DIGITAL BANKING RELOADED

ANNUAL REPORT AND ACCOUNTS 2018

Temenos AG

TEMENOS

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TEMENOS AT A GLANCE

TEMENOS
THE BANKING SOFTWARE COMPANY

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, continuously upgradeable end-to-end banking software which is both cloud native and cloud agnostic; through design led thinking, we orchestrate all our customers' touchpoints to create a frictionless customer journey

TEMENOS IS THE BANKING SOFTWARE COMPANY

500m

end customers rely on Temenos software

150+

countries with Temenos clients

3,000+

financial institutions use Temenos software

Chairman's statement

25 YEARS OF **INNOVATION** IN TECHNOLOGY

It is with great pleasure that we present our Annual Report for 2018 to our shareholders.

In November 2018 Temenos celebrated its 25th anniversary. Temenos became 25 years old, or rather young as we prefer to think about it. In the past 25 years we established Temenos as the leader in banking software and made it synonymous with banking software. We support more than 3,000 banks worldwide in conducting their daily business and servicing their customers and other stakeholders.

It has been 25 years full of successes, full of passion for what we do, industry firsts in product and technology and relentless growth in revenues and of course profitability. In the 25 years we have had our fair share of challenges and disappointments, but even those events have only served to strengthen our resolve and character with key learnings that remain with us today. In those 25 years, we navigated three of the largest financial crises the world has ever experienced – the dot com crisis in 2001, the financial crisis in 2008 and the Euro crisis in 2011/2012, only for Temenos to come out of each one of those periods stronger and better placed to compete in the marketplace.

Application software companies that make it to 25 years and are able to keep growing their revenues at the pace we do, usually continue to become the giants of their target markets. There are two or three key reasons why this is the case. Technology cycles are incredibly fast. Building business functionality to run the worlds' premier organizations takes much longer to do. This means that software companies that are not able to dramatically change their technology while protecting business functionality, usually run out of steam and stop growing after 10 years or so. As a result, they cannot continue to invest aggressively, build client successes or Partner ecosystems. In fact we can only think of less than ten software companies that after 25 years could still exhibit our level of growth and each one of those companies ended up taking the lion's share of their target market.

As Max explains in his report, we had another outstanding year with record growth in our revenues and profitability. Our revenue continues to accelerate. 2018 was particularly exciting as we saw broad based demand for our products, from the largest to the smallest banks, across all regions, whether in core, wealth, payments, front office or fund management. Software as a service and cloud deployment is starting to come of age in the banking world and we have now started to see spectacular growth in this segment.

We continued to win most, if not all, the 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 2018 we focused our effort and investments amongst other things on strengthening our digital front office product with the acquisition of Avoka, a leading US-based software company in the area of customer onboarding for banks and financial institutions. With the support of the Avoka team we will be able to compete more effectively and deliver more complete and exciting solutions to our clients.

I feel that the business opportunity ahead of us is more significant than it has ever been, our target market is estimated to be USD 57 billion and we are in the enviable position of leading our market and therefore have the chance to deliver against this opportunity. Technology is rapidly changing consumer behavior and in turn this changes the way people would like to interact with their banks. 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. Banks all over the world are scrambling to take advantage of the opportunities that technology provides and put their customers' trust to work for the next generation and they expect us to be their partner in this journey.

As market leaders we see ourselves as the catalyst for the acceleration in this conversion. We do have the best software in the world and would like to ensure that our clients deploy this software rapidly, predictably and efficiently for their use. We will increasingly bring 25 years of Temenos functionality to different consumption models, developing in the morning and deploying in the afternoon, whether this is on premise or in the cloud, and we are well on our way towards achieving this. By the time you read this, we will have launched our two new products Temenos T24 Transact for the back office and Temenos Infinity for the front office which I expect will become the standard in banking software for the next 25 years.

> *"We will continue to have a sense of purpose and do business while we help our world become a better place."*

We will continue to have a sense of purpose and do business while we help our world become a better place. Whether it is helping the two billion people that are unbanked to access banking services, or helping our communities where we do business, while providing equal opportunity for all and creating an environment that promotes human endeavor and assists our people to achieve their aspirations.

Our business is about building relationships, with all our stakeholders, our clients, our Partners, our shareholders and between us Temenosians. The fundamental trust we have created between our clients and Temenos will continue to be the cornerstone of how we conduct business. Our passion for innovation and for seeing things differently will ensure that we continue to develop winning products for our clients. Our determination, resolve, integrity, commitment, people focus and never-give-up attitude will ensure we remain the leading banking software company and overcome any challenges that may lie ahead of us. At Temenos, even after 25 years, we have the energy and enthusiasm of a start-up and we deal with every day as if it is our first day in the Company.

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 over 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

We see things differently from everyone else

Average people see difficulties, exceptional people see opportunities.

Read more on page 20

We believe in the power of people

People make things happen. People define our destiny.

Read more on page 66

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.

Read more on page 50

We inspire, through living up to our full potential

We dream big and pursue our goals fearlessly.

Read more on page 24

We place clients at the core of what we do

Everything starts and ends with our clients' goals.

Read more on page 28

Our market opportunity

A GLOBAL OPPORTUNITY

	OFFICES IN THE REGION	TOTAL REVENUE	TOTAL SOFTWARE LICENSING REVENUE
EUROPE 	22	45%	44%
ASIA PACIFIC 	19	19%	18%
AMERICAS 	15	19%	21%
MIDDLE EAST AND AFRICA 	8	17%	17%

KEY INDUSTRY TRENDS

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

CLOUD

The use of remote computing resources to host software and data is driving down the total cost of ownership and reducing risk for incumbents as well as lowering barriers to entry for new entrants to banking.

BIG DATA

Banks have vast quantities of uniquely valuable data on their customers, however they are only just starting to use analytics to leverage this as a competitive advantage. Banks have the potential to improve customer service, increase product penetration and reduce risk.

AI/MACHINE LEARNING

The move to utilizing AI and Machine Learning in both interacting with customers, for example through robo-advisors and chat bots, and in risk and compliance, improves customer service and satisfaction whilst also reducing cost and risk.

BLOCKCHAIN

The rise of new technologies such as distributed ledgers may present an important opportunity for banks in the future. Banks need to ensure they are using modern, open IT platforms in order to take advantage of emerging technologies.

APIs

The move to Open Banking is both a risk and an opportunity for banks. There is increasing pressure on banks to support interfaces that allows third parties to access their customer data, equally banks with modern, open IT platforms are better able to take advantage of third party innovation to improve their customer service.

MOBILE

Banking has seen exponential growth in the number of interactions and transactions taking place through mobile devices. Banks need to ensure they can provide their customers a complete banking service with minimal friction. Those banks with the best mobile service will be able to better attract, retain and cross-sell products to their clients.

Our investment case

WHAT MAKES TEMENOS UNIQUE

SAME SOFTWARE, ANY BANK, ANYWHERE IN THE WORLD

Software
We supply the same software to all of our clients – regardless of their size and location. There are optional modules within this which a bank can choose from, but we produce the same software for all our clients.

PACKAGED, INTEGRATED & INDEPENDENT

Product
We make our products packaged, integrated and upgradeable. Our products are designed to work separately and together and, once installed, be upgraded as new versions of the software are released. This means that our clients benefit from our ongoing investment in the product which has created the richest banking functionality in the market.

STABLE BUSINESS MODEL; COMMITTED COMMUNITY

Stability
Temenos has a stable business model, shown in the strength of our financial results and also by the long tenure of the management team. We benefit from a strong and committed ecosystem of Partners working closely with us.

CONTINUOUS & FASTER DEPLOYMENT

Implementation
With advanced and automated tools and methodology, the testing and deployment of change means banks can reduce their release cycles from months to hours enabling them to roll-out new applications at speed. Temenos invests both in its own staff and implementation tooling, as well as working with its Partners to build a large ecosystem of implementation capability outside of the Group.

RELENTLESS FOCUS ON INNOVATION

Innovation
Temenos has a long history of investing in its products. This has ensured our position as the leading solution in our sector and, together with the upgradeability, means that clients can continue to enjoy the benefits of our industry leading investment in the future.

Highlights of the year

ANOTHER YEAR OF **SUCCESS**

TOTAL SOFTWARE LICENSING

+21%

MAINTENANCE

+12%

TOTAL REVENUE

+15%

EBIT MARGIN

31.5%

OPERATING CASH FLOW CONVERSION

117%

EARNINGS PER SHARE

+21%

DIVIDEND PER SHARE

+15%

2018 NON-IFRS FINANCIAL HIGHLIGHTS

Read more on page 38

> Total software licensing revenue growth of 21%
> Maintenance revenue growth of 12%
> Total revenue growth of 15%
> Services margin of 11.5%, improvement of 1.9 percentage points
> EBIT margin of 31.5%, up 1.1 percentage points
> Operating cash flows of USD 365 million, up 22%
> Operating cash conversion of 117% with DSOs down five days in the year
> Strength of cash flows and growth in profit support 2018 dividend of CHF 0.75 per share, an increase of 15% (2017: CHF 0.65 per share).

2018 OPERATIONAL HIGHLIGHTS

Read more on page 34

> Outstanding performance in 2018 with broad based demand across geographies and tiers
> Digital and regulatory pressures and move to Open Banking are driving market growth
> Strong incremental growth in demand for SaaS and cloud adoption, exceeding our expectations
> Temenos sees growing appetite for large institutions to optimize delivery through cloud
> Strong momentum in the US market with two strategically important deals signed with a top tier US bank for visionary front office replacement and PayPal, Inc. for loan management in the cloud
> Temenos won a total of 76 new clients in 2018 with competitive deals contributing 40% of total software licensing in the year
> Continued high levels of activity with Tier 1 and 2 banks which contributed 53% of total software licensing in 2018
> Temenos is the market leader, raising barriers to entry and pulling ahead of the competition
> We started 2019 with very high levels of revenue visibility and a strong pipeline, driven by recurring revenue, committed spend and our installed base
> There are now over 5,000 third party Temenos consultants, with a critical mass of experts available to support clients across implementation, testing and training.

Industry recognition

A MARKET LEADER

Gartner[1]

> Recognized as a Leader for the 9th consecutive time in 'Magic Quadrant for Global Retail Core Banking.'

Forrester[2]

> Leader in Forrester Wave for global digital banking platforms and digital banking engagement platforms.
> Classed "Global Power Seller" for new business for the 13th consecutive year and "Top Global Player" for new and existing business deals for 7th consecutive year.

Ovum[3]

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

IBS Intelligence[4]

> Ranked bestselling core banking system for the last seven years and top two positions for the past 19 consecutive years.
> Ranked bestselling digital banking and channels system.

Celent[5]

> Awarded '2018 XCelent Award' for Client Service and Client Base' for CRM Technology Vendors for Wealth management.

International Data Corporation[6]

> Recognized as a 'Leader' for Know Your Customer (KYC) Solutions in Financial Services and as a 'Major Player' for Anti-Money Laundering (AML) Solutions in Financial Services. Recognized as a Leader in global core banking, European mobile banking and wealth management front and middle office.

FS Tech Awards 2018[7]

> Awarded "Payment Innovation of the Year".

9th

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

13yrs

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

7yrs

Ranked best selling core banking system[4]

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 Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

Gartner, 'Magic Quadrant for Global Retail Core Banking', Gartner, Vittorio D'Orazio, Don Free, June 2018.

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Acquisitions in 2018

STRATEGIC ACQUISITIONS AND INVESTMENTS

2018 was a very exciting year for Temenos, with one strategic investment and one acquisition completed, both of which have a material impact on our R&D roadmaps and ability to provide our clients with cloud native, cloud agnostic products.

In November, Temenos announced it had taken a minority stake in NuoDB, an enterprise-class distributed SQL database provider, as well as entering into a Technology Partner Agreement. This partnership gives the global banking community greater choice of next generation cloud & Container-Native database technologies that are able to run the Temenos banking software products. It also further strengthens Temenos open strategy to work with all database vendors that are able to answer the demands of scalability in the cloud. Banks of all sizes around the globe are migrating more of their banking applications to the cloud and benefiting from significant speed, agility and performance improvements. Temenos and NuoDB have both been at the forefront of cloud innovation and this partnership will make it significantly easier for banks to migrate critical applications to the cloud while maintaining their end-user experience and benefiting from significant operational cost savings.

In December, Temenos acquired Avoka, a US-based leader in digital customer acquisition and onboarding. The Avoka platform has been integrated with Temenos Infinity, our market-leading digital front office which provides banks with a comprehensive single solution for their omni-channel digital banking needs. Temenos purchased Avoka for USD 245 million.

Avoka has more than 85 customers that are largely served through a SaaS model hosted in the cloud, and serves all key banking segments including retail, corporate and wealth. Founded in Australia, its customer base has grown most rapidly with both top tier and mid-market banks with clients in the US, Europe and Australia. With over 270 employees in offices across the US, UK and Australia, Avoka is purpose-built for creating omni-channel customer acquisition and onboarding solutions that enable banks to create simple customer-friendly experiences that improve conversion rates. Avoka customer successes include a top tier bank which increased new account openings by 60% and shortened customer time to onboard by nearly 70%, while another major bank created an advisor-assisted, tablet-based loan application, from kickoff to launch in 60 days.

Digital customers accustomed to a one-click retail experience expect the same from their bank and through Avoka, banks have been able to create fast and simple account opening and onboarding experiences resulting in significant reductions in abandon rates and increased cross-sales. Avoka's innovative technology has won numerous awards, including the 2018 Celent Model Bank for Commercial Account Onboarding with HSBC, The Banker's Tech Project Awards 2018 with HSBC for the compliance category, The Banker's Tech Project Awards 2018 with Citi for delivery channels, the 2017 Banking Technology Awards as well as the Australian Business Banking Awards 2017 with Bankwest.

245m

Avoka purchased for USD 245 million

85

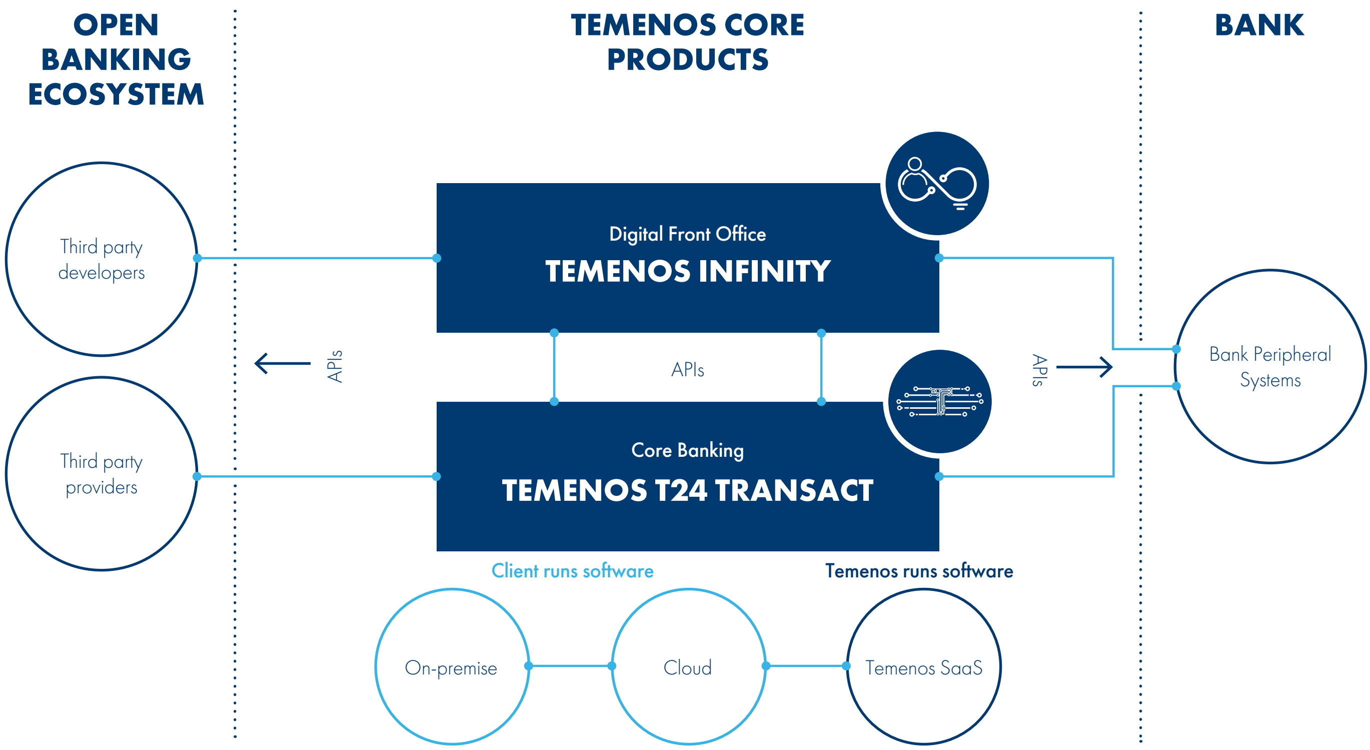
Avoka customers

270

Avoka employees across US, UK and Australia

Software

COMPREHENSIVE, **CLOUD NATIVE**, CLOUD AGNOSTIC



Temenos' software solutions are centered around two main packages; Temenos Infinity and Temenos T24 Transact.

