(209)	–	(209)
Contributions:					
– Employers	–	(2,926)	(2,926)	–	(2,926)
– Plan participants	1,037	(1,037)	–	–	–
Payment from plans:					
– Benefit paid	531	(531)	–	–	–
– Settlements	(123)	123	–	–	–
	433	(3,568)	(3,135)	–	(3,135)
BALANCE AT 31 DECEMBER 2016	39,141	(29,965)	9,176	–	9,176

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

21. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The defined benefit obligation is calculated using the projected unit credit method. This reflects service rendered by employees to the date of valuation and incorporates actuarial assumptions primarily regarding discount rates used and projected rates of remuneration growth. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or government bonds in countries where there is not a deep market in corporate bonds.

Plan assets comprise

	2017	2016
Equity securities:		
– Quoted	18%	19%
– Unquoted	0%	0%
Fixed income securities:		
– Quoted	15%	13%
– Unquoted	0%	0%
Real estate	11%	12%
Insurance contracts	54%	53%
Other	2%	3%
	100%	100%

The committee of each plan annually performs an asset-liability assessment. The objective of such assessment is to select an appropriate asset allocation to match cash flows of the assets with the plan obligations while maximizing the return and minimizing the risk.

Actuarial assumptions

These defined benefit plans expose the Group to actuarial risks, such as currency risk, interest rate risk and market risk (investment risk).

Actuarial assumptions are based on the requirement set out by IAS 19 'Employee Benefits'. They are unbiased and mutually compatible estimates of variables that determine the ultimate cost of providing post-employment benefits. They are based on market expectations at the reporting date for the period over which the obligations are to be settled. They are set on an annual basis by independent actuaries.

Actuarial assumptions consist of demographic assumptions such as employee turnover, disability, mortality and financial assumptions such as interest rates, salary growth and consumer price inflation. The actuarial assumptions vary based upon local economic and social conditions.

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017	2016
Discount rate	1.46%	1.39%
Inflation	0.66%	0.67%
Future salary growth	2.36%	1.79%

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumption is:

	2017		
	Change in assumption	Increase USD 000	Decrease USD 000
Discount rate	50bps	(1,989)	2,136
Future salary growth	0.50%	558	(568)

	2016		
	Change in assumption	Increase USD 000	Decrease USD 000
Discount rate	50bps	(1,796)	1,964
Future salary growth	0.50%	575	(553)

The sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur since some of the assumptions are correlated. The sensitivity analysis have been calculated using the same methodology as applied when determining the pension liability in the statement of financial position.

Expected contributions to post-employment defined benefit plans for the year ending 31 December 2018 are USD 2,318 thousand.

At 31 December 2017, the weighted-average duration of the defined benefit obligation was 12 years (2016: 10 years).

22. SHARE CAPITAL

As at 31 December 2017, the issued shares of Temenos Group AG comprised 70,849,924 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 in the year ended 31 December 2017 are summarized below:

	Number
Total number of shares issued, as at 31 December 2016	69,621,124
Treasury shares	(1,133,853)
Total number of shares outstanding, as at 31 December 2016	68,487,271
Creation of new ordinary shares out of conditional capital for share-based payment transactions	1,228,800
Issuance of treasury shares for share-based payment transactions	1,012,266
Acquisition of treasury shares (share buy-back)	(1,653,929)
Total number of shares outstanding, as at 31 December 2017	69,074,408

As at 31 December 2017, the number of treasury shares held by the Group amounted to 1,775,516 (2016: 1,133,853).

Temenos Group AG also has conditional and authorized capital, comprising:

Authorized shares available until 10 May 2019	13,900,000
Conditional shares that may be issued on the exercise of share-based payment transactions	2,945,426
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

23. SHARE PREMIUM AND OTHER RESERVES

	Share premium USD 000	Employee share options reserve USD 000	Discount on shares issued to employees USD 000	Negative premium arising on creation of Temenos Group AG USD 000	Total USD 000
Balance at 1 January 2016	(23,783)	149,282	(205,559)	(68,456)	(148,516)
Cost of share options (note 25)	–	24,813	–	–	24,813
Exercise of share-based payment transactions	139,949	–	(170,253)	–	(30,304)
Costs associated with equity transactions	(242)	–	–	–	(242)
Balance at 31 December 2016	115,924	174,095	(375,812)	(68,456)	(154,249)
Cost of share options (note 25)	–	32,661	–	–	32,661
Exercise of share-based payment transactions	106,098	–	(170,593)	–	(64,495)
Costs associated with equity transactions	(204)	–	–	–	(204)
Balance at 31 December 2017	221,818	206,756	(546,405)	(68,456)	(186,287)

Share premium

The share premium primarily includes the following transactions:

- Premium on issuance of new shares at a price above the par value;
- The equity component determined at the issuance of the convertible bond in 2006 and the premium resulting from the early redemption occurred in 2010;
- Expenses associated with equity transactions; and
- Gains or losses on the sale, issuance or cancellation of treasury shares.

Share options reserve

As detailed in note 25, the Group has issued instruments to employees. The fair value of these instruments is charged to the statement of profit or loss over the period that the related service is received, with a corresponding credit made to the share options reserve.

Discount on shares issued to employees

As detailed in note 25, the Group has issued instruments to employees. When the instruments are exercised, the Group fulfills its obligations by issuing newly created shares out of conditional capital or by reissuing treasury shares purchased by the Group. To the extent that the consideration received by the group in respect of these shares issued or reissued are less than their fair value at the time of exercise, this amount is allocated to discount on shares issued to employees.

Negative premium arising on creation of Temenos Group AG

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

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

24. OTHER EQUITY

	Cumulative translation adjustment USD 000	Available- for-sale Investment USD 000	Fair value gains (losses) on qualifying cash flow hedges USD 000	Total USD 000
Balance at 1 January 2016	(108,630)	63	(1,517)	(110,084)
Currency translation differences	(17,173)	–	–	(17,173)
Transfer to profit or loss within 'Personnel costs'	–	–	1,521	1,521
Transfer to profit or loss within 'Software licensing revenue'	–	–	(1,089)	(1,089)
Transfer to deferred revenues	–	–	(1,020)	(1,020)
Transfer to finance costs	–	–	1,106	1,106
Net fair value gain	–	(45)	(4,384)	(4,429)
Balance at 31 December 2016	(125,803)	18	(5,383)	(131,168)
Currency translation differences	41,196	–	–	41,196
Transfer to profit or loss within 'Personnel costs'	–	–	(256)	(256)
Transfer to profit or loss within 'Software licensing revenue'	–	–	494	494
Transfer to deferred revenues	–	–	1,115	1,115
Transfer to finance costs	–	(18)	6,041	6,023
Net fair value loss	–	–	(10,745)	(10,745)
Balance at 31 December 2017	(84,607)	–	(8,734)	(93,341)

25. SHARE BASED PAYMENTS

Share options

Share options are granted to executive board members and selected employees. Share options are conditional on the employee completing a specified period of service (the vesting period). The vesting period for the unvested options is a minimum of three years and the options have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of the movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	3,000	\$31.94	30,215	\$25.08
Forfeited during the year	–	n/a	–	n/a
Exercised during the year	–	n/a	(27,215)	\$23.83
Outstanding at the end of the year	3,000	\$31.94	3,000	\$31.94

All of the outstanding options (2016: 3,000) were exercisable at the balance sheet date with a weighted average exercise price of USD 31.94 (2016: USD 31.94). No options were exercised during the year, the options exercised during 2016 had a weighted average share price at the time of exercise of USD 54.57.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

25. SHARE BASED PAYMENTS CONTINUED

Share appreciation rights

Share appreciation rights are granted to executive board members and selected employees. Share appreciation rights are conditional on the employee completing a specified period of service and are only exercisable if the Group achieves specified cumulative earnings per share targets. In case of over achievement of earnings per share targets, certain share appreciation right grants may be increased by a maximum of 40% of the original grant. The vesting period for the unvested share appreciation rights is a minimum of three years and the share appreciation rights have a maximum contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the share appreciation rights in cash.

A summary of the movements in the number of share appreciation rights outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Number of rights	Weighted average exercise price	Number of rights	Weighted average exercise price
Outstanding at the beginning of the year	8,480,851	\$32.84	11,248,918	\$23.20
Granted during the year	1,977,621	\$68.97	2,217,660	\$45.56
Forfeited during the year	(154,000)	\$42.31	(125,332)	\$31.59
Exercised during the year	(3,298,197)	(\$23.14)	(4,860,395)	\$16.15
Outstanding at the end of the year	7,006,275	\$46.89	8,480,851	\$32.84

431,144 of the outstanding share appreciation rights (2016: 2,224,091) were exercisable at the balance sheet date with a weighted average exercise price of USD 18.60 (2016: USD 16.19). In 2016, 1,801,203 were restricted for sale until 15 February 2017. The share appreciation rights exercised during the year had a weighted average share price at the time of exercise of USD 75.49 (2016: USD 48.78).