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

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

TEMENOS INFINITY

Temenos Infinity is an independent digital banking solution which focuses on customer engagement across all channels by means of an integrated "conversational banking" customer engagement module, cutting edge digital customer acquisition and onboarding functionality and an integrated product origination capability.

It can be deployed on any combination of back office systems by means of its open API framework and definitions in a quick and cost effective manner, allowing access to all of the underlying product manufacturing and servicing capabilities which those platforms offer. Even greater benefit can be gained when the solution is deployed with Temenos T24 Transact as the bank can then make use of the end-to-end product design and distribution capabilities to gain large benefits in the areas of customer insight and new product go-to-market agility.

TEMENOS T24 TRANSACT

Temenos T24 Transact is the market leading core banking solution which incorporates the broadest and deepest set of functionality available in the market. Temenos has invested in expanding the functionality of the product for over 25 years which, when allied with policy of producing standard packaged software, provides a functional footprint which is without parallel in the industry.

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

Our solutions

SOLUTIONS

Temenos software forms an end-to-end digital banking solution which is cloud native and cloud agnostic. It is comprehensive in its coverage and includes a huge depth and breadth of functionality.

PRODUCTS

Read more page 12

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

TECHNOLOGY

Read more page 16

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.

SECTORS

Read more page 18

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

Our solutions continued

PRODUCTS

Temenos Infinity has revolutionized our current offering delivering a new independent digital banking solution.

Temenos T24 Transact is the market-leading core banking solution which incorporates the broadest and deepest set of functionality available.

Temenos focuses its products into six main solutions. Although each of these is independently deployable, they are based around a common set of capabilities and design principles aimed at increasing analytic insight and product agility, and reducing the cost of operation and ownership. Even though they often are implemented on an independent basis, Temenos clients gain progressively more benefit when multiple solutions are deployed in an end-to-end manner. The extent to which this is done, and the speed and sequencing of deployment are all selectable by the client, thus ensuring that the software supports their business and commercial goals in an optimal manner.

TEMENOS INFINITY

Temenos Infinity has revolutionized our current offering delivering a new independent digital banking solution. It can be sold and deployed on any combination of back office systems, including non-Temenos core banking systems as well as Temenos T24 Transact. Temenos Infinity is deployed using the Temenos Banking Platform. It incorporates Temenos channels and real-time marketing, our market leading onboarding capability as well as a simple product origination process.

More complex product origination, such as lending, is provided by the new origination architecture, developed as a way to enable banks to future proof their digital experience through providing tools to support their lending products. All of these capabilities are enhanced by Temenos Analytics to support a data-driven digital banking experience.

Digital transformation programs can be long and complex. Acquiring new customers in a competitive digital banking market, even more so. Temenos Infinity enables banks to deliver short to medium term gains in digital sales and service performance by identifying and addressing customer experience issues. A key requirement of any digital transformation is to deliver growth as well as new channels of revenue generation.

> A standalone software container built using the Temenos Platform which can be deployed independently from Temenos T24 Transact and can communicate with multiple core/back office systems
> Omni-channel capability across Mobile, Web, Customer Contact Centre and more
> A user experience platform that enables business users to deliver change independent of IT processes
> Real-time Marketing engine for delivering targeted, personalized offers and messaging
> Customer onboarding and account opening
> Product Quotation and Origination
> Account Aggregation to enhance product innovation and Open Banking
> Published list of Open APIs to support integration and lower Total Cost of Ownership (TCO)
> Money Management (PFM) to empower customers to take control of their finances.

TEMENOS T24 TRANSACT

Temenos T24 Transact is the market leading core banking solution. Designed to operate in a truly packaged manner, and with a consistent policy of maintaining a single functional base, the breadth and depth of the products capabilities have grown over the years. With more than 25 years of investment in the product functionality, the product contains massive functional capabilities, all of which can be accessed by any Temenos client who uses the software. The policy of including all enhancements back into the base product continues, ensuring that any bank which licenses the software can continue to enjoy the future investment which Temenos makes into the product.

T24 Transact also benefits from the underlying functionality centered around data and analytics and the evolving support of the underlying Temenos technology platform which now includes cloud native, cloud agnostic and open API capabilities as well as support for a DevOps approach to implementation and ongoing continuous deployment of new software and configurations.

The product offers support to almost all sectors of banking, including Retail, SME, Corporate and Inclusive banking segments. The functionality is designed to be used on a global basis, which is then enhanced by the growing number of country model banks maintained by Temenos which provide packaged support for regional banking requirements.

TEMENOS PAYMENTS

Our Payments product is a uniquely flexible payment offering that not only gives banks full, real-time control but also a harmonized customer service experience and is a 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 T24 Transact.

TEMENOS WEALTHSUITE

Temenos WealthSuite is designed to empower a wealth manager's business. The solution helps wealth managers to industrialize the investment process, allowing for the efficient management of investments for large numbers of complex portfolios whilst achieving maximal investment performance.

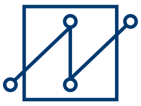
Combining back office efficiency with front office differentiation, the product offers support for all wealth sectors from the U/HNWI to the Mass Affluent. This latter sector has, in particular benefited from a renewed focus as the financial services industry identifies the segment as one key to growth; enhancements in this area include Robo-Advisor and Goal Based Investing capabilities.

WealthSuite offers:

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

Our solutions continued

Products continued



FUND ADMINISTRATION

The solution covers the full spectrum, supporting all product types and all asset classes on our unique, single platform. Clients choose us because they know we can support all their fund administration requirements, both now and in the future.

We provide the best functionality, flexibility and extensive capability in our industry to deliver significant operational efficiency gains by replacing fragmented legacy systems and manual processes with a single, global platform. Typically, our clients enjoy efficiency improvements in excess of 30% by migrating to Temenos.

As software dedicated specialists, our goals are aligned with those of our clients in providing market-leading products and transforming clients' fund administration activity with sophisticated workflow, production and control techniques.

Global Accounting

Transform fund administration activity with sophisticated workflow and production control techniques. Drive dramatic increases in operational efficiency via advanced global operating models and integrated investment book and general ledger capability.

Global Investor

A single, global investor servicing and transfer agency platform, offering the most extensive capability in the industry, to deliver a step-change in efficiency, oversight and control.

TEMENOS SAAS

Temenos has offered its software on a cloud-hosted basis since 2011, being an early adopter of this approach to delivering software. Since then, the range and scope of the offering has grown, with various SaaS offerings being available. 2019 sees the introduction of further SaaS offerings which build on the success and uptake of the solutions sold since 2011.

SaaS is a key change which permeates the financial services technology industry, and Temenos is enthusiastic about continuing to invest in this area to ensure that banks can continue to benefit from the functional investment made by Temenos into its products, however they wish to consume the capabilities. The underlying structure of investing in global functionality and country model banks ensures that Temenos' SaaS solution supports the widest range of banks in different sectors and geographies.

Temenos solutions are supported by industry-leading capabilities in the following areas:

Temenos' main products are supported by a common set of functional capabilities and support which enable them to provide excellent solutions to their clients, wherever they are located and whichever market segments they focus on.

ANALYTICS

Unlocking 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 Temenos 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
> 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
> Better understand and predict performance to build strategies for improving operational efficiency and financial processes to minimize risk and drive profitable growth.

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 T24 Transact
> 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.

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
> 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.

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.

Our solutions continued

TECHNOLOGY

CLOUD NATIVE AND CLOUD AGNOSTIC

Temenos has now started the program to make all of its solutions be both "cloud native" and "cloud agnostic". This means that the software can run on cloud infrastructures using the features found in them which enable dynamic scalability and built-in resilience. This has the effect of materially reducing the operational cost of running the technology that the software uses, and also allowing the operations to scale out and in as needed. The cloud agnostic capabilities mean that this is true for all major cloud platforms. This is important as it allows banks to choose to deploy the software on any mainstream cloud platform and realize the cost, scale and resilience benefits automatically, and it also make Temenos' own cloud and SaaS propositions more commercially attractive.

OPEN APIs

Integration is often an expensive and time consuming activity which can impact the ability of banks to both deploy new solutions and to create innovations around existing solutions. Temenos has a published set of Open APIs which enables clients and other participants in the Temenos technology ecosystem to integrate the solutions into existing operational environments and to design, test and deploy innovatory extensions around Temenos' products.

The APIs can be accessed via a development portal for documentation and testing purpose, and allow banks to rapidly make changes to their solutions and overall operational environment in an insulated and clearly defined way using modern technology and design approaches which shorten the time needed to accomplish this.

CONTINUOUS DEPLOYMENT

Temenos Continuous Deployment is a DevOps based technology service which helps banks to increase the speed at which changes to their application environments can be tested and rolled out to production. This has the effect of both reducing the time needed to introduce new products and services to their customers, but also to reduce the cost and risk of implementation of new systems. This latter benefit also extends to the implementation of changes to existing system deployments and configurations.

INTEGRATION

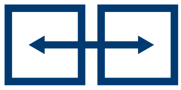
Be more agile and competitive with real-time event based integration.

Temenos' Integration offering makes banks more agile by enabling them to integrate systems much faster and more cost efficiently, and be more competitive by enabling real-time, highly scalable, self-assisted and multi-channel banking 24x7.

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 24x7, 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
> 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')
> 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

> 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.

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

> 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 adaptions 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

> 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.

Our solutions continued

SECTORS

RETAIL BANKING

The Temenos Retail Banking solution is an integrated banking software solution for retail banks of all sizes across the globe.

It combines a modern, agile core with powerful analytics and a single platform for distribution across all digital and assisted channels. It enables a bank to provide convenience and choice to their customers in how they want to bank and manage their finances. It will extend the bank's reach to customers using any device, today and in the future. The bank will be able to harness the wealth of its data to better understand its customers and develop products and services they want and need quickly and easily.

The solution will address the banking technology, regulatory and market challenges of today and tomorrow. Through Temenos a bank can leverage technology innovation to drive competitor differentiation and advantage, increase operational efficiencies, reduce costs and boost profitability.

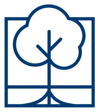
Whether a bank is a new start-up looking for its first solution, or a large-scale multi-country bank, the software provides a solution which will enable it to scale, onboard, reduce attrition and deliver a market-leading service to its customers.

CORPORATE BANKING

The Temenos Corporate Banking solution, 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 corporate banking customers continue to see the benefit of our advanced modules. Temenos' corporate banking customers benefit from increased efficiency and profitability through:

- A full 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
- Full control
- Insight into customer profitability, loyalty, attrition risk and number of products for targeting activity
- A massively scalable, straight through-processing solution
- Comprehensive business functionality and a modern, advanced, secure, open, modular architecture
- An automated, electronic solution without the need for cumbersome paper based processes.



WEALTH MANAGEMENT

Temenos has a long-standing focus on the Wealth Management sector. The solution covers all parts of the industry, from the U/HNWI to the Mass Affluent and is designed to be deployed by all participants in the sector, ranging from Private Banks to Wealth Managers to Retail Banks for the mass affluent sector.

The solution contains sophisticated portfolio management tools which cover most instrument classes and which allow for maximized investment return. Supporting this core capability are digital CRM capabilities specifically designed for the sector, automation tools around goal-based planning and automated advice capability for the mass affluent sector and highly comprehensive back office functional support.

If a wealth manager is looking for a single vendor solution, with the associated benefits of centralized support, Temenos promises to transform their business. The Wealth Management solution offers:

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

FUND ADMINISTRATION

With Temenos' Fund Administration solution, clients have the capability to manage all asset classes and jurisdictions, both now and in the future, from a single accounting and investor servicing platform:

> Delivers long-only control and efficiency with alternatives flexibility on one platform, to support convergence between long-only and alternative funds
> Reduces total cost of ownership by consolidating functions and systems on one platform across multiple geographies, asset classes, jurisdictions
> Delivers increased efficiency through sophisticated workflow and exception management
> Syndicates analysis/product development across clients, so that development costs are shared and all clients benefit from changes made to one code base
> Supports both middle office and back office, and delivers the Investment Book Of Records (IBOR) and Accounting Book Of Records (ABOR) from one platform.

ISLAMIC BANKING

Temenos' Islamic Banking solution services the Islamic banking community with Shari'ah compliant, flexible solutions that have been specifically designed to support wealth, retail, corporate and treasury bank needs. This range of highly scalable, established solutions means that banks can now easily and efficiently create new Islamic banking products, offering world class services that rival Islamic or conventional counterparts.

Temenos' Islamic Banking customers benefit from increased efficiency and profitability through:

> Full automation and increased straight through processing rates
> 31% higher return on assets
> -8.6 point lower cost-to-income ratio
> 36% higher return on capital
> Reduced development time by 40%
> Quality customer products and services available quickly and cost effectively
> Growth at double target rate
> Adopting a pre-configured solution based on Shari'ah industry standard
> Offering advanced Shari'ah wealth management services.

INCLUSIVE BANKING

Temenos' Inclusive Banking offering is an integrated banking software solution that helps community banks and Financial Institutions (FI) of all sizes, active in both (group and individual) lending and (member) deposit holding.

It provides community financial institutions with world-class banking capabilities that usually are only accessible to larger commercial banks with significant IT budgets. Inclusive Banking, which can be deployed in the cloud on a SaaS basis, provides a 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.

For community banks, it offers dividend point tracking, provisions therefore and parameterized dividend processing functionality.

Inclusive Banking enables community financial institutions to significantly reduce operating costs even when their 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 them to clearly differentiate themselves with highly responsive service, tailored products and a truly customer-centric experience – giving every customer, regardless of their financial worth, the same quality service anywhere.

Insights – thought leadership

SEEING AND THINKING **DIFFERENTLY**

OPEN BANKING AND INSTANT PAYMENTS; AN ESSENTIAL PARTNERSHIP

Banks and fintechs are working together to unlock the full potential of Open Banking. But does the real benefit lie in leveraging real-time payments?

Darryl Proctor
Managing Director, Temenos Infinity

BANKS HAVE TO BREAK AWAY FROM LEGACY THINKING

According to the World Bank, an estimated two billion adults across the globe do not have a basic bank account. In addition, 200,000 formal micro-, small- and medium-sized enterprises in emerging economies do not have access to the financing they need to grow.

Murray Gardiner
Product Director, Temenos Inclusive Banking

THE ROAD TO CONVERSATIONAL BANKING

Customer interaction and channels preferences have experienced significant changes over time and are constantly evolving and expanding across all industries, including banking. To consolidate customer satisfaction and cultivate customer advocacy, banks must endeavor to continue to meet these changing needs through use of innovative and progressive technology.

Dharmesh Mistry
Chief Digital Officer, Temenos

THE DIGITAL WEALTH MANAGER: SEIZING THE ROBO OPPORTUNITY

Wealth management is booming. PwC predicts that global assets under management will double by 2025 to USD 145.4 trillion, with much of the growth coming from the mass-affluent market.

Jeremy Boot
Senior Product Manager, Temenos

FIVE KEY ELEMENTS ESSENTIAL TO UNLOCKING THE SECRETS OF DIGITAL TRANSFORMATION

We asked many banks what kind of digital organizations they aspired to be. The response from most was: Amazon.

Kam Chana
Senior Digital Strategist, Temenos

THE FUTURE OF FINTECH ISN'T WHAT IT USED TO BE

When new technology companies began developing innovative business models and applications in the world of finance, many commentators suggested that the industry was heading for a revolution. Banking was, after all, ripe for disruption.

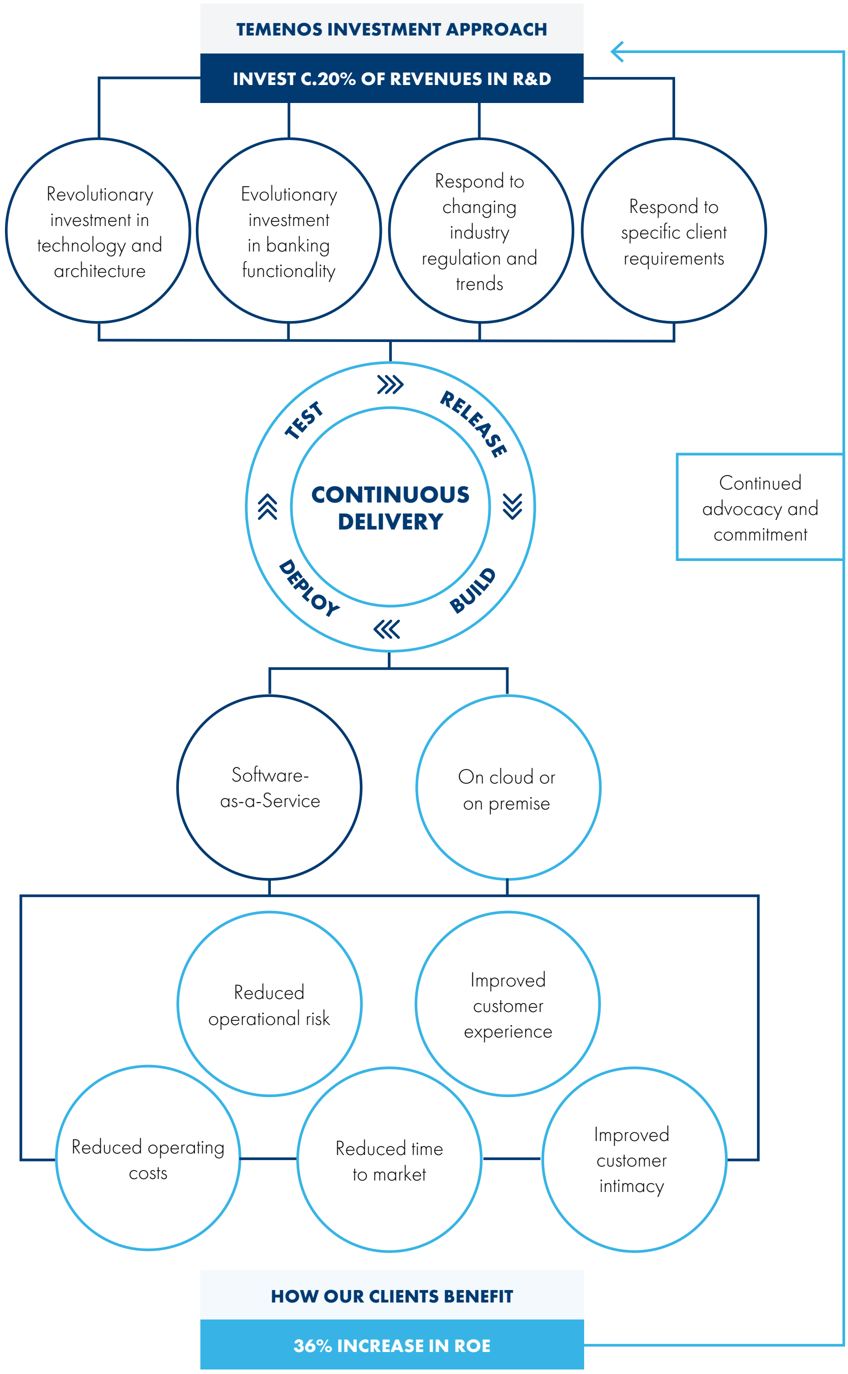
Ben Robinson
Head of Temenos MarketPlace

Research and development

INVESTMENT TO INNOVATION

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.

THE VIRTUOUS CYCLE OF TEMENOS SOFTWARE INVESTMENT



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 continuous 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) ratio 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 customer intimacy

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.

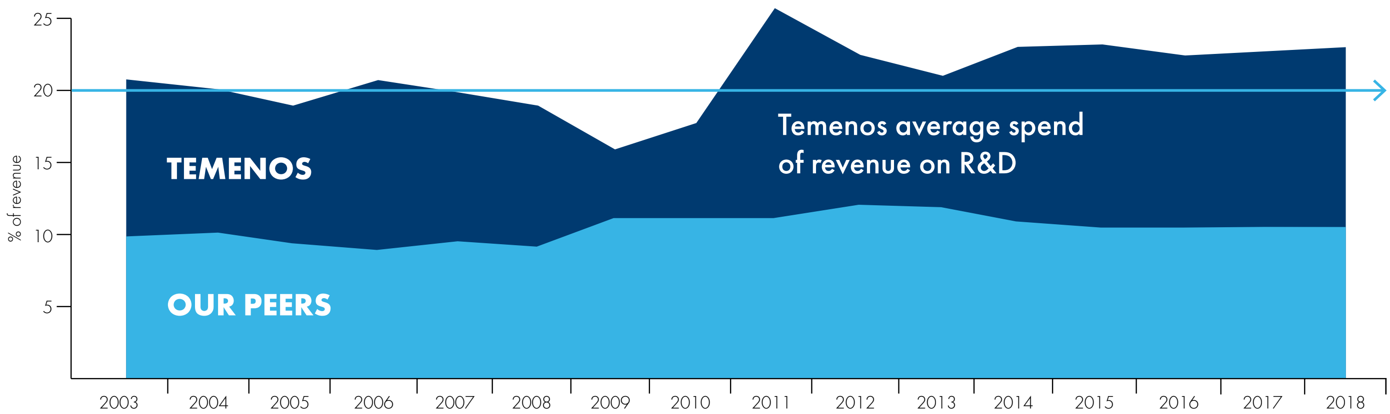
Research and development continued

R&D

% OF REVENUE SPENT ON R&D

USD 1.9bn

Cumulative R&D investment 1990-2018



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 continuously into product releases

Our software is fully packaged and upgradeable. We produce new software on a continuous basis which has traditionally been available on a monthly release cycle. This will continue to be available, together with an annual release, for clients which wish to consume our software on this basis. Going forwards, we will also make more of our software available on a continuous deployment basis, with DevOps support, for banks to help them to shorten the innovation cycle.

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 banking software vendor to run on open systems, to have a truly 24x7 platform, the first to run core banking software in the public cloud and the first to have all services exposed as RESTful APIs. Temenos has recently announced the next stage in its technology investment and innovation with the migration of all of our products to "cloud native" and "cloud agnostic" platform capabilities.

OPEN BANKING

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

The strong barriers to entry that existed in banking are disappearing, creating a greater need to innovate to stay ahead. But it's now not enough to just innovate faster; firms must keep up with best-in-class innovators regardless of what sector they might operate in today. This calls not just for technology investment, but to harness technology to continually adapt business models to the imperatives of the day. Today, that imperative is for companies to open up; to build competitive advantage by leveraging their position to put themselves 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.

Opening up is unavoidable

The effects of technology and regulation are self-reinforcing and pushing to much greater openness.

So many technologies are opening up the banking market: mobile phones have opened up a new distribution channel; cloud has lowered infrastructure costs and opened the market to new entrants; APIs have opened up the flow of information; and blockchain is decentralizing trust.

Now, regulatory forces are also pushing in the same direction. Open Banking legislation, which started in Europe, is fanning out across the globe, forcing banks to share customer data as well as share their payment infrastructure with third parties. As such, the move to Open Banking appears inevitable, whether banks like it or not.

A new strategic imperative

The move to Open Banking, however, will be extremely lucrative to those banks that embrace the paradigm shift. To do so, they will need to abandon the old model of mass distribution and distribution and instead open themselves to working with a network of Partners, becoming a concentration point for information flows so that they can learn faster and give the best customer experience at scale.

Digitization won't be enough, only a true platform play will significantly boost returns on equity. A recent study by McKinsey showed that by digitizing existing processes and products, banks could boost return on equity by around 2.5 percentage points. In contrast, opening a true ecosystem play, where banks would aggregate products and services from third parties, could see banks boost return on equity by as much as 6.3 percentage points.

Banks are starting to appreciate this. A survey from Cognizant and Temenos found that a clear majority of bankers (89%) now see Open Banking as more of an opportunity than a threat with 57% 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. In a recent poll we conducted with fintech companies, 87% told us that they would like to work with incumbent 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.

89%

IT IS MORE OF AN OPPORTUNITY THAN A THREAT

57%

WE ARE HAPPY TO DISTRIBUTE THIRD PARTY PRODUCTS THROUGH OUR PLATFORM

Research and development continued

FINDING THE **BEST** FINTECH

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

The Community

The Temenos MarketPlace community is vibrant and multi-sided. Our goal is to do more than just connect banks and fintech firms, but to catalyze the future of Open Banking. To do so requires us to bring together a diverse set of stakeholders. In 2018, we added several new relationships with innovation centers – such as B-Hive in Belgium and AUC Venture Lab in Cairo – which plug us into the best fintech providers from around the world. But most important has been the close collaboration with our customers and their innovation teams, who work with us to uncover the best fintech players.

Innovation Jams

And, of course, our own scouting continues. In 2018, over 20 MarketPlace events were held in 12 different cities, of which more than half were hosted by community members – accelerators and banking clients. And, in 2018, we held nine different Innovation Jams to give a platform to companies not already on the MarketPlace to demonstrate their solution to our community members. We held these Jams in Hong Kong, Shanghai, Abu Dhabi, Miami, Amsterdam, London, Geneva, Dublin and Luxembourg. And the winners of the Innovation Jams took part in a global final, which was held at TCF in Dublin in May. The winners were Belleron, which provides protection against enterprise-level cyber attacks, and SONECT, which provides a solution for democratizing cash distribution. Both firms are now on MarketPlace.

The power of the crowd

Thanks to the efforts of the team working together with our community, we have now assessed over 1,200 fintech firms, of which just over 65 firms are now live on MarketPlace. Our selection criteria is tough, but that's because we only want the best.

THE TEMENOS MARKETPLACE

Catalyzing the future of Open Banking.

Overwhelmingly, banks and fintech companies want to work together. The challenge is that there is no established model for doing so. This is what the Temenos MarketPlace solves.

In 2018, we conducted two surveys. The first, together with Cognizant, was a survey of banks. The other was a survey of fintechs. Both are interesting in their own right, but even more so when they are put together. When asked about working with fintech companies, 89% of banks are in favor. When asked about working with banks, 87% of fintechs are in favor. Underlying these answers is a desire on the part of banks to get greater access to innovation and, on the part of fintechs, to gain a route to market for their services. It is therefore a symbiotic relationship to which both sides want to be party. So why are there not more bank/fintech partnerships? Because it's not easy to get these two groups to work together.

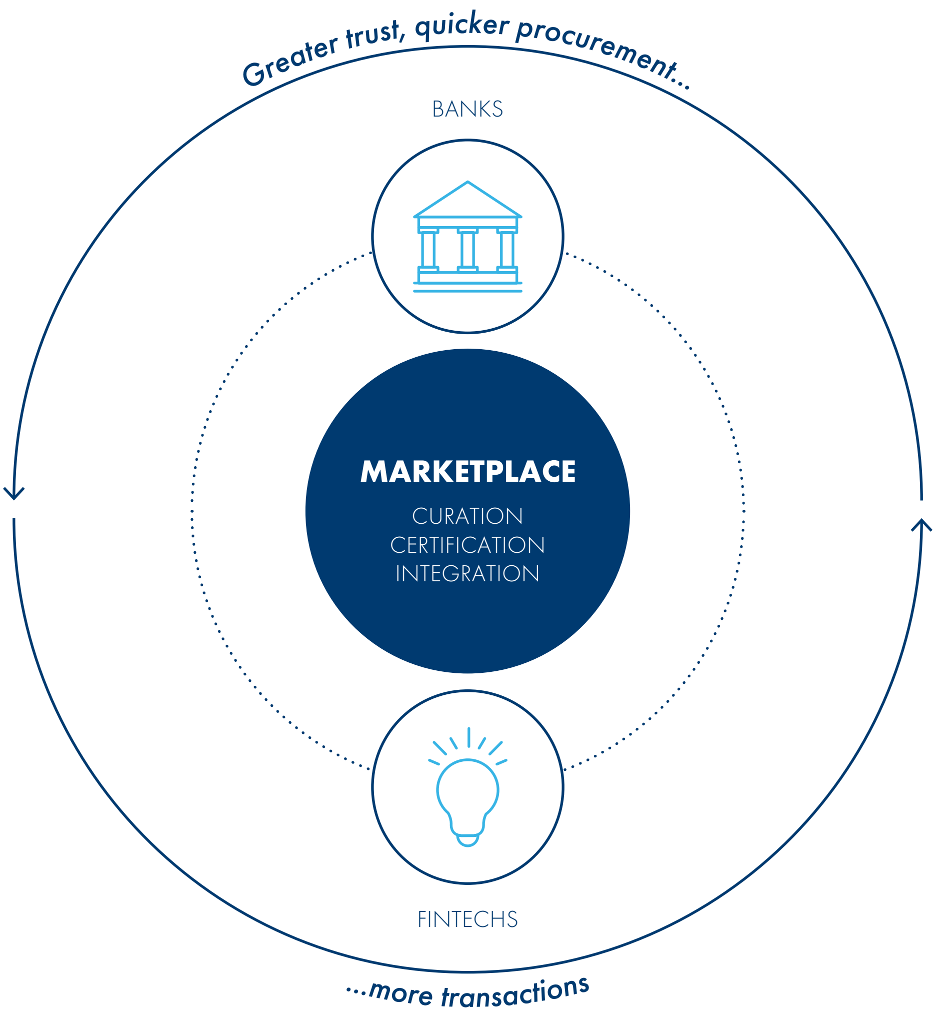
Consider the issue from the fintech angle. Banks are large, complex organizations to navigate with necessarily strict procurement processes. Even though 81.1% of our fintech respondents told us that banks willingness to work with them had improved over the last three years, only 45% of banks said their ability to work with fintech companies had improved.

From the banks' side, there are so many fintech companies out there – something like 25,000 – that it is difficult to understand what they do and how they could add value. In addition, it takes a long time (18 months on average) to steer these small companies through their procurement, legal and IT security processes and typically another 18 months to be able to test and integrate their solutions.

This is where we come in. The Temenos MarketPlace is curated. We work with our community to screen the market and find the very best solutions. Our clients can be sure that every solution on Temenos MarketPlace is best-in-class. Then, in order to speed up procurement cycles, we provide two solutions. The first is certification. Working with our partners at Fin5Lab, we are able to provide an independent, authoritative stamp of quality for the fintech solutions that go through the program, assessing the financial viability of the companies and the robustness of their solutions. The second is pre-integration and remote testing. Temenos clients can use a sandbox environment to test fintech solutions, allowing them to quickly and thoroughly test the solutions before deciding whether to buy and install into their production environment.

At the start of 2019, we opened up our MarketPlace for banking services, meaning that our customers can now access both a curated set of pre-integrated applications as well as a curated set of pre-integrated complementary services. The first of these was Raisin, the Europe platform for deposits and we will be adding several more during the course of the year.

CATALYZING THE FUTURE OF OPEN BANKING



Delivering client success

A STRATEGY FOR ALL CLIENTS

Temenos and our network of Partners took 233 clients live with Temenos software in 2018 continuing the tremendous track record of successful delivery that we have seen over recent years.

The strength of the Temenos Partner Program, where our selected Partners operate as a critical member of the Temenos Community, allows for agile scale and coverage supporting our clients globally and allows Temenos to focus on its chosen role as a product company.

The Temenos delivery strategy of supporting our Partners through the Temenos Project Consulting Service and working alongside them through the deployment of Spine teams on more complex programs continues to deliver a record of regular and timely go lives and ultimately a high level of customer success.

The Spine Team comprises Program and Project Management resources experienced in major banking transformations and Expert Consultants assigned to each of the key streams within the program working alongside the Partner teams providing specialist knowledge of the specific products being deployed.

The carefully chosen Partners within the Temenos Partner Program commit to developing delivery practices of trained and certified consultants able to successfully deliver Temenos implementation projects. This commitment has seen the growth of both the capacity and capability within the Temenos Partner ecosystem during 2018, supported by the increased and continuously improved training content made available through the Temenos Learning Community.