As described above, in case of over achievement of earnings per share targets, certain share appreciation right grants may be increased by a maximum of 40% of the original grant. There are no further share appreciation rights to be issued as a result of the application of the over achievement provisions from the 2015 grant (2016: nil). As at 31 December 2017 there are 4,327,760 remaining share appreciation rights (2016: 4,579,260) that may be subject to the over achievement provisions with a weighted average exercise price of USD 55.57 (2016: USD 40.38).

Share options and share appreciation rights outstanding at the end of the year have exercise prices and weighted average remaining contractual lives as follows:

2017		Remaining contractual life (years)
Exercise price (USD)	Number	
6.75-13.91	38,112	1.56
14.2-18.1	164,442	4.54
20.28-26.26	202,590	4.27
31.94-36.85	2,647,828	6.64
43.69-49.12	1,973,043	8.10
53.38-65.92	212,660	8.58
70.87-103.74	1,770,600	9.16
	7,009,275	

2016		Remaining contractual life (years)
Exercise price (USD)	Number	
7.30-10.91	54,430	2.11
13.70-14.75	1,480,795	5.80
15.21-18.65	190,434	3.09
20.83-26.26	498,432	5.57
31.94-36.85	4,021,100	7.69
43.69-49.12	2,013,000	9.13
53.38-57.07	201,660	9.63
63.10- 68.74	24,000	9.89
	8,483,851	

Fair value of stock options and share appreciation rights

The fair value of options and share appreciation rights granted during the period is determined using an 'Enhanced American Pricing Model'.

The weighted average fair value of options and share appreciation rights granted during the period was USD 15.99 (2016: USD 10.28). The significant inputs into the model were: weighted average share price at grant date of USD 68.96 (2016: USD 46.72), weighted average exercise price of USD 68.97 (2016: USD 45.56), standard deviation of expected share price returns of 30% (2016: 30.82%), weighted average option lives of 3.81 years (2016: 3.49 years), weighted average annual risk-free interest rate of 2% (2016: 0.98%) and weighted average expected dividend yield of 1% (2016: 1.17%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the relevant historical period.

Loyalty and Profit share plan shares

	2017 Number of shares	2016 Number of shares
Outstanding at the beginning of the year	–	168,798
Granted during the year	14,521	–
Forfeited during the year	–	(1,178)
Exercised during the year	–	(167,620)
Outstanding at the end of the year	14,521	–

Loyalty shares

Loyalty shares are conditional on the employee completing a specified period of service. The vesting period is three years and there is no maximum contractual term. The Group has no legal or constructive obligation to repurchase or settle the Loyalty shares in cash. No loyalty shares were granted in 2017 nor 2016. There are no outstanding loyalty share as at 31 December 2017 nor at 31 December 2016. Loyalty shares outstanding at the beginning of 2016 were all exercised in 2016.

Profit share plan

For the year ended 31 December 2017 the short term incentive plan in place for the senior management with specific bonus targets were offered a choice of receiving the final bonus in cash or 50% in cash and 50% in deferred shares (with 20% uplift). 14,521 deferred shares were committed under this scheme. Other Senior staff who fall under the Employee Short term variable plan will be paid 50% of their bonus (due in 2017) in cash and 50% in shares with 20% uplift.

Expense

The total expense recorded in the income statement in respect of employee share options, share appreciation rights, performance and loyalty shares and the profit share plan is USD 32,661 thousand (2016: USD 24,813 thousand).

26. DIVIDEND PER SHARE

Dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of the Shareholders. The dividend proposed for the 2017 financial year is amounting to CHF 45 million (CHF 0.65 per share) and it is not yet recorded as a liability. This amount may vary depending on the number of shares outstanding as of the ex-dividend date.

The dividend paid in 2017 related to 2016 financial year amounted to CHF 38.8 million (CHF 0.55 per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

27. COMMITMENTS AND CONTINGENCIES

The Group has obligations under operating leases relating to office premises and leased equipment. The leases have varying terms, escalation clauses and renewal rights.

Payments recognized as an expense are as follows:

	2017 USD 000	2016 USD 000
Lease expense	16,697	16,292
Sub-lease income	(1,519)	(1,753)
	15,178	14,539

The future aggregate minimum lease and sub-lease payments under non-cancelable operating leases are as follows:

	2017 USD 000	2016 USD 000
No later than 1 year	15,299	13,574
Later than 1 year and no later than 5 years	33,568	28,759
Later than 5 years	6,791	6,196
Total	55,657	48,529

The Group's principal contingent liabilities arise from property rental guarantees, performance guarantees and bid bonds issued in the normal course of business. The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with personnel litigation, tax claims and contractual disputes.

As at 31 December 2017, the guarantees in issue were USD 11.4 million (2016: USD 9.8 million).

Although an estimate of the future financial effects cannot be reliably and precisely estimated at the reporting date, it is not anticipated that any material liabilities will arise from these contingent liabilities other than those provided for in note 20.

28. RELATED PARTY TRANSACTIONS AND BALANCES

Remuneration of Executive and Non-Executive Directors is described in note 9. Equity compensation for Executive and Non-Executive Directors granted in the form of options, SARs and shares is described in note 25.

There were no other significant transactions with related parties during the year ended 31 December 2017.

29. EVENTS AFTER THE REPORTING PERIOD

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

REPORT OF THE STATUTORY AUDITORS ON THE UNCONSOLIDATED FINANCIAL STATEMENTS

Report of the statutory auditor to the General Meeting of TEMENOS Group AG, Geneva

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of TEMENOS Group AG, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgments were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below.

These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 7,000,000
How we determined it	0.5% of total assets, rounded
Rationale for the materiality benchmark applied	We chose total assets as a benchmark to determine the overall materiality as we consider total assets to be the most appropriate measure for a holding company and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 350,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE STATUTORY AUDITORS ON THE UNCONSOLIDATED FINANCIAL STATEMENTS

continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Guillaume Nayet
Audit expert
Auditor in charge

Yazen Jamjum

Geneva, 16 February 2018

UNCONSOLIDATED BALANCE SHEET

As at 31 December

	2017 CHF 000	2016 CHF 000
ASSETS		
CURRENT ASSETS		
Liquid funds	535	6,893
Receivables from other group entities	104,555	172,844
Prepayments	309	406
Total current assets	105,398	180,143
NON-CURRENT ASSETS		
Long-term receivables from other group entities	170,676	270,676
Investments in subsidiaries (note 2)	1,134,683	858,304
Total non-current assets	1,305,359	1,128,980
Total assets	1,410,757	1,309,123
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	388	432
Payables to other group entities	412	4,229
Short-term interest-bearing liabilities (note 7)	5,689	104,750
Other liabilities	541	738
Tax payable	849	3,191
Deferred unrealized exchange gain	552	1,579
Total current liabilities	8,432	114,919
NON-CURRENT LIABILITIES		
Long-term interest-bearing liabilities (note 7)	423,883	274,362
Long-term interest-bearing payables to other group entities	154,100	154,100
Total non-current liabilities	577,983	428,462
SHAREHOLDERS' EQUITY		
Share capital (note 3)	354,250	348,106
Ordinary legal reserve (note 4)	11,749	11,353
Share premium (note 4)	70,850	132,349
General reserve from capital contributions (note 4)	150,842	189,622
Reserve for treasury shares from share premium (note 4)	149,449	–
Reserve for treasury shares (note 4)	46,275	65,330
Retained earnings (note 4)	40,927	18,982
Treasury shares (note 5)	–	–
Total shareholders' equity	824,343	765,742
Total shareholders' equity and liabilities	1,410,757	1,309,123

UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	2017 CHF 000	2016 CHF 000
Income from investments in subsidiaries (note 8)	12,000	15,000
Financial (expense)/income	(5,446)	(3,397)
Expenses associated with the maintenance of the Register of Shareholders and other expenses	(2,688)	(3,017)
PROFIT BEFORE TAXATION	3,867	8,586
Taxation	(580)	(660)
PROFIT OF THE YEAR	3,286	7,926

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Temenos Group AG ('the Company') was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of Temenos Group AG have been publicly traded on the SIX Swiss Exchange.

Temenos Group AG is the ultimate holding Company of the Group and is not otherwise engaged in trading, financing or investing activities, except as the holder of all the issued and outstanding shares of the subsidiaries described in note 2.

The financial statements of Temenos Group AG comply with the requirements of the Swiss Accounting Legislation (Title 32 of the Swiss Code of Obligations (SCO)).

Valuation principles

Assets are valued at no more than their acquisition cost.

Investments in subsidiaries are valued individually except when they are combined due to their similarity in terms of activities and geographical location.

Treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares are recorded directly in capital reserves.