Temenos provides Project Management and Architectural support through the Temenos Project Consulting Services (TPCS) to help guide both clients and Partners when running a project to deploy Temenos software. The TPCS services provide access to expert support who can recommend best practice with regard to the implementation and use of Temenos software and how to optimize the use of the Temenos Implementation Methodology.

For larger more complex programs, a Spine team of senior Temenos implementation consultants are assigned to work alongside the Partner and client providing specific expertise on implementing products across the entire Temenos portfolio and for the various streams within a major transformation program.

In addition to being certified to deliver implementation programs, Temenos also provides the training for our Partners to become certified in a number of specialist functions to further support our clients in the development, migration, upgrade and training with regard to Temenos products.

As the evolution of the cloud becomes critical to the future of the Banking and Financial Services industry the value of our Technology Partners, who provide the platforms certified to host Temenos products, is becoming ever more important. We offer our own SaaS service to our clients and also in conjunction with our Technology Partners to deliver solutions to our clients. Temenos Services division along with our services Partners ensures there is the correct level of trained and certified consultants on any project when implementing Temenos solutions in the cloud to continue to drive future client success.

"My focus is all about delivering on our promises. If we aren't able to implement our software smoothly and efficiently, the pipeline will dry up. Implementation is fundamental to our ability to sell. Of course, it is rarely as simple as 'flicking a switch' but our deep understanding of our product, our clients and the relationships we share with our Partners means that we do get it right. In 2018, 233 banks went live on our software – that's an average of almost one go-live every working day of the year – a staggering achievement."

Alexa Guenoun,
Chief Client Officer

THE **FOCUS** FOR TEMENOS SERVICES

The clarity of the Partner strategy allows Temenos to focus on the delivery of a portfolio of Productized Services for our clients.

The strength of the Temenos Partner Program provides both global capacity and capability for our clients to be able to implement and upgrade the full portfolio of Temenos products.

This allows the Temenos Services consultants to focus on specific roles and responsibilities supporting implementation and upgrade projects in addition to providing a portfolio of Productized Services for live clients to optimize the use of the Temenos products they have deployed.

Project consulting for implementing or upgrading clients

Temenos has two types of delivery models to support both implementation projects as well as large transformation programs.

Our partnering strategy denotes that most implementation and upgrade projects are primed by Partners.

To support this Temenos offers Project Consulting Services to clients (TPCS).

The assigned Project Manager and Expert Consultant work with both the client and the Partner to ensure adoption of the Temenos Implementation Methodology (TIM), optimal use of the project team and ultimately drive a successful go live of the project.

All Temenos projects in 2018 have been converted to an online, 24x7 cloud based governance tool allowing immediate access to project status and position allowing Temenos to ensure delivery success for the client.

In the case of large banking transformation programs, Temenos will deploy a full time Spine team to work alongside the Partner.

Productized services for live clients

To allow our live clients to continue to gain the maximum value from the Temenos products they have deployed, our focus has been on delivering the Productized Services most required by our clients.

These Productized Services offer a short duration, pre-defined package delivered by an experienced resource.

Covering Performance Heathchecks, Data Lifecycle Management and Upgrade Assessment, these service products offer a cost effective approach to improving performance, managing risk and supporting clients who wish to enjoy the benefits of staying on the latest release of Temenos software.

Most recently and to support the latest Temenos products we have created a Cloud Readiness Service which will guide clients looking to use a cloud based platform to deploy Temenos products.

Delivering client success continued

TEMENOS LEARNING **COMMUNITY**

Two years ago Temenos set out to restructure and modernize its training and learning model in answer to the increasing demand for Temenos experts, by making the process of knowledge-transfer easier, faster and more cost effective for our clients and Partners. The Temenos Learning Community (TLC) was created to answer those demands, and during 2018 we have driven continued growth, cementing TLC as the number one provider for all Temenos' educational needs, creating experts at the heart of the Temenos Ecosystem.

TLC Online

We are excited to report that membership of TLC Online has grown some 180% to more than 2,000 subscribers in 2018. TLC Online is our approach to provide accessible knowledge-transfer to the entire Temenos ecosystem including clients, Partners and independent consultants. Subscribers enjoy access to our latest content, sandboxes, learning paths and to the only recognized Temenos certification available.

In the past year we have seen substantial increases in the activities enjoyed by our members, including an 86% increase in examinations taken, an 88% improvement in the number of members who increased their certification levels, and around 3,000 logins to the TLC sandboxes.

TLC Engine

Our second product in the TLC family arrived at the beginning of 2018. 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. Beyond addressing our clients training needs, TLC Engine is a comprehensive day to day operational tool with smart impact analysis and rich auditing capability.

We are very proud to have already implemented our first two clients at Byblos Bank and Al Masraf (Arab Bank for Investment and Foreign Trade) where they are now using TLC Engine to support their own transformation programs.

TLC Classroom

The TLC Classroom is still a very popular product with our clients and Partners alike and in 2018 we evolved our offering and made it more accessible with new componentized content, improved course structures and offering virtual courses and relaunched our public access courses.

To further enhance this accessibility, a new, flexible blended learning approach was launched to allow a combination of classroom training with remote training via our online subscription service TLC Online. This blended approach can save a client significant time and money through reduced travel and expense.

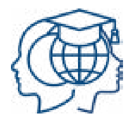
Temenos Learning Community has established a new approach for Temenos to engage with all of our expanding ecosystem that puts the knowledge-sharing and learning of Temenos products and technologies at the heart of our clients' and Partners' learning strategies.

TLC ONLINE

Cloud based, individual subscription learning platform, providing unlimited, 24x7 access to official Temenos training and certification programs and our global expert community

TLC ENGINE

The digital learning and communications platform, that is able to capture and maintain bank specific operating procedures and content, in order to rapidly upskill and certify their teams



TLC CLASSROOM

Virtual or instructor-led classroom training provided by highly experienced, certified trainers in standard or bespoke formats, delivered both onsite or via public access classrooms

Insights

11TH ANNUAL BANKING SURVEY

An industry in transition
This year's survey, conducted together with Cognizant, shows an industry in transition. The specter of the financial crisis and its aftermath – in terms of winning back trust and coping with the raft of new regulation – seems to be fading. In its place, banks are focusing on what it will take to adapt to, and succeed in, the new era of digitization and Open Banking.

Open Banking is an opportunity
Banks might not have wanted Open Banking legislation, but they can now see how it could benefit them. 89% of respondents (up from 79% in 2017 and 52% in 2015) now see Open Banking as more of an opportunity than a threat, although many worry about the increased threat of cyber criminality that could result (15% see this as their biggest challenge vs. 10% in 2017).

Fintechs are definitely friends
As banks have warmed to Open Banking, so they have become ever more disposed to working with fintech firms. Today, 9 in 10 banks want to work with fintech companies although there are still challenges in making these partnerships happen quickly enough. And banks don't just want to work with fintech firms to boost productivity, with most wanting to work with firms that can help improve digital engagement (21%) and provide complementary services (18%).

Challenger banks are definitely not
For the second year running, banks see challenger banks as their biggest competitive threat. The threat from large incumbent banks, with big brands and balance sheets, remains strong (19% cite as biggest threat) and the risk from the consumer tech giants making a bigger foray into banking is still present (20%), but it is challenger banks that top the list (cited by 23% vs 22% the previous year). Their ability to combine new technology and business models with a banking license is what has banks worried.

Business model change is the top priority
Top of banks' minds in this year's poll is business model change, cited by 21% of banks as their top priority compared to 14% the previous year. Most banks seem to realize that to prosper in the digital age will require a different business than in the past and are considering becoming aggregators (23%), infrastructure players (14%), specialists (38%) as well as starting challenger banks of their own (24%).

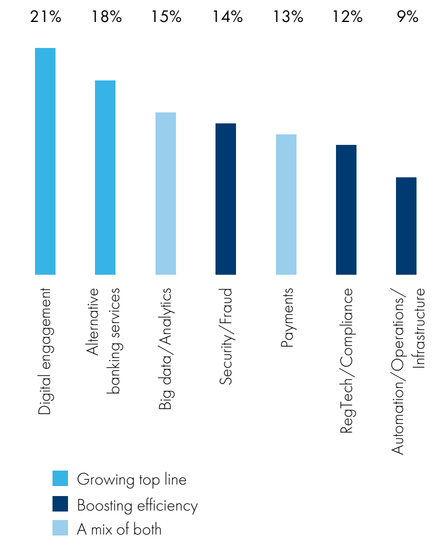
And banks are prepared to put up the money
The delta between banks expecting higher IT spending and those expecting lower IT budgets going into 2019 stood at 60%, the second highest level in the last 11 years. Furthermore, the money is not just being directed towards front office areas, such as channels. Core banking replacement (cited by 23% as top investment area) is still the top priority, suggesting banks recognize the importance of end-to-end system replacement to delivering the highest quality customer experience at scale.

Cloud goes mainstream
As we've observed consistently for the last ten years, banks see fewer barriers to adopting the public cloud; just 26% see regulatory hurdles (compared to 40% in 2009) and just 22% cite data confidentiality concerns (compared to 50% in 2011). In keeping with this, the use of the cloud is moving quickly from peripheral areas, such as testing, to full production and from small institutions to the largest banks, with little discernible difference across bank tiers and segments when it comes to willingness to deploy cloud technology.

GROWING CHALLENGE: UPGRADING CYBERDEFENCES AS FAST AS BUSINESS IS DIGITIZING*

MANAGING THE IMPACT OF TOUGHER REGULATIONS*

HOW CAN FINTECHS ADD VALUE?*



* % of respondents.

I PERFORMANCE

PERFORMANCE

Business and financial review

CEMENTING OUR POSITION AS MARKET **LEADERS**

"We have delivered another outstanding set of results for the full year 2018, with excellent performance across all of our geographies and segments. The growth was broad based with strong demand from banks of all sizes and across all regions. Banks are under increasing pressure from digitization, regulation and the move to Open Banking. Our end market is clearly accelerating and we are capitalizing on this momentum to drive significant growth in our business.

We achieved several important milestones in 2018, with key wins including Paypal, Inc. and a top 30 US bank for Temenos Infinity, our independent digital front office product, as well as the acquisition of Avoka in the US to enhance our customer onboarding and acquisition capabilities. We are leading the market globally among both traditional banks as well as neo-banks and new entrants. We also have seen a significant increase in demand from banks to run our products in the cloud and to take advantage of our SaaS offering."

BUSINESS REVIEW

INTRODUCTION

2018 was an outstanding year for Temenos, as we continued to pull ahead of the competition and take market share. Our very strong performance was across all of our KPIs, both financial and operational, and demonstrates we are able to consistently execute at a very high standard over multiple years, delivering strong growth and returns for our shareholders.

We have been able to do this by focusing on our winning business model and strategy. We build and sell the best packaged, upgradeable banking software in the world. We invest more in Research and Development than any other vendor. We have built an ecosystem of Partners around Temenos across technology, fintech and systems integrators. And we are a global company that operates locally, working with our clients on the ground to deliver success for their businesses.

We continue to benefit from multiple structural growth drivers in our end market. The pace of adoption of digital services by bank customers is accelerating and placing ever-increasing demands on banks to be fully digital, from front-to-back. Banks must be able to meet their customer needs in real time, and move from transaction processors to becoming trusted advisors, recommending next-best-product and fulfilling customer demands instantaneously. There have been a significant number of new entrants to the banking market across neo-banks, fintechs and other technology players, that are aiming to take market share from banks by offering exactly these type of services.

The move to Open Banking is also accelerating demand. This started in Europe but is now rapidly moving into all regions globally, where banks and other players are sharing customer data to offer customers the best possible service. This presents both a threat and an opportunity for banks, one that Temenos can help them take advantage of. These structural drivers are underpinning growth in spend on third-party banking software and will continue to do so for decades.

"Our new cloud native, cloud agnostic product set means we have a very compelling offering in this space that has put us significantly ahead of the competition in terms of our cloud capabilities, and we expect this to drive strong incremental growth in the future."

From a competitive perspective, we maintained very high win rates in 2018, and are continuing to take market share. We have consistently generated at least 50% of our revenue from tier 1 and tier 2 banks over the last few years, and did so again in 2018. The opportunity for us to grow in these institutions is very significant and will be a key focus for us going forward as we aim to increase our penetration and strengthen our position as the leading vendor to the world's largest banks.

To capture the market opportunity we continued investing in the business, in particular in Sales and Marketing and R&D. We grew our sales force by over 20% in 2018, through a mix of experienced hires as well as attracting some of the best graduate talent in the market to join the Temenos Sales Academy. This intensive training program gives an excellent grounding across banking, software and sales, and has produced some of our top performing salespeople in recent years. In terms of innovation, we continued to spend at least 20% of revenue on R&D in the year, with a particular focus on digital, analytics, and cloud and SaaS. The launch of our revolutionary cloud native, cloud agnostic products in January 2019 is a significant milestone in the history of Temenos and moves our product years ahead of the competition. We expect SaaS and cloud to drive significant incremental growth going forward and believe we have a highly compelling product and technology proposition to meet this demand.

OUR OPERATING HIGHLIGHTS

76

76 new customers in 2018

53%

Tier 1 and 2 banks contributed 53% of total software licensing revenue

6x

6x growth in SaaS bookings

Business and financial review continued

2018 IN REVIEW

Sales – broad based demand across geographies and segments

In 2018 our growth was driven by broad based demand across all segments, tiers and geographies, with digital and regulatory pressures continuing to be top of mind for banks, as well as the adoption of and disruption from Open Banking.

We had significant momentum in the US, with the signing of a strategically important deal with a top tier US bank for Temenos Infinity, our independent digital front-office product. We also signed a deal with PayPal, Inc. for loan management in the cloud. We are demonstrating we can beat the domestic US competition and are gaining recognition across the market as well as showing that the leading technology-led entrants to the banking market want to partner with Temenos based on the breadth and depth of our product functionality, as well as the strength of our innovation road map.

We also had very strong performance in a number of other geographies. Europe continues to see significant momentum and a strong runway for growth, with banks focused on digitization and cost reduction. We had an excellent performance in the Middle East and Africa in 2018, with demand from top tier banks across both sub-regions. We won a significant number of new name clients, as well as having strong sales into our existing client base. Lastly in Asia, we saw demand for our wealth product from retail banks seeking to enhance their mass-affluent offering, and demand in Australia from banks across all tiers, and in particular for SaaS and cloud.

More broadly, there has been a significant increase in demand for SaaS and cloud adoption in 2018, with total contract value increasing by over six times in 2018 to reach USD 59 million of order book signed in the year, very little of which has yet flowed through our P&L. This demand is incremental, bringing new banks to market and driving incremental growth for Temenos.

We continue to see very good demand from tier 1 and 2 banks, which contributed 53% of the mix in the year. These banks are undertaking multi-year projects with Temenos as their trusted partner and are a key part of our revenue visibility and pipeline going forward.

We had robust growth across both our installed base and with new clients with a record total of 76 new customers in the year.

Our 3 year plan – update on strategic initiatives

We made excellent progress on our strategic initiatives in 2018. We last outlined these initiatives in our 2018 Capital Markets day as follows:

> Enhancing our award-winning Suites. We are focused on the openness of our platform, using API layers to allow banks to build their own innovation or plug in third party applications. Our API layers also allow banks to run T24 Transact or Temenos Infinity independently, or as an integrated front-to-back offering
> Product development to open up new markets. We have continued to invest heavily in new innovation to accelerate our growth and penetration in key markets as well as opening up new ones. For example in January 2019 we signed a partnership with Bloomberg to offer contingency NAV calculations to the buy-side, which moves us into the Capital Markets space with a low-cost and highly scalable model
> Market development to capture faster growth. We are focused on driving growth in key markets where we have a strong competitive positioning and the ability to capture market share. Particular highlights in 2018 were Australia, where we signed deals with top institutions, the Middle East and Africa where we had very strong growth, and the US with two strategically important deals signed in the year
> Readying the organization for sustained faster growth and changing deployment models. We launched our revolutionary products, T24 Transact and Temenos Infinity, in January 2019. These are cloud native, cloud agnostic and API-first and a major milestone both for Temenos and the market. We see growing demand from banks of all sizes to run our software in the cloud, sometimes with a SaaS model, and these products give us market-leading cloud and SaaS capabilities. To sustain faster growth, we also need to continue scaling our third party partner relationships. We reached 5,000 skilled third party consultants in 2018 and will continue to grow this number through the Temenos Learning Community
> Complementing organic growth with acquisitions. Acquisitions such as Avoka can accelerate our product road map, bring us expertise for example in digital front office, and increase our presence in key markets like the US. We will continue to use M&A to enhance and accelerate our organic growth in our core markets.