Liabilities are valued at nominal value.

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement, except unrealized gains that are deferred on balance sheet as per the Swiss Code of Obligations.

2. LIST OF DIRECT SUBSIDIARIES

The following are the direct subsidiaries of the Company, which are wholly-owned unless otherwise indicated (percentage of voting rights).

	Voting rights
Temenos Holdings Limited, British Virgin Islands (holding company) 40,105 shares of a nominal value of USD 1 each.	100%
Temenos Headquarters SA, Switzerland (holding and licensing company) 1,000 shares of a nominal value of CHF 100 each.	100%
Temenos Investments BV, Netherlands (holding company) 180 shares of a nominal value of EUR 100 each.	100%
Temenos Egypt LLC, Egypt (operating company) 2 shares of a nominal value of EGP 100 each.	50%
Temenos Luxembourg SA, Luxembourg (operating company) 47,250 shares of a nominal value of EUR 25 each.	100%
Temenos Finance Luxembourg SARL, Luxembourg (financing company) 37,500 shares of a nominal value of EUR 1 each.	100%
Temenos UK Limited, United Kingdom (holding and operating company) 10,994,218 shares of a nominal value of GBP 0.20 each.	100%
Temenos USA Inc., USA (operating company) 100 shares of a nominal value of USD 0.01 each.	100%
Temenos Panama SA, Panama (dormant company) 100 shares of a nominal value of USD 100 each.	100%

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

3. SHARE CAPITAL

As at 31 December 2017, the share capital amounts to CHF 354,249,620 and is composed of 70,849,924 shares with a nominal value of CHF 5.

The shares issued by the Company during the year are set out below:

	2017		2016	
	Quantity	Value CHF	Quantity	Value CHF
Total number of Temenos Group AG shares issued, as at 1 January	69,621,124	348,105,620	66,617,568	333,087,840
Shares issued and allotted under Employee Share Option Schemes	1,228,800	6,144,000	3,003,556	15,017,780
Total number of Temenos Group AG shares issued, as at 31 December	70,849,924	354,249,620	69,621,124	348,105,620

Temenos Group AG also has conditional and authorized capital, comprising:

	2017
Authorized shares that may be issued in the context of acquisition or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchange (available to the Board until 10 May 2019)	13,900,000
Conditional shares that may be issued on the exercise of employee share options	2,945,426
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

The holdings of more than 3% of the voting rights of all registered shares, as at 31 December 2017 are as follows:

Martin and Rosmarie Ebner	14.09%
Massachusetts Mutual Life Insurance Company	7.25%
The Capital Group Companies, Inc.	4.93%
BlackRock, Inc.	4.68%

4. SHARE PREMIUM AND CAPITAL RESERVES

	Share capital CHF 000	Ordinary legal reserve CHF 000	Share premium CHF 000	General reserve from capital contributions CHF 000	Reserve for treasury shares from share premium CHF 000	Reserve for treasury shares CHF 000	Retained earnings CHF 000	Treasury shares CHF 000	Total CHF 000
Balance at 1 January 2016	333,088	11,249	–	220,795	–	16,864	59,627	–	641,623
Appropriation of available earnings:									
– to General legal reserve	–	103	–	–	–	–	(103)	–	–
Repayment of 'General Reserve from Capital Contributions' as per 2016 Annual General Meeting ('AGM') resolution	–	–	–	(31,173)	–	–	–	–	(31,173)
Share capital and share premium on creation of conditional capital	15,018	–	132,349	–	–	–	–	–	147,367
Reserve for treasury shares movement of the year	–	–	–	–	–	48,466	(48,466)	–	–
Profit of the year	–	–	–	–	–	–	7,926	–	7,926
Balance at 31 December 2016	348,106	11,353	132,349	189,622	–	65,330	18,982	–	765,742
Appropriation of available earnings:									
– to General legal reserve	–	396	–	–	–	–	(396)	–	–
Repayment of 'General Reserve from Capital Contributions' as per 2017 Annual General Meeting ('AGM') resolution	–	–	–	(38,780)	–	–	–	–	(38,780)
Share capital and share premium on creation of conditional capital	6,144	–	87,950	–	–	–	–	–	94,094
Reserve for treasury shares movement of the year	–	–	(149,449)	–	149,449	(19,055)	19,055	–	–
Profit of the year	–	–	–	–	–	–	3,286	–	3,286
Balance at 31 December 2017	354,250	11,749	70,850	150,842	149,449	46,275	40,927	–	824,343

The reserve for treasury shares increased to CHF 195,724,630 in line with the value of treasury shares held by Temenos Group AG through a subsidiary as at 31 December 2017 (2016: CHF 65,330,129).