Delivering customer success

2018 was another outstanding year of customer success. A total of 233 banks went live on our software in the year, of which 95 were going live for the very first time. We are able to deliver such outstanding results for our clients by working very closely with our Partners, who provide the bulk of the implementation team with our Services organization acting in a quality control and governance role on all our projects. We have also promoted our Chief Client Director, Alexa Guenoun, to the Executive Committee, as of February 2019, with responsibility for our global delivery and governance, and reflecting the importance of our client success to the ongoing success of our business.

OUR PRODUCT REVOLUTION

At the start of 2019, we launched our two new products – T24 Transact, our leading core banking product, and Temenos Infinity, our independent digital front office product.

These new products combine the most complete banking functionality in the market, leveraging 25 years of functionality from 3,000 banks in over 150 countries with the most advanced cloud native, cloud agnostic, API first technology and design led thinking.

Through APIs, both products can be implemented independently or integrated. Clients will be able to roll-out new applications in hours utilizing advanced continuous deployment tools and methodologies. The conversion from Temenos' existing Digital Front Office and T24 Core Banking products are automatic and upgrades for existing clients to the new cloud native, cloud agnostic Temenos products are available from April 2019. All Temenos SaaS products run on the new Temenos platform.

Temenos Infinity is the major next step in the award winning Temenos Digital Front Office product, which has over 300 banking clients. Temenos Infinity is an independent omni-channel digital banking product which helps banks transform multiple siloed banking channels and legacy applications into a fast, consistent, frictionless customer journey. Through design-led thinking, user journeys and multi-country onboarding capabilities, Temenos Infinity enables banks to orchestrate all their customers' touchpoints and interactions.

With its open API-first design, Temenos Infinity enables banks to connect with a wider ecosystem of financial and non-financial providers as well as the developer community to innovate and bring products to market faster. Temenos Infinity also integrates the recently purchased Avoka platform, the leading product in digital customer acquisition and onboarding. Temenos Infinity can be easily implemented through APIs as an independent front office platform on a third-party core banking system or integrated with the market-leading Temenos T24 Transact product.

Temenos T24 Transact is the most complete core banking product leveraging the most advanced cloud native banking technology. Temenos T24 Transact takes the deep and extensive banking capabilities of Temenos T24 Core Banking, the world's #1 core banking product supporting over 700 banks across all banking segments; and re-platforms them onto a new, cloud native and cloud agnostic platform. The isolation of the banking functionality from the technology platform has been a hallmark of Temenos products and has allowed Temenos T24 for the past 25 years to remain the most technologically advanced and functionally rich core banking product in the world.

Temenos Infinity and Temenos T24 Transact can be deployed on-premise, in a customer cloud or managed by Temenos Cloud. All products run on Microsoft Azure, AWS and the Google Cloud platform.

We will be demonstrating both of these products at our 2019 Temenos Community Forum, under the theme 'Digital Banking Reloaded', taking place in the Hague in April.

Business and financial review continued

"We had an outstanding financial performance in 2018, with total software licensing growth of 21% and total revenue growth of 15%. We also grew profit by 19% and delivered margin expansion of 111bps year-on-year. The investments we have made in our products and our sales and marketing are clearly paying off, and our clients recognize our relentless focus on innovation which they benefit from when working with us to transform their IT platforms.

The strength of our cash flows means we are recommending a 2018 dividend of CHF 0.75 per share, an increase of 15% on 2017. The outlook for 2019 is very strong, and this is reflected in our guidance for the year. We are guiding for non-IFRS total software licensing growth of 17.5% to 22.5% and non-IFRS total revenue growth of between 16% and 19%. We are guiding for 2019 non-IFRS EBIT of USD 310 million to USD 315 million, which implies a margin of c.31.7%. Our revenue visibility is very high, driven by our pipeline growth and committed spend."

FINANCIAL REVIEW

INTRODUCTION

Opening thoughts

We had an outstanding performance in 2018, which continues the momentum we built over the previous five years. We exceeded the top end of our guidance range, which we had increased at the time of our Q3 results on the back of strong sales momentum. Our business model of packaged, upgradeable software with industry-leading R&D investment is enabling us to consistently drive revenue, profit and cash generation.

Our DSOs continued to decline to reach 114 days by year end and we closed the year with USD 287 million of cash on our balance sheet and leverage of 1.6x net debt to Non-IFRS EBTIDA.

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 41.

Highlights

Full year highlights (non-IFRS) include:

> Total software licensing growth of reported (21% constant currencies)
> Maintenance growth of reported (12% constant currencies)
> Total revenue growth of reported (14% constant currencies)
> Services margin of 11.5%, representing a margin expansion of 1.9 percentage points
> EBIT of USD 266.3 million and margin of 31.5%
> EPS of USD 2.96, an increase of 21%
> Operating cash flow of USD 365 million with cash conversion of 117%, significantly ahead of our guidance of 100%
> DSOs reduced by five days to 114 days
> Recommended annual dividend of CHF 0.75 per share an increase of 15%.

REVENUES

IFRS

IFRS (IFRS 15) group revenues were USD 840.9 million for 2018. IFRS (IAS18) group revenues were USD 846.6 million an increase of 15% versus 2017 on a reported basis.

IFRS (IAS 18) total software licensing grew 22% in the year on a reported basis, with broad based demand and strong growth across all geographies. We had our strongest ever year in the US with two strategically important deals signed in 2018. We also saw strong growth in demand for SaaS and cloud which exceeded our expectations. SaaS total contract value (TCV) increased over six times in 2018 to reach USD 59 million by year end.

IFRS (IAS 18) maintenance revenues grew 12% on a reported basis, and IFRS (IAS 18) services revenues grew 7% on a reported basis.

Non-IFRS (IAS 18)

Total non-IFRS (IAS 18) group revenue in 2018 was USD 846.7 million, an increase of 15% compared to 2017 on a reported basis, with minimal difference between IFRS (IAS 18) and non-IFRS (IAS 18).

COST BASE

IFRS

Full year costs on an IFRS (IFRS 15) basis were USD 622.1 million. Full year IFRS (IAS 18) costs were USD 626.8 million, up from USD 557.1 million in 2017. The majority of the cost increase was driven by our continued investment in Sales and Marketing and product as well as some contribution from the acquisition of Rubik in May 2017. Services costs increased less than revenue as we continue to successfully leverage our third party Partners to deliver the majority of our projects.

Key Figures 31 December

USDm, except EPS	**2018**	2017
Non-IFRS Revenue	**846.7**	736.7
Non-IFRS EBIT	**266.3**	223.5
Non-IFRS EBIT margin	**31.5%**	30.3%
Cash generated from operations	**365.1**	299.7
Total assets	**1,648.3**	1,275.3
Non-IFRS earnings per share	**USD 2.96**	USD 2.45

Non-IFRS (IAS 18)

Full year costs on a non-IFRS basis were USD 580.4 million, up from USD 513.1 million in 2017. Of the USD 46.4 million difference between the IFRS and non-IFRS cost base, USD 37.2 million is due to adjustments made for the amortization of acquired intangibles costs and USD 9.2 million is due to adjustments made for restructuring costs and acquisition-related charges.

EBIT AND EARNINGS PER SHARE (EPS)

IFRS

Full year IFRS (IFRS 15) EBIT was USD 218.8 million. Full year IFRS (IAS 18) EBIT was USD 219.8 million compared to USD 178.3 million in 2017. Our business model of selling packaged, upgradeable software continues to deliver strong revenue and profit growth. IFRS (IAS 18) EPS for 2018 was USD 2.32, compared to USD 1.90 in 2017.

Non-IFRS (IAS 18)

EBIT on a non-IFRS basis was USD 266.3 million, up from USD 223.5 million in 2017, an increase of 19% on a reported basis. EPS was USD 2.96, up from USD 2.45 in 2017, an increase of 21%.

Non-IFRS EBIT margin was 31.5%, up from 30.3% in 2017, as we continued to leverage our cost base in particular across G&A and Services. Our Services operating margin was 11.5% for the year, up from 9.7% in 2017. With the launch of the Temenos Learning Community, we have been able to industrialize our Partner training program, and reached over 5,000 third party Temenos consultants by the end of the year.

CASH FLOWS

We generated USD 365 million of operating cash in 2018, representing a cash conversion of 117% of EBITDA. We have maintained our guidance for 100%+ conversion of EBITDA into operating cash flow in 2019, as our recurring maintenance and SaaS revenue continue to grow as well as continuing to focus on increasing our wallet share in our tier 1 and tier 2 clients.

DSOs decreased by nine days organically, however the acquisition of Avoka added four days of DSOs such that we ended the year at 114 days. This is in line with our target of reducing DSOs by five to ten days per annum which we have maintained for 2019. We continue to target DSOs to reach 100 days in the medium term. We generated free cash flow of USD 280 million, an increase of 23% on 2017.

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
> 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 2018 with a leverage ratio of 1.6x net debt to non-IFRS EBITDA, and have significant capacity to pursue inorganic growth opportunities to accelerate our organic growth in line with our M&A strategy if they arise.

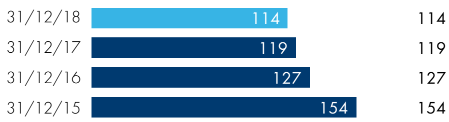
DIVIDEND

We have announced a dividend of CHF 0.75 per share for 2018, representing an increase of 15%. This is subject to shareholder approval at the AGM on 15 May 2019. The shares will trade ex-dividend on 17 May 2019, and the dividend record date will be set on 20 May 2019. The dividend will be paid on 21 May 2019. As with previous years, the 2018 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted of withholding tax. Temenos' policy is to distribute a sustainable to growing dividend.

114 DAYS

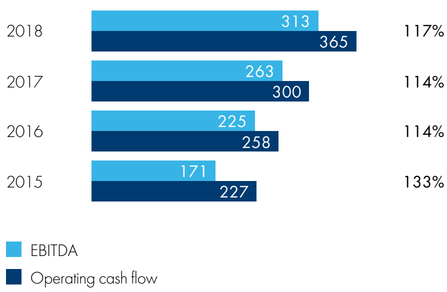
DSOs

Days



CASH CONVERSION

USDm



Business and financial review continued

USDm, except EBIT margin and EPS	Non-IFRS (IAS 18) 2018	Non-IFRS (IAS 18) 2017	Change	IFRS 2018 IFRS 15	IFRS 2018 IAS 18	IFRS 2017 IAS18	Change
Software licensing	307.4	248.5	**24%**	341.6	307.4	248.5	**24%**
SaaS and subscription	75.6	67.5	**12%**	31.3	75.5	66.2	**14%**
Total software licensing	383.0	316.1	**21%**	372.8	382.9	314.8	**22%**
Maintenance	307.5	274.8	**12%**	314.4	307.5	274.8	**12%**
Services	156.2	145.8	**7%**	153.7	156.2	145.8	**7%**
Total revenues	846.7	736.7	**15%**	840.9	846.6	735.4	**15%**
EBIT	266.3	223.5	**19%**	218.8	219.8	178.3	**23%**
EBIT margin	31.5%	30.3%			26.0%	24.2%	
EPS (USD, fully diluted)	2.96	2.45	**21%**	2.31	2.32	1.90	**22%**

LOOKING FORWARD

Guidance for 2019

Our 2019 non-IFRS guidance is as follows (in constant currencies):

> Non-IFRS total software licensing growth at constant currency of 17.5% to 22.5% (implying total software licensing revenue of USD 438 million to USD 457 million)
> Non-IFRS total revenue growth at constant currency of 16% to 19% (implying total revenue of USD 975 million to USD 1,000 million)
> Non-IFRS EBIT at constant currency of USD 310 million to USD 315 million (implying non-IFRS EBIT margin of 31.7% or c.130 bps expansion organically excluding the impact of Avoka)
> 100%+ conversion of EBITDA into operating cash flow
> Tax rate of 15% to 16%.

Medium term targets

We have reconfirmed our medium term targets, which are as follows:

> Non-IFRS total software licensing growth of at least 15% CAGR
> Non-IFRS total revenue growth of 10-15% CAGR
> Non-IFRS EBIT margin improvement of 100 to 150 bps 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
> Tax rate of 17% to 18%.

MEDIUM TERM TARGETS

At least 15%

Total software licensing (CAGR)

5-10

DSO reduction (days)

10-15%

Total revenue (CAGR)

100%+

of EBITDA (cash conversion)

100-150

p.a. EBIT margin expansion (bps)

17-18%

Tax rate

At least 15%

EPS (CAGR)

Drivers of growth in 2019 and the medium term

We continue to benefit from multiple structural drivers of growth which we will capitalize on to deliver our medium term targets.

The total global spend we can address today with our products is estimated to be USD 57 billion, of which only c.20% is spent with third party vendors. The spend with third parties is estimated to be growing at an 8% CAGR as banks are under increasing pressure from digitalization, changing customer expectations, regulation and new competition and are moving away from spending in-house on maintaining legacy systems to buying best-in-class third party packaged software.

Banks running in-house legacy software spend an average of 80% of their budgets on maintaining their systems, with limited capacity to invest in innovation. By moving to packaged, upgradeable software, banks are able to significantly lower their Total Cost of Ownership, increase their spending on innovation and dramatically reduce speed to market for new innovation and product. This enables them to better understand and service their customers, ultimately driving customer acquisition, retention and profitability.

Temenos' business model makes us the leader in our market. We have the highest rate of investment in R&D in the industry, with a rich product road map that gives clients the confidence to select Temenos as their strategic partner.

Tier 1 and 2 clients contributed 53% of total software licensing revenues in 2018, yet to date we have only captured around 4% of the addressable wallet in our average tier 1 or 2 client. This is a significant focus for us going forward as our dedicated account managers focus on expanding our relationships in these clients.

Our installed base continues to represent 60% of total software licensing revenues, and we expect revenues from the installed base to grow at a CAGR of 15-20% in the medium term driven by cross-selling, progressive renovation and relicensing.

We have seen very strong growth in demand for SaaS and cloud from banks across all tiers in 2018, which exceeded our expectations. Total Contract Value increase over 6 times in the year to reach USD 59 million, and we expect our SaaS revenue to double in 2019 through strong organic growth and the impact of the Avoka acquisition. In the medium term we expect our SaaS revenue to grow at a CAGR of c.35% organically.

USDm	**2018**	2017
IFRS EBIT (IFRS 15)	**218.8**	178.3
IFRS 15 adjustment	**1.0**	–
Deferred revenue write-down	**0.1**	1.3
Amortisation of acquired intangibles	**37.2**	35.0
Restructuring	**3.3**	6.9
Acquisition-related charges	**5.9**	2.0
Non-IFRS EBIT (IAS 18)	**266.3**	223.5

We had our best ever year in the US, with the signing of multiple deals across large incumbent banks, neo-banks and new entrants such as Paypal Inc. With the acquisition of Avoka, we now have c.450 people in the US and are demonstrating our commitment to this market and our ability to win deals and drive revenue growth.

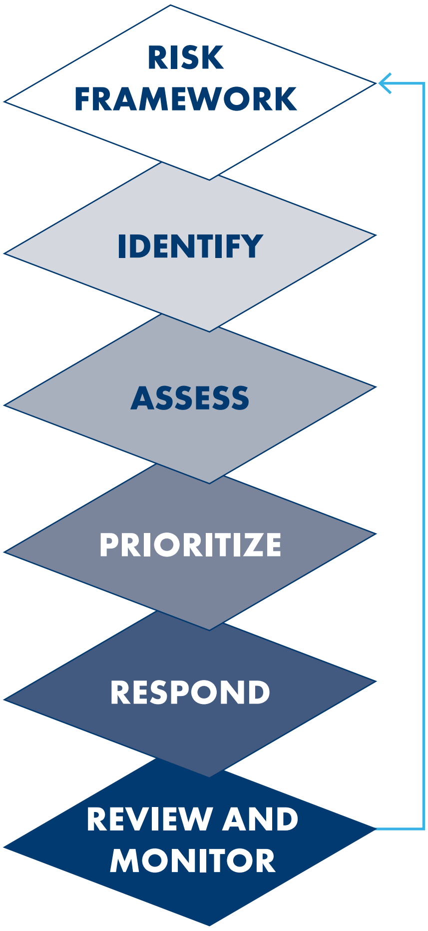
FINAL REMARKS

I am delighted with our performance in 2018. We have proven our ability to deliver sustainable, long term growth in revenue and profit through the strength of our business model. As the leader in our market we are confident in continuing to capture significant market share, as demonstrated by our achievements in 2018 as well as the strength of our revenue visibility and pipeline generation at the start of 2019. I am confident in delivering our guidance for 2019 and the medium term. On a personal note, I was honored to become CEO of Temenos in March 2019. We have incredible strength and depth in our management team and we will continue executing our winning strategy to drive our growth and deliver returns for our shareholders.