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

5. TREASURY SHARES, INCLUDING SHARES HELD BY SUBSIDIARIES (CARRYING VALUE)

Temenos Group AG holds directly or through a subsidiary a total of 1,775,516 shares at 31 December 2017 (2016: 1,133,853) that entirely may be used in conjunction with M&A, for resale or for allotting to members of the Temenos Employee Share Option Schemes.

	2017		2016	
	Quantity	Value CHF 000	Quantity	Value CHF 000
TEMENOS GROUP AG				
1 January	–	–	–	–
Acquisitions	–	–	–	–
Disposals	–	–	–	–
31 December	–	–	–	–

OTHER CONSOLIDATED COMPANIES

1 January	1,133,853	65,330	638,157	16,864
Acquisitions	1,653,929	187,607	938,946	61,757
Disposals	(1,012,266)	(57,212)	(443,250)	(13,290)
31 December	1,775,516	195,725	1,133,853	65,330
Total balance as of 31 December	1,775,516	195,725	1,133,853	65,330

6. CONTINGENT LIABILITIES

Together with several of its subsidiaries, Temenos Group AG is a guarantor under the Group facility agreement concluded by Temenos Finance Luxembourg Sarl as borrower, in February 2016 for a maximum total amount up to USD 500 million.

7. BONDS ISSUED BY TEMENOS GROUP AG

In March 2014, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.00% paid annually on 31 January. The bond will mature on 31 January 2019 at a redemption price of 100% of the principal amount.

In June 2015, the Group issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 2.00% paid annually on 17 June. The bond will mature on 17 June 2022 at a redemption price of 100% of the principal amount.

In April 2017, the Group issued a senior unsecured bond with a nominal value of CHF 150 million and a coupon rate of 1.75% paid annually on 5 April. The bond will mature on 5 April 2024 at a redemption price of 100% of the principal amount.

	2017 CHF 000	2016 CHF 000
Bond CHF 100,000,000 – 2.00% – 31 March 2014 – 31 January 2019	99,931	99,500
Bond CHF 175,000,000 – 2.00% – 17 June 2015 – 17 June 2022	174,634	174,862
Bond CHF 150,000,000 – 1.75% – 5 April 2017 – 5 April 2024	149,317	–
Long-term interest-bearing liabilities	423,883	274,362
Bond CHF 100,000,000 – 2.75% – 25 April 2013 – 25 July 2017	–	101,012
Accrued bond interests at year-end	5,689	3,738
Short-term interest-bearing liabilities	5,689	104,750
Total bonds issued by Temenos Group AG	429,571	379,113

8. INCOME FROM INVESTMENTS IN SUBSIDIARIES

Temenos Group AG recognized an income from investments in subsidiaries of CHF 12 million following the decision of one of its direct subsidiaries made in November 2017 to distribute a dividend in relation to the 2017 fiscal year.

9. PROPOSAL FOR THE APPROPRIATION OF AVAILABLE EARNINGS

Based on the approved and audited financial statements for the financial year 2017, the Board of Directors proposes to the General Meeting to distribute an ordinary dividend in cash amounting to CHF 0.65 per share, for a total amount of CHF 45,000,000 (this amount may vary depending on the number of treasury shares and of shares created out of the conditional capital as of the ex-dividend date).

This distribution shall be declared out of the disposable amount of the General reserve from capital contributions as at 31 December 2017 taking the legal form of an ordinary dividend in cash. From a tax standpoint, this ordinary dividend constitutes a repayment of part of the general reserve from capital contributions.

As a result, the General reserve from capital contributions at 31 December 2017, amounting to CHF 150,842,332, will be reduced as follows:

	2017 CHF 000	2016 CHF 000
RESERVES FROM CAPITAL CONTRIBUTIONS		
Balance before distribution	150,842	189,622
Repayment of General reserve from capital contributions*	(45,000)	(38,780)
Balance after distribution	105,842	150,842
RETAINED EARNINGS		
Retained earnings brought forward	18,586	59,523
Transfer to Reserve for Treasury shares	19,055	(48,466)
Net income	3,286	7,926
Retained earnings available for appropriation	40,927	18,982
Appropriation to legal reserves	(164)	(396)
Retained earnings to be carried forward	40,763	18,586

* 2016 comparative has been corrected from CHF 37,668,000 to CHF 38,779,741 to reflect the actual payment made in 2017. The dividend paid was CHF 0.55 per share as approved by the General Meeting. The difference is explained by the amount of treasury shares as of the ex-dividend date.