Max Chuard
Chief Executive Officer
Temenos AG

Principal risks and uncertainties

RESPONSIBLE RISK MANAGEMENT



RISK MANAGEMENT

Temenos Risk management policy is aligned 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 performed within business units and summarized results 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 and mitigation plans. 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, or cost-cutting measures by financial services companies, 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, 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 adverse effect on Temenos' business, financial 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 has implemented controls and 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.

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 Operations.

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.. It is not always possible to identify and rectify all 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 the Software Development Life Cycle. 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 intense competition for experienced and highly qualified individuals. The success of Temenos is partly dependent on its ability to identify, attract, develop, motivate and retain highly skilled and qualified management and other personnel, particularly those with expertise in the banking software industry. 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 over 40 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 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
> 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.

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. 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.

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 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.

Principal risks and uncertainties continued

MANAGING CLIENT RELATIONSHIP

Temenos enters into long term relationships with its clients. The contractual arrangements supporting these relationships are 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 is proactively seeking and responding to client feedback.

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 18 SOC 1 and 2, ISO 9001 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 process 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 solutions 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. Risk of failure to assimilate operations and personnel, may materialize. The process of integrating an acquired company or business may create unforeseen operating difficulties and expenditures.

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.

SECURITY, BUSINESS CONTINUITY AND RESILIENCY

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

> Attempts to gain unauthorized access to sensitive information and data
> 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
> 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 cannot be full 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:

> Attempts to gain unauthorized access to data, information or intellectual property
> Disruption to or denial of service
> Other malicious or criminal activities.

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.

Principal risks and uncertainties continued

SECURITY, BUSINESS CONTINUITY AND RESILIENCY CONTINUED

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 Group. 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.

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 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 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. 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.

Temenos Head Office also manages all global policies. The main global policies provide coverage across core business areas such as 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, Temenos recognizes that the efficacy of some of these controls and procedures depends significantly on employees and contractors, and on input from external parties 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 guarantee 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 risk management and internal controls system.

OPERATING **RESPONSIBLY**

OPERATING RESPONSIBLY

Message from the CEO

ACHIEVING EXCELLENCE **RESPONSIBLY**

"We are committed to giving back to the communities where our employees, Partners and clients live and work."

As I reflect on 2018, I am proud of what we have accomplished together with our people.

In November we celebrated our 25-year anniversary together with our people in our 67 offices in 41 countries, a landmark during our Temenos journey. More change has taken place in banking over the last five years than in the previous 20. After having served the industry for 25 years, we have built one of the world's most dynamic banking communities, where we share best technology banking practices and see their impact on our stakeholders. The banking industry is undergoing a once-in-a-generation reinvention.

Climate change, the depletion of natural resources and rising poverty and inequality are interlinked and pose challenges to our communities, businesses and governments. Technology is changing and shaping social behavior by enabling new ways to produce, distribute and consume information while playing a major role in business strategy, performance and social development. Digital technologies combined with tougher regulations and competitive market conditions, are accelerating change, changing consumer habits and enabling new entrants with new services and business models. At the same time, society is making new demands on business. Compared to their parents, tech-savvy millennials expect more transparency, trust, and equitable and ethical growth from the businesses they work for and the brands they buy from. This is changing the role of business.

Understanding the changing needs and meeting the expectations of our stakeholders is an important aspect of our corporate strategy. Operating Responsibly is in our DNA, part of our Temenos values. For 25 years, we have been committed to working with all our stakeholders to build strong, long term relationships and create sustainable value for them. These commitments have guided the way we operate internally, innovate and deliver on our business mission.

In May 2018 we renewed our commitment to the 10 UN Global Compact principles to making it a part of our strategy, culture and day-to-day operations, to engaging in collaborative projects which advance the broader development goals of the United Nations, particularly the Sustainable Development Goals and to annually reporting on our progress to our stakeholders and the general public.

These commitments brought us together with other business leaders, regulators and international organizations for the World Economic Forum Sustainable Development Impact Summit in New York in September. For two days, we brainstormed on how to respond to emerging social and environmental trends and how to shape the agenda for action on sustainability.

I am proud of the contribution Temenos is making to the global effort to achieve the SDGs. As a global company, it is our ethical responsibility to use our technology, expertise and resources to help the world's most vulnerable communities. This is a global issue that is particularly close to our hearts. Some two billion people in the world have no access to financial services or a bank account, which means no credit and no chance to pay for education, start a business, or save for the future. With every new software system we implement in emerging markets, we are helping banks lower the cost of financial services, enabling access to financial services, thereby making them more affordable to the people who need them most.

We are committed to giving back to the communities where our employees, Partners and clients live and work. In 2018, through the Temenos Adopt iT project, we built computer labs in three schools in India.

In addition, we focused our actions on encouraging gender equality and inclusive education for all, by building girls' restrooms in two schools in India, helping girls stay in school and gain equal access to education and opportunities in life. Temenos employees volunteered their time and expertise in helping over 1,500 high school students gain digital skills and unleash future opportunity with access to jobs, health and finance.

Our Temenosians are the most important and valuable Company asset constituting the Temenos culture and helping the Company bring exceptional value to our stakeholders. We pride ourselves in relying on and investing in our employees, a global team of diverse, highly committed and talented people. We strongly believe in adding value every day and we want our employees to feel the same. Our People are the KEY.

In 2018, we celebrated a number of achievements:

> The inclusion of Temenos into the SXI Switzerland Sustainability 25® Index – among the 25 Swiss stocks from the SMI® Expanded Index with the best sustainability scores;
> The Best Workplace award by Great Place to Work®, together with our people in Greece; and
> The Prize of the Geneva Economy 2018 by the Geneva Chamber of Commerce, Industry and Services (CCIG), together with our people in Geneva

All of these are recognizing our contribution to our global commercial success, as well as the local economy by helping attract and retain talent in these countries.

2018 was also an important milestone on our long term environmental sustainability path. Temenos received ISO 14001:2015 certification for having implemented an Environmental Management System (EMS) in the Company's three offices in India (Chennai and Bangalore), which account for 52% of the total global employee workforce and are the hub of our product development activities, demonstrating our commitment to improving our environmental performance and addressing climate change.

As we look to the future, I would like to thank all our stakeholders for their commitment and trust in Temenos. We will continue to make our commitments clear to all our stakeholders, further the social dialogue and drive continuous improvements to meet and exceed their expectations. Our people together with our expertise and digital technologies can and should be enablers for social change.

Max Chuard
Chief Executive Officer

ABOUT TEMENOS

Founded in 1993, Temenos AG is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud native, cloud agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence. Temenos clients are proven to be more profitable than their peers: over a seven-year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

Headquartered in Geneva, Switzerland, the Company currently has 64 offices in 40 countries and had non-IFRS revenues of USD 840 million for the year ended 31 December 2018. Temenos has been a public company listed on the SIX Swiss Exchange (TEMN) since June 2001.Temenos employs 5,744 people worldwide, including full-time employees and contractors. In December 2018, Temenos acquired Avoka, a US-based leader in digital customer acquisition and onboarding. For more information please refer to Strategic acquisitions and investment on page 9.

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, continuously upgradeable end-to-end banking software which is both cloud native and cloud agnostic; through design led thinking, we orchestrate all our customers' touchpoints to create a frictionless customer journey

OUR VALUES

We see things differently from everyone else

Average people see difficulties, exceptional people see opportunities.

Read more on page 20

We believe in the power of people

People make things happen. People define our destiny.

Read more on page 66

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.

Read more on page 50

We inspire, through living up to our full potential

We dream big and pursue our goals fearlessly.

Read more on page 24

We place clients at the core of what we do

Everything starts and ends with our clients' goals.

Read more on page 28

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 strongly believe that our long term success requires a sustainable business model that incorporates corporate responsibility as an important part of our business operation.

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 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.

OUR ENDORSEMENTS

International organizations, industry peer pressure and stakeholder expectations play a major role in promoting responsibility, 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, UK Modern Slavery Act 2015 and the UK Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

In addition, we align our commitments and CSR reporting with voluntary global standards. We base our CSR reporting on the Global Reporting Initiative (GRI) Standards. We have endorsed the United Nations Global Compact (UNGC), and are committed to submitting an annual Communication on Progress implementing the UNGC's 10 principles. We are members of the Global Compact Network Switzerland. 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.

In 2018, Temenos joined the World Economic Forum (WEF) as a Member. Temenos representatives participated in a number of key WEF events, demonstrating the significance of our contribution to the banking industry and more broadly to society as a whole, including the Sustainable Development Impact Summit that took place in New York on 24-25 September 2018. This WEF conference aimed to accelerate progress on the UN's Sustainable Development Goals and Paris Agreement and discuss the wider application of technologies to find solutions to climate change. It was not just a meeting but a think tank, a joining of minds from industry, regulators and international organizations to strategize on how to respond to new emerging trends and shape the new agenda for action. Temenos' attendance confirms our commitment to furthering the sustainability agenda.

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.

OUR ACHIEVEMENTS

Throughout 2018, as a result of our active dialogue with our stakeholders, we continued to benchmark our sustainability performance against international business benchmarks and voluntary, in order to better address the needs of our stakeholders.

In recognition of our sustainability performance as well as contribution to the local economies where Temenos operates:

> The SXI Switzerland Sustainability 25® Index included Temenos among the 25 Swiss stocks from the SMI® Expanded Index with the best sustainability scores
> The Great Place to Work® Competition recognized one of the Temenos offices globally, Temenos Greece, as one of the Best Workplaces in the country
> The Geneva Chamber of Commerce, Industry and Services awarded the 'Prize of the Geneva Economy 2018' in recognition of our long term contribution to the Geneva economy
> Our Environmental Management System in our three offices in India received ISO 14001:2015 certification.

2019 Goals

To continue to target international standards, frameworks and business benchmarks relevant to the interests of our stakeholders, such as indices, ISO certifications and performance ratings.

SUSTAINABLE DEVELOPMENT GOALS

1 No Poverty	Enabling Access to Financial Services; Investing in Our Communities
4 Quality Education	Investing in Our Communities
5 Gender Equality	Investing in Our People; Enabling Access to Financial Services; Investing in Our Communities
6 Clean Water and Sanitation	Investing in Our Communities
7 Affordable and Clean Energy	Operating Responsibly
8 Decent Work and Economic Growth	Investing in Our People; Enabling Access to Financial Services; Investing in Our Communities
13 Climate Action	Operating Responsibly
17 Partnerships for the Goals	Operating Responsibly

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 identify the significant economic, environmental and social impacts on Temenos and better understand the interests and expectations of our stakeholders. We conduct annual surveys with clients, Partners and employees to learn more about our stakeholders' experiences working with us, as well as their expectations from us. During the past years, our clients, prospects, investors and suppliers have addressed CSR as part of their evaluation of Temenos as an IT partner through client, prospect and investors' questionnaires, supplier and rating agencies' assessments, requesting for documentation of our CSR strategy and compliance with voluntary international sustainability standards.

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 Standards.

2019 Goals

To annually review the main material issues for Temenos to gain feedback on our existing CSR strategy and possible new areas for action.

STAKEHOLDER GROUPS	EXAMPLES OF ENGAGEMENT	STAKEHOLDER KEY CONCERNS	LOCATION IN REPORT
Employees Frequency: Daily	> 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, Marketing, 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	> Training and development > Internal communication > Job satisfaction > Employee recognition > Responsible, secure and fun workplace	> Investing in Our People
Clients Frequency: Daily	> Client surveys: Client Voice and Client Satisfaction project > Product Board and Steering Committees > Annual Temenos Community Forum > Temenos Innovation Jams > Temenos MarketPlace > Client newsletters, Marketing updates and social media > Client Support Portal > Audits > Temenos Security and Privacy Committee > Business Code of Conduct, data privacy and protection and corporate security policies	> Client communication > Client satisfaction > Quality, security and responsibility in delivery and implementation > Data privacy and protection	> Achieving Business Excellence: Focus on Client Engagement
Investors Frequency: Weekly	> Annual General Meeting of Shareholders > Annual Capital Markets Day > Roadshows, investor and analyst meetings > Financial press releases, videos, webcasts and social media > Annual Report > Corporate website > Business Code of Conduct and linked policies	> Economic performance > Transparent and ethical corporate governance > Accurate, timely and responsible communication	> Annual Report
Suppliers and Partners Frequency: Daily	> Procurement policies > Annual Temenos Community Forum > Annual Temenos Global Sales Meeting > Annual Partners' Meeting > Temenos Innovation Jams > Trainings and seminars > Audits and risk assessments	> Ethical and responsible business conduct > Long term partnership	> Operating Responsibly: Responsible Procurement
Communities Frequency: Monthly	> Cooperation with NGOs > Community service > Employee fundraising > Community investment projects > Social media	> Access to education and jobs > Improve local living conditions > Support in emergency situations	> Investing in Our Communities
Academic Communities and Potential Employees Frequency: Daily	> Temenos Sales Academy > Services Incubation Center > Temenos Masterclass > Internships > Collaboration in research programs > Lectures, presentations, company visits > Career days > Social media	> Collaboration and job opportunities > Joint R&D projects	> Investing in Our People

Our CSR approach continued

MATERIALITY ANALYSIS

Based on various internal compliance, business continuity and 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 Standards' 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 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 economic, environmental and social impacts
> 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.

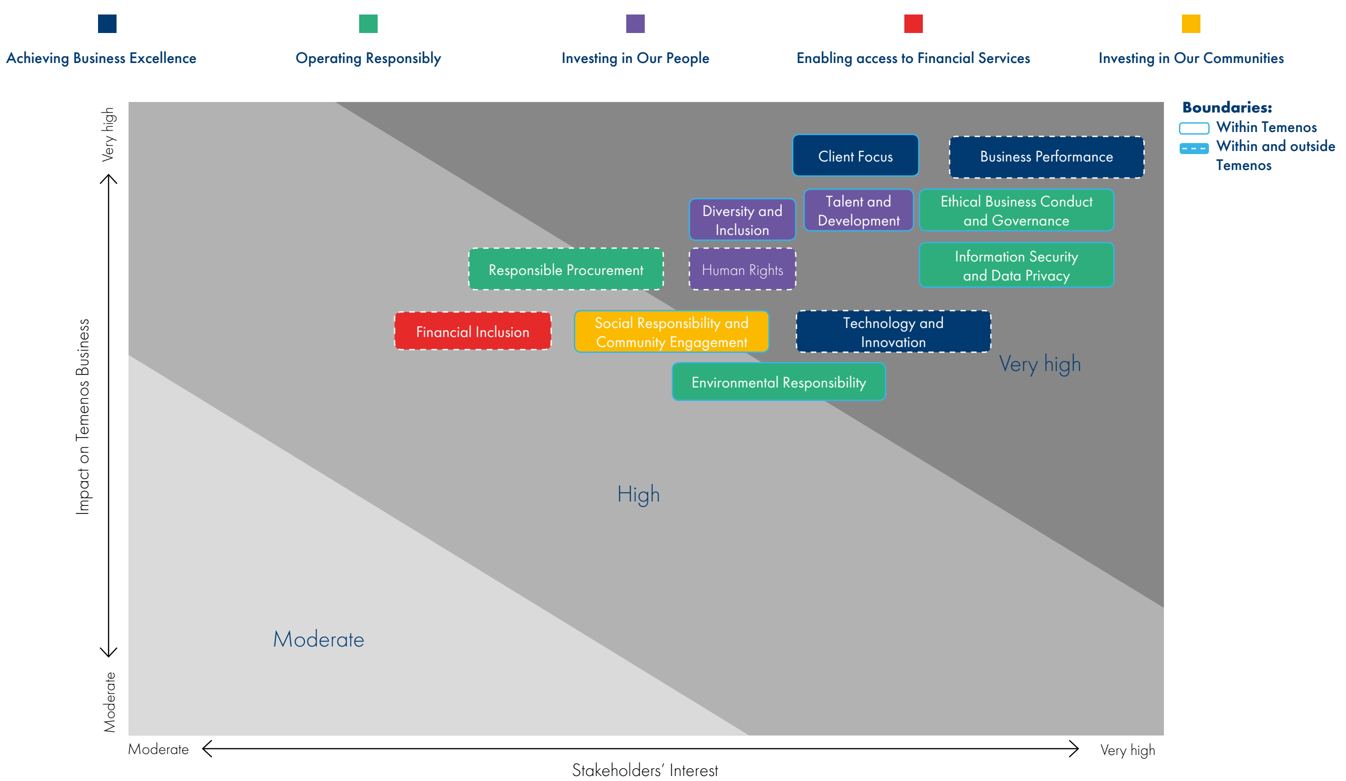
The following main material issues for Temenos and our key stakeholders have been identified:

> Business Performance
> Ethical Business Conduct and Governance
> Diversity and Inclusion
> Talent and Development
> Human Rights
> Client Focus
> Information Security and Data Privacy
> Responsible Procurement
> Social Responsibility and Community Investment
> Environmental Responsibility
> Technology and Innovation
> Financial Inclusion.