Provided that the proposal of the Board of Directors is approved, the shares will be traded ex-dividend as of 18 May 2018 (Ex date). The dividend record date will be set on 22 May 2018 (Record date). The dividend will be payable as of 23 May 2018 (Payment date).

Temenos treasury shares are not entitled to dividends.

10. NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES

Temenos Group AG does not have any employee as of 31 December 2017 and 2016 and consequently no pension liabilities.

11. ADDITIONAL INFORMATION, CASH-FLOW STATEMENT AND MANAGEMENT REPORT

According to article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the cash-flow statement and the management report are not presented, as Temenos Group AG prepares the consolidated financial statements in accordance with a recognized financial reporting standard.

12. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

These financial statements were approved for issue by the Board of Directors on 13 February 2018 and will be submitted to the Annual General Meeting of shareholders for approval on 15 May 2018.

There were no other significant events after the balance sheet date.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 continued

13. DISCLOSURE OF COMPENSATION AND PARTICIPATIONS AS PER ARTICLE 663C OF THE SWISS CODE OF OBLIGATIONS (SCO)

Shareholdings and Equity Incentives

Non-Executive Directors

Name	Position	31 December 2017 Shares	31 December 2016 Shares
S. Giacoletto-Roggio	Vice-Chairman	11,000	11,000
I. Cookson	Member	15,500	18,250
T. de Tersant	Member	3,000	3,000
E. Hansen	Member	11,000	11,000
G. Koukis	Member	–	–
A. Yip	Member	–	–
P. Spenser	Member	–	N/A

Executive Chairman and Executive Committee members' As at 31 December 2017

Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	Number of vested SARs	SARs Number of unvested SARs
A. Andreades	Executive Chairman	752,629	2014	2015 scheme ²	35.45		380,949
			2016	2016 scheme	43.69		325,000
					49.12		46,000
			2017	2017 scheme	70.87		291,900
D. Arnott	CEO	57,500	2014	2015 scheme ²	35.45		507,932
			2016	2016 scheme	43.69		432,000
					49.12		66,000
			2017	2017 scheme	70.87		354,000
M. Chuard	CFO/COO	65,000	2014	2015 scheme ²	35.45		253,966
			2016	2016 scheme	43.69		258,000
					49.12		35,000
			2017	2017 scheme	70.87		254,300
A. Loustau	CTO	3,673	2014	2015 scheme ²	35.45		49,689
			2016	2016 scheme	43.69		45,000
			2017	2017 scheme	70.87		29,400
M. Winterburn	CPO	3,975	2014	2015 scheme ²	35.45		82,815
			2016	2016 scheme	43.69		65,000
			2017	2017 scheme	70.87		45,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2015 scheme vested on 13 February 2018. The numbers above include the overachievement at 110.42%.

As of 31 December 2016

Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	SARs	
						Number of vested SARs	Number of unvested SARs
A. Andreades	Executive Chairman	1,057,134	2014	2014 scheme ²	34.38		360,000
				2015 scheme	35.45		345,000
			2016	2016 scheme	43.69		325,000
					49.12		46,000
D. Arnott	CEO	409,933	2014	2014 scheme ²	34.38		480,000
				2015 scheme	35.45		460,000
			2016	2016 scheme	43.69		432,000
					49.12		66,000
M. Chuard	CFO/COO	284,140	2014	2014 scheme ²	34.38		240,000
				2015 scheme	35.45		230,000
			2016	2016 scheme	43.69		258,000
					49.12		35,000
A. Loustau	CTO	500	2012	2013 scheme	14.75	227,504	
			2014	2015 scheme	35.45		45,000
			2016	2016 scheme	43.69		45,000
M. Winterburn	Group Product Director	500	2012	2013 scheme	14.75	227,508	
			2014	2015 scheme	35.45		75,000
			2016	2016 scheme	43.69		65,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2014 scheme vested on 14 February 2017.

No options and/or shares were held on 31 December 2017 and 2016 by persons related to the members of the Board of Directors and of the Executive Committee.