In the following materiality analysis graph, the vertical axis represents the impact of the above material issues on Temenos and the horizontal axis represents the stakeholders' interest per material issue.

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
   > Environmental Responsibility
> Investing in Our People
   > Human Rights
   > Diversity, Inclusion and Equal Opportunity
   > Employee Relations
   > Global Mobility, Health and Welfare
   > Employee Communication and Engagement
   > Talent and Development
   > Employee Recognition
> 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
   > Supporting local suppliers.



Achieving business excellence

BUSINESS PERFORMANCE: FINANCIAL AND OPERATIONAL HIGHLIGHTS

2018 Non-IFRS financial highlights

> Total software licensing revenue growth of 21%
> Maintenance growth of 12%
> Total revenue growth of 15%
> Services margin of 11.5%, improvement of 1.9 percentage points
> EBIT margin of 31.5%, up 111 bps
> Operating cash flows of USD 365 million, up 22%
> Operating cash conversion of 117% with DSOs down five days in the year
> Strength of cash flows and growth in profit support 2018 dividend of CHF 0.75 per share, an increase of 15% (2017: CHF 0.65 per share).

2018 Operational highlights

> Outstanding performance in 2018 with broad based demand across geographies and tiers
> Digital and regulatory pressures and move to Open Banking are driving market growth
> Strong incremental growth in demand for SaaS and cloud adoption, exceeding our expectations
> Temenos sees growing appetite for large institutions to optimize delivery through cloud
> Strong momentum in the US market with two strategically important deals signed with a top tier US bank for visionary front office replacement and PayPal, Inc. for loan management in the cloud
> Temenos won a total of 76 new clients in 2018 with competitive deals contributing 40% of total software licensing in the year
> Continued high levels of activity with Tier 1 and 2 banks which contributed 53% of total software licensing in 2018
> Temenos is the market leader, raising barriers to entry and pulling ahead of the competition
> We started 2019 with very high levels of revenue visibility and a strong pipeline, driven by recurring revenue, committed spend and its installed base
> There are now over 5,000 third party Temenos consultants, with a critical mass of experts available to support clients across implementation, testing and training.

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. Our medium term growth targets are shown to the right.

In 2018, we grew non-IFRS total software licensing by 21% and non-IFRS total revenues by 15%. We achieved full year EBIT of USD 266.3 million and expanded our non-IFRS EBIT margin by 111bps to reach 31.5%. Our proposed 2018 dividend is CHF0.75, an increase of 15% over last year's dividend. We have a strong capital structure, with low leverage of 1.6x net debt / EBITDA as of 31.12.18 and having generated USD 365 million of operating cash flow in 2018. Temenos' economic contribution to its various stakeholders is summarized in the table to the right.

Our medium term growth targets are:

METRIC (NON-IFRS)	MEDIUM TERM TARGETS	ACHIEVED IN LAST 3 YEARS
Total software licensing	At least 15% CAGR	21% CAGR
Total Revenue	10-15% CAGR	15% CAGR
EBIT	100-150 bps p.a.	114bps average
EPS	At least 15% CAGR	20% CAGR
DSO reduction	5-10 days reduction p.a.	13 days average
Cash conversion	100% + of EBITDA	115% average
Tax rate	17-18%	13% average

ECONOMIC CONTRIBUTION TO VARIOUS STAKEHOLDERS	FY 2018 USD 000	FY 2017 USD 000
Revenue	840,861	735,363
Employee wages and benefits	386,215	350,253
Payment to provider of funds	67,842	22,526
Payment to government	38,839	11,930
Community Investment	175	117

The total monetary value of financial assistance received by Temenos from governments during 2018 is as follows:

Europe:

> UK: Temenos UK receives research and development tax credits for certain related activities. In 2018 the total tax credit received was USD 434,240 (2017: USD 300,000).Temenos UK is also entitled to an annual apprenticeship levy allowance amounted at USD 19,101.
> Romania: Temenos Romania benefits from an income tax exemption for employees in software creation related roles. The amount of the exemption for 2018 was USD 399,385 (2017: USD 620,000). In addition, there is a 20% reduction in Romanian corporate income tax of USD 46,589 (2017: USD 48,610). This amount is instead paid directly to a Temenos nominated charity.
> Luxembourg: According to an EU directive, Temenos receives a refund from the state in relation to the employee trainings performed in Luxembourg. The refund received in 2018 amounts to USD 263,162.

Asia

> 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 2018 was USD 5,105 (2017: USD 2,090).
> Singapore: Under Singapore's Productivity and Innovation credit (PIC) and Wage credit Schemes Temenos has claimed USD 34,666 in 2018 (2017: USD 51,095).
> Australia: Temenos Australia is entitled to an R&D Tax Incentive (Tax Credits) from the Australian government. In 2018, the total tax credit claimed was USD 165,554.

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.

Achieving business excellence continued

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 Promotor 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 45 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 nine survey waves, collecting over 6,000 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 to Hand in Hand International. In 2018 we set ourselves several goals including maintaining a strong response rate and improving in all satisfaction areas. We are pleased to have achieved our 2018 goals, we will continue to strive for improvement and have set further goals for 2019.

2019 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.

International Standards and Certifications

In order to deliver our services to all clients across in a consistent and standardized way, Temenos uses processes and methodologies 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.

CERTIFICATION/ STANDARD	2018	2019-20 GOALS
ISO/IEC 27001:2013 Information Security Management System with extensions: ISO 27017 ISO 27018 ISO 27032	Temenos India offices and Temenos Australia are ISO 27001 certified against the standard. Temenos UK and Romania offices await certifications.	To extend this certification for ISO 27017 and 27018 in 2019.
ISO 22301:2012 Business Continuity	Assessment and gap analysis.	To aim for certification in 2019 for cloud: Temenos Australia, Temenos India Chennai offices, Temenos Romania, Temenos UK Fenchurch office and newly acquired Avoka for Sydney and Denver offices.
ISO 9001:2015 Quality Management	Temenos India offices and UK offices –Product Core CMB, CSD, PACS, Model Bank, Technology. Temenos Australia.	To extend the certification to US Model Bank.
ISO 14001:2015 Environmental Management	Three Temenos India offices are ISO 14001:2015 certified.	To extend the certification to other Temenos offices in Europe.
AICPA SOC System and Organization Controls SOC 1 Type 2 SOC 2 Type 2	Temenos India offices, Temenos Romania and Temenos UK are certified for SOC 2 Type 2. Akcelerant Lifecycle business and Wealth Management are also SOC 2 type 2 certified. Australia certified SOC 2 type 1. Newly acquired Avoka is SOC1 Type 2 and SOC2 Type 2 certified.	To extend SOC 2 certifications to include: Temenos Australia SOC2 type 2 in November 2019, LATAM locations for SOC 2 Type 2, US core banking for SOC 2 Type 1&2, Other processes such as product development and implementation.
CSA STAR Certificate/Cloud Security Alliance – Cloud Controls Matrix (CCCM)	Assessment of compliance with the CSA CCM completed.	To publish a standard response to the CSA CCM for use by clients in assessing the security of our services. To prepare for STAR certification.
PCI DSS level 1 Payment Card Industry – Data Security Standard	Temenos Australia gap analysis concluded.	To implement controls and obtain the certification in 2019 for Temenos Australia.

Operating responsibly

DOING BUSINESS THE **RIGHT** WAY

For 25 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 interests 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 Chief Executive Officer
> 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 88 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's membership in 2018 was as follows:

> Chief Financial Officer / Chief Operating Officer (Chairman of the Committee)
> General Counsel (Deputy Chairperson of the Committee)
> Group CSR Manager (Secretary)
> Chief Human Resources Officer
> 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 2018, the Committee held five meetings.

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 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 2018, we achieved an acknowledgment rate of 99.6% for the Code.

Employees are also required to complete the mandatory trainings upon joining and as of 2019 all employees will be required to repeat every 12 months. 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.

Operating responsibly continued

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 2018 had a positive impact on our Ethical Business Conduct compliance.

GLOBAL TEMENOS TRAINING COMPLETION PERCENTAGE*

Business Code of Conduct Acknowledgment	99.6%
Business Code of Conduct Training	99.0%
Anti-Corruption and Bribery Training	99.3%
Data Protection Training	98.9%
Security Awareness Training	98.6%

* Excluding Avoka employees.

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 Anti-Corruption and Bribery 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. Anti-Corruption and Bribery training is part of the annual Business Conduct training that all employees have to take when joining Temenos and to repeat regularly during their employment with Temenos. By 31 December 2018, 99.3% of employees (including Executive Chairman, Executive Committee and Leadership team members) have completed the training (0.7% is accounted for new joiners with a three-month grace period from their hire date).

The Anti-Corruption and Bribery policy and the Anti-Corruption Program include several elements such as proportionate procedures, top-level commitment, risk assessment, integrity due diligence, communication, training, monitoring, review, 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 Anti-Corruption and Bribery provisions in our Partner and contractor agreements as well as in our procurement process with suppliers. Since 2016, we have 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.

The updated Code addresses 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 Anti-Corruption and Bribery practices. All charitable contributions, donations and sponsorships require the prior review and written approval of the CSR and Ethics Committee.

We continue to operate on the updated anti-corruption framework and guidelines when engaging with third-party representatives that introduce Temenos to new markets and projects, both in terms of 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:

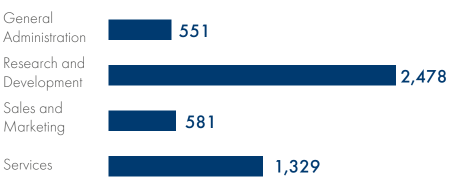
1. Quantitative Criteria

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.

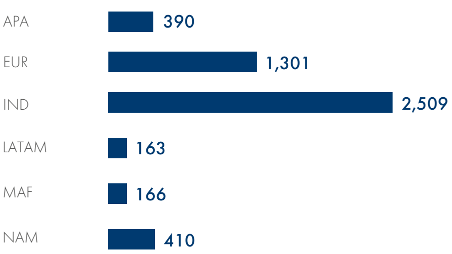
ANTI-BRIBERY AND CORRUPTION STATUS

BY FUNCTION



% BY FUNCTION

BY REGION



% BY REGION

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 Anti-Corruption and Bribery 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 Anti-Corruption and Bribery 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 Anti-Corruption and Bribery compliance program is continuously improving, in line with best practices and our continually evolving business.

In 2018, 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 2018, Temenos' Sanctions Compliance Program, conducted internally by implementing Temenos' own compliance solution "FCM" in a corporate environment, was further enhanced. Due to enhancement, we now have the capability to analyze within 24 hours 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 to the FCM Solution, and all business opportunities and clients are now checked daily.

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. In 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.

We have 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
> Group Internal Audit.

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 a 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.

Employee concerns	No. of grievances in 2018
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, bribery or other ethical misconduct	0
Health and Safety or perceived damage to the environment	3
Violation of the Temenos Business Code of Conduct	3
Actual, potential or perceived conflict of interest	0
Total	8

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. To that end as part of our continuous improvement program for Information Security and Privacy, in early 2019 a Chief Security Officer reporting to the CEO, was introduced, responsible for the wider Temenos Security agenda, including cloud and IT security, privacy, compliance and business continuity.

Privacy

Key highlights for 2018 include:

> Aligning our product offering with the Customer Data Protection Module. The Temenos Customer Data Protection module provides clients the tools and functionality to assist their compliance to the General Data Protection Regulation (GDPR), and therefore more control, of personal data and processing throughout the 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 privacy compliance.

> To comply with GDPR, data security and other related local laws, we implemented 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. 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.

> We embedded Security and Data Privacy awareness throughout the organization. In developing 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. Temenos Data Protection and Privacy Policy applies to all of Temenos worldwide. As part of the e-training modules that all employees and contractors have to take when joining Temenos and to repeat during their employment with Temenos – including data protection training modules aligned with the GDPR-, in 2018, we achieved a completion rate for the trainings of 99%. 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.

> 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 the financial and legal compliance requirements.

> Temenos fully deployed its GDPR compliance plan, 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. Based on the above, all processes involving processing of personal data have been mapped and assessed for relevant risks. Furthermore, all data subjects can exercise their rights, as depicted by the GDPR.

> We developed a three year Privacy Strategy and assess the Privacy Maturity of all involved Temenos functions, by analyzing:
>
> > Privacy Strategy
> > Governance
> > Policy
> > Risk
> > Compliance
> > Records of Processing
> > Privacy Notice and Cookies
> > Data Collection and Subjects' Rights
> > Privacy by Design
> > Sharing Transfer Disclosure
> > Suppliers' Relationships
> > Monitoring Enforcement
> > Incident Management
> > Privacy Awareness and Behavior

> The leading Privacy Management Software "OneTrust" has been acquired and Privacy Compliance is monitored through its suite of modules (Readiness Assessment, Assessment Automation, Data Mapping, Cookie Consent, Data Subject Requests, Cookie Consent and risk Register).

Security

Key Highlights for 2018 include:

> 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 ISO 27001 compliant. In addition, Temenos maintains SSAE18 attestations for controls related to clients' data. This covers Temenos India offices, Temenos Romania, Temenos UK, Temenos Australia and newly acquired Avoka. 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 developed robust security incident management procedures, in order to minimize the impact of any incident for its clients and their end users.

> Temenos completed a number of significant security infrastructure upgrades that enhance our perimeter security and user access control.

> The Security and Privacy Governance Group has been strengthened by creating the position, and appointing the Director of Privacy and Security, as an ultimate goal to spearhead Temenos' privacy compliance programs and all aspects of privacy security across the Temenos Group. As part of his remit, the Director chairs the Privacy and Security Committee. He is responsible for reporting on privacy and security related initiatives to the Audit Committee. The Director, together with the Committee, ensures that Temenos has effective and established policies, guidelines and standards that comply with the laws, rules and regulations of the countries in which the Company operates and with international standards.

The Committee's purpose is to oversee our senior management's efforts to implement global information security and privacy compliance programs within the Temenos group. The 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 in 2018 consisted of, in majority, senior management executives, including the Privacy and Security Director, Head of IT, Head of Product Security, IT Security and Compliance Manager, General Counsel, Chief Human Resources Officer, Data Protection Compliance Lead, Head of Internal Audit and Risk. The Committee held nine meetings during 2018, ensuring the involvement and engagement of Temenos Senior Management.

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 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.

2019 Goals

> To continue to improve our Information Security and Data Privacy program.

> To achieve industry certifications, e.g. ISO 27001.

RESPONSIBLE PROCUREMENT

At Temenos, we constantly support responsible procurement by building strong and long-lasting partnerships with our suppliers, while gaining their understanding and support for our policies and our responsible way of sourcing. We build and maintain relationships with both small local suppliers as well as large international suppliers who adhere to our business principles, while encouraging our suppliers to develop their own responsible practices.

As a global software company, our business focuses on providing software solutions and services by 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 and is tiered based on the nature of the supply and criticality for Temenos business. The estimated monetary value of payments made to suppliers in 2018 was around USD 195 million.

The suppliers that are critical for our business are defined as follows:

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

In 2018, the procurement lifecycle in Temenos has become an end-to-end Source to Pay (S2P) process that includes the sub-processes of Sourcing, Purchase and Payment. We have successfully transitioned to a centralized procurement model by having a Global Procurement Team that oversees the sourcing process and drives the purchase activities at Company level. The Team has a structured and transparent approach, emphasizing on supply market analysis and negotiations' expertise.