FINANCIAL HIGHLIGHTS

(in millions of US dollars except earnings per share)

	2017	2016	2015	2014	2013
Revenues	735.4	634.0	542.5	468.7	467.8
Operating expenses	(557.1)	(484.8)	(445.7)	(350.5)	(374.3)
OPERATING PROFIT	178.3	149.2	96.8	118.2	93.5
PROFIT BEFORE TAXATION	160.9	132.1	78.1	106.3	82.4
NET PROFIT AFTER TAX	138.4	115.8	66.3	91.6	68.2
EBITDA	263.3	225.3	171.2	167.8	142.5
DILUTED EARNINGS PER SHARE (IN USD)	1.90	1.61	0.95	1.32	0.98
CASH GENERATED FROM OPERATIONS	299.7	257.6	227.2	190.3	169.3
Current assets	430.5	430.2	440.8	427.4	372.4
Non-current assets	844.8	741.3	788.2	498.5	545.9
TOTAL ASSETS	1,275.3	1,171.5	1,229.0	925.9	918.3
Current liabilities (excluding deferred revenues)	177.8	246.0	143.7	110.4	125.5
Deferred revenues	232.5	216.3	213.2	179.9	171.8
Total current liabilities	410.3	462.4	356.9	290.3	297.3
Non-current liabilities	485.4	310.0	496.8	293.6	212.8
Total liabilities	895.8	772.4	853.7	583.9	510.1
Total equity	379.5	399.1	375.3	342.0	408.2
TOTAL EQUITY AND LIABILITIES	1,275.3	1,171.5	1,229.0	925.9	918.3

INFORMATION FOR INVESTORS

CAPITAL STRUCTURE

The registered share capital is divided into 70,849,924 shares with a par value of CHF 5.

APPROPRIATION OF PROFITS

Temenos expects to pay a dividend of CHF 0.65 in 2018.

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ANNUAL GENERAL MEETING

15 May 2018

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2017
Sector	Technology/Software
Market Segment	SIX Main Market
Index Member	SMIM/SPI
Swiss Security No	124 5391
ISIN No	CH0012453913
Symbol	TEMN
Number of issued shares at 31.12.2017	70,849,924
Number of registered shares at 31.12.2017	70,849,924
Market price high/low (CHF)	69.60/131.80
Market Price 31.12.2016 (CHF)	70.90
Market Price 31.12.2017 (CHF)	125.00
Market Capitalization high/low (CHFm)*	9,463/4,849
Share capital nominal value at 31.12.2017 (CHFm)*	354

* Based on the number of registered shares at the time.

Key figures per share	2017
Basic earnings per share (USD)	1.98
Diluted earnings per share (USD)	1.90
Non-IFRS earnings per share (USD)	2.45
Consolidated shareholders' equity (USDm)	379.5
Consolidated shareholders' equity per share (USD)	5.36

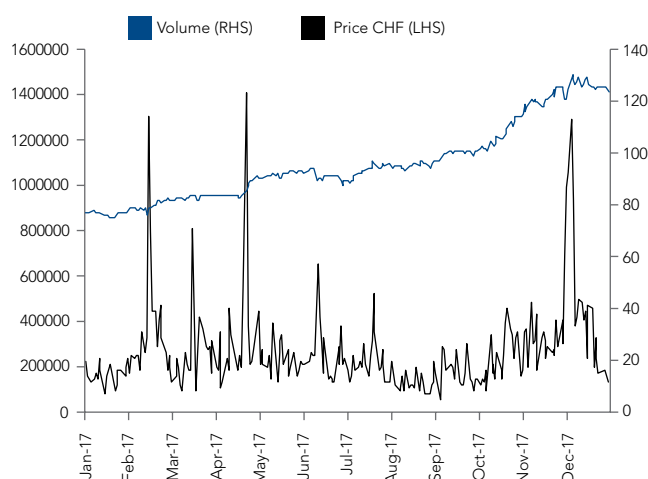
Major shareholders of Temenos Group AG* (as of 19/03/2018)

Name	Number of voting rights	Percentage of the share capital
Martin and Rosmarie Ebner	9,983,971	14.09%
Massachusetts Mutual Life Insurance Company	5,109,271	7.21%
The Capital Group Companies, Inc.	3,491,249	4.93%
BlackRock, Inc.	3,092,091	4.36%
Artisan Partners Limited Partnership	2,180,153	3.08%

* On the basis of Temenos Group AG registered capital of 70,849,924 shares and based on the disclosure notifications received.

Please refer to page 101 for the status as of 31.12.2017

DEVELOPMENT OF THE TEMENOS SHARE PRICE



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The following list is as of March 2018. For any updated information please visit our website: www.temenos.com/contact-us

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NOTES

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