In addition, the Team exercises responsible procurement practices between Temenos and its suppliers by conducting Supplier Performance and Risk Assessment activities. The Supplier Performance and Risk Assessment activities are part of our centralized governance model for Supplier Relationship Management that allows us to get to know our suppliers and to build strong and trusting partnerships with them. Temenos uses a Supplier Questionnaire that covers areas such as business and ethical conduct, environment, human rights, impact on society, client privacy and information security as well as financial and legal compliance requirements. The Supplier Questionnaire is also aligned with the 10 principles of the UN Global Compact and the EU General Data Protection Regulation 2016/679 and is used both during the supplier qualification process and the annual Supplier Performance and Risk Assessment activities.

In 2018, we implemented Supplier Performance and Risk Assessment to approximately 200 of our top suppliers and assigned a performance and risk score to 84% of the suppliers, while not proceeding with contract renewals for 17% of the suppliers.

In 2018, we also developed a procurement category management framework with defined category plans in order to understand our spend categories better and help us perform our sourcing in ways that go beyond one-time events. As a first step in our procurement category management framework, we set up an electronic Procurement Database containing supplier relevant documentation and contracts.

Temenos has a Supplier Code of Conduct which is linked to our company's Business Code of Conduct. The Supplier Code of Conduct lists the requirements for our Suppliers on how to adhere to our business principles, while encouraging them to develop their own responsible practices. On the Temenos website our Suppliers can find all necessary resources to do business with Temenos (i.e. Purchase terms and conditions, Supplier code of Conduct, invoicing guidelines, grievance mechanism).

Temenos suppliers are 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. 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.

Spending on Local Suppliers

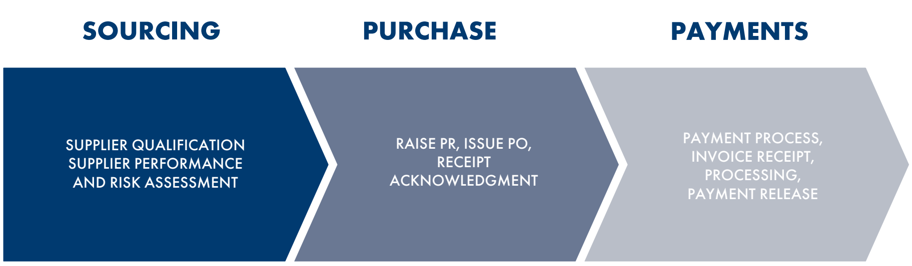
The percentage of the procurement budget used for our top significant locations of operation spent on suppliers local to that operation (such as percentage of products and services purchased locally) is as follows:

Top 15 countries	% purchases from local suppliers 2018
India	92%
United States	93%
United Kingdom	93%
Romania	64%
Australia	86%
Luxembourg	58%
Singapore	77%
Switzerland	33%
Canada	74%
United Arab Emirates	57%
China / Hong Kong	94% / 70%
Germany	80%
Ecuador	54%
France	62%
Greece	53%

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

2019 Goals

> To communicate internally our Global Procurement Team's role as a trusted advisor in order to enhance cost-avoidance capabilities and support business objectives effectively
> To implement our procurement category management framework for the targeted spend category in order to meet value objectives including cost avoidance and compliance management
> To investigate the market for strategic sourcing application suites that meet our needs for supply base management
> To further enhance our Supplier Relationship Management activities by implementing Supplier Performance and Risk assessments for the targeted category of suppliers.



Operating responsibly continued

ENVIRONMENTAL RESPONSIBILITY

With the continued global spotlight on the critical issue of climate change, we recognize the importance of understanding and taking action on our material environmental impacts, risks and opportunities. 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.

In 2018, we continued our systematic approach through our commitment to measure our global environmental footprint, implement mitigation and reduction initiatives and report on our progress.

Temenos has 67 offices in 41 countries. All Temenos offices are located in large leased office buildings close to city centers and outside protected lands and habitats. Some of the large leased office buildings are already certified for their environmental performance on their own initiative. The Temenos 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. We have incorporated environmental requirements 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.

In 2017, we introduced a Global Environment policy, as part of the Temenos Business Code of Conduct. While our footprint is smaller compared to other resource-intensive industries, we are committed to continuously identifying opportunities to increase our energy efficiency and reduce GHG emissions. In 2018 we developed a Global Environmental Management System (EMS) and aligned it with international standards. We have successfully implemented the EMS in the Company's three offices in India (Chennai and Bangalore), which account for 52% of the total global employee workforce and are the hub of its product development activities. In addition, we received ISO 14001:2015 certification for these three India locations. As part of our global CSR strategy, we are in the process of implementing the EMS to additional offices starting with major locations in Europe. This will increase the certification coverage of our business operations globally.

In addition, we set up an EMS Desk, an internal Company-wide mechanism in order to map our environmental footprint in relation to business travel, employee commute, energy and water consumption and waste generation and introduce ways to conserve resources in select locations globally with the largest employee concentration. Since 2017, we have started measuring and reporting on our actual direct and indirect energy consumption (electricity, heating, cooling) in our Temenos offices. For 2018, we have measured and reported the energy consumption and GHG emissions in the top 15 significant countries based on December 2018 headcount, with more than 50 employees in the country, representing 92% of the total Temenos population. We are in the process of intensifying our EMS Desk efforts to establish a systematic way to measure and report on our water consumption and waste generation with the cooperation of the building owners, where our offices are located globally.

In addition, as an IT software company we rely on our people who travel to deliver our services, so we have measured our environmental footprint in relation to business air travel for all the countries we operate, representing 100% of the total employee concentration. In 2018, we launched an internal employee commute survey to measure and report our indirect environmental footprint in relation to employee commute, using their personal means of transportation to commute daily to our office locations globally.

No instances of non-compliance with environmental laws and regulations occurred in 2018.

Carbon Footprint:

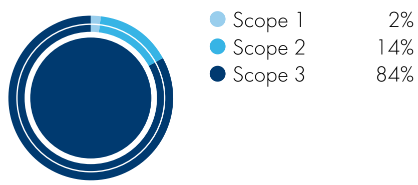
The primary sources of our emissions are onsite electricity generation, purchased electricity, employee commute and business travel. The total energy consumed during 2018 is 31,066.42 GJ. The direct energy consumption by primary energy source is 812.78 GJ. The indirect energy consumption by primary source is 30,253.65 GJ. Our annual absolute greenhouse gas emissions (GHG) are at 34,654.75 tCO_2e. We are establishing reliable systems to monitor other emission such as NOx, SOx, and Ozone Depleting Substance (ODS). All GHG figures in the report are in tons of carbon dioxide equivalents (CO_2e).

EMISSIONS ACTIVITIES	SCOPE	EMISSION SOURCE
Onsite Electricity Generation – Diesel Fuel	Direct (Scope 1)	Diesel-operated generator sets
Purchased Electricity	Energy Indirect (Scope 2)	For Office use
Employee Commute	Other Indirect (Scope 3)	Employees' personal vehicles*
Business Travel	Other Indirect (Scope 3)	Commercial airlines

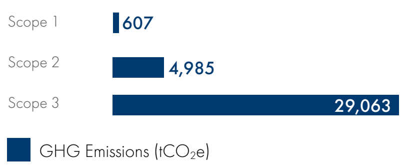
* Vehicles owned by our employees-the Company does not have any company cars.

ENERGY IN GJ

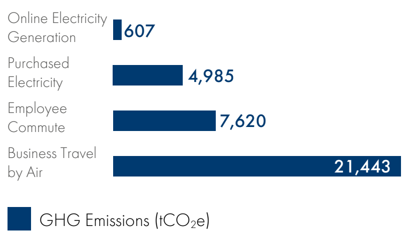
GHG EMISSIONS (tCO_2e)



TOTAL GHG EMISSIONS (tCO_2e) – 2018



GHG EMISSIONS BY ACTIVITY (tCO_2e)



* For more information on the calculations, please refer to About this Report on page 80.

Carbon Neutrality:
In 2018, as part of our environmental responsibility strategy and in line with our commitment to measuring our global impact and implementing mitigation and reduction initiatives, we set internal targets to reduce energy consumption and invest in offset projects for the carbon we cannot reduce or replace.

For the past two years, as a part of Energy Savings Opportunity Scheme 2015 requirements, we engaged a third party to conduct an Energy efficiency audit in line with BS EN 16247 standard at all our five UK offices and identified opportunities to improve our energy efficiency. As a result, by the end of 2018, we achieved close to 35% energy reduction as compared to last year.

As an IT software company we rely on our people who travel globally to deliver our services. So business travel by air constitutes our biggest environmental impact that cannot be easily reduced.

After having fully mapped our environmental footprint in relation to business travel, we decided to offset our carbon footprint through purchase of voluntary emission reduction certificates generated from a Wind Power project in Tamilnadu in India, a material location for Temenos, where our two Chennai offices are located. This offsetting project, coordinated by the Tamilnadu Spinning Mills Association (TASMA) focuses on renewable power generation (wind and solar) and complies with the Verified Carbon Standard (VCS), a global standard for GHG emission reduction and removal projects and programs. The VCS Program is the world's leading voluntary program for the certification of GHG emission reduction projects. The TASMA project, apart from the environmental benefit, it offers social benefits to the local population by improving access to clean energy, education, and healthcare – all in alignment with the 17 UN Sustainable Development Goals (SDGs).

Waste Management:
Being an IT software company, due to the nature of our business, waste generation is fairly limited and restricted primarily to municipal solid waste, as well as a reasonable amount of e-waste from our internal operations — from computers, printers, monitors and phones etc. Other waste includes a small proportion of regulated waste like batteries, waste lube oil, etc. Since all Temenos offices are located in large leased office buildings with multi-occupancy, waste handling and disposal is handled by the building management companies, and hence not under Temenos control. We have started working with the building owners to optimize waste management procedures, while encouraging our employees to recycle in our offices globally. Used IT equipment is cleaned of all data and software and it is either donated to non-governmental organizations or disposed in an eco-friendly manner through an authorized and certified recycler.

2019 goals

- To roll out our EMS to additional locations in Europe and increase the ISO 14001:2015 certification coverage
- To measure and report our water footprint in cooperation with the building owners globally
- To measure and offset the emissions from our two biggest Temenos events: Global Sales Meeting and Temenos Community Forum
- 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.

CONTRIBUTION TO THE SDGs

EMISSIONS OFFSET THROUGH COMMUNITY CARBON PROJECTS

21,442.50

tCO_2e (As of December 2018)

Investing in our people

MAKING THE DIFFERENCE

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.

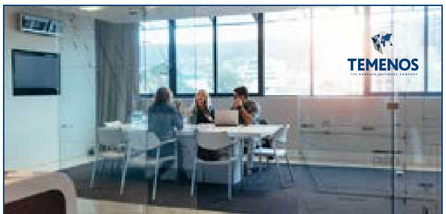
Our Human Resources (HR) team is organized globally as well as across regions and countries to cater to the needs of our people at both local and global level, with policies in place attuned to local conditions. The team includes groups focused on HR operations, business partnering, compensation and 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 2018, Temenos employed 5,744 people worldwide, including full-time employees, business partners and contractors. During 2018, we invested heavily in hiring new people, especially in Sales and Pre-sales, 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 2018, we had 71 part-time employees (45 women and 26 men) and 20 fixed-term employees (8 women and 12 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 2018, we renewed our compliance 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.



Slavery and Human Trafficking Statement 2018

DIVERSITY, INCLUSION AND EQUAL OPPORTUNITY

We pride ourselves on our diverse workforce at all levels of the Company, with 89 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.

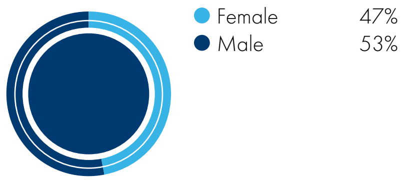
Since the IT industry is still male-dominated in many countries, we are actively seeking to recruit women and support them in their career development, with the aim of achieving a more equal representation of male and female employees in the business. The principles and goals of the Universal Declaration 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 at 34%, i.e. 9% higher than the average in the IT industry in terms of male to female ratios.

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 47% in the under 30 year old age segment of our workforce.

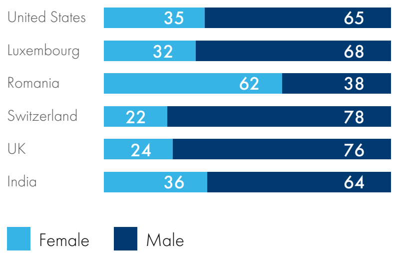
WORKFORCE DIVERSITY BY AGE AND GENDER

% WOMEN IN THE TOTAL TEMENOS WORKFORCE

GENDER LESS THAN 30

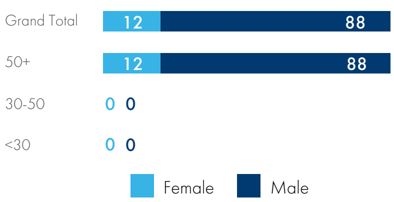


% EMPLOYEES BY GENDER IN CERTAIN REGIONS

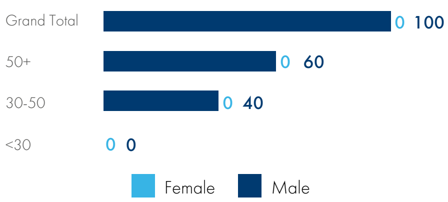


BOARD, EXECUTIVE COMMITTEE AND LEADERSHIP TEAM DIVERSITY

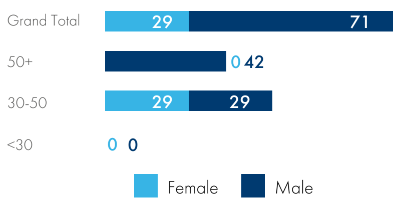
% BOARD OF DIRECTORS BY GENDER AND AGE



% EXECUTIVE COMMITTEE BY GENDER AND AGE

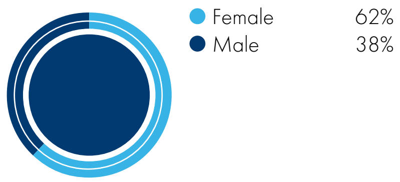


% LEADERSHIP TEAM BY GENDER AND AGE

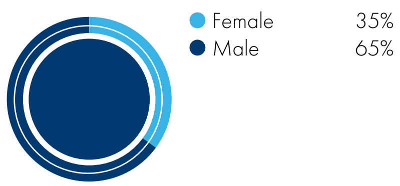


GENDER DIVERSITY

ROMANIA



UNITED STATES



By 31 December 2018, our leadership team (excluding the Executive Committee) consisted of ten men and four women. Our Board of Directors consisted of seven men and one woman, while the Executive Committee consisted of five men. In 2019, the Executive Committee membership changed and as of March 2019 consists of four men and one woman, further advancing the diversity and inclusion agenda within the Company. More information on our 2019 Board of Directors and Executive Committee structure is on page 88 and on the corporate website www.temenos.com.

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

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. Temenos publishes the UK Gender Pay Gap Report which is available on our website.

Temenos is committed to improving the quality of work life of all employees irrespective of gender, race, disability, age, and personal circumstances. We are committed to increasing the representation of women in Temenos at all levels, functions and locations, as well as to creating a strong network amongst women to support and help one another to develop across the organization.

As part of this commitment, Temenos created a Women@Temenos Forum providing the framework to exchange and collaborate globally, a network that will help all Temenos women to be connected by sharing ideas, networking activities, articles and thoughts of the day. In 2018, we built a community of 170+ Temenos Women ambassadors across the organization to work locally on concrete actions to attract more women in the technology sector and develop Women@ Temenos. Specific actions could be the participation to women's fora/technology events, mentoring, presence in school/University events, driving inclusion, sharing success, building confidence, training and developing leaders at all levels, leadership talks and increasing women's visibility with articles of Inspiring Career Journeys within Temenos. For example, our Temenos Luxembourg office presented the Women@Temenos initiative to the Lux government and succeeded in getting funding to be used in actions that encourage and promote women diversity in the organization.

Investing in our people continued

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 67 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. 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 seamlessly 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 2018, two concerns were raised by employees through the Anonymous Reporting mechanism relating to 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.

The freedom of association and collective bargaining is a quite fundamental principle which is respected and valued by the Company for all of its employees. We are committed to having a constructive and efficient collaboration with trade unions and other employee representatives. We comply with all relevant collective bargaining agreements in countries where we operate. We also require subcontractors to comply with all relevant collective bargaining agreements and to provide documentation of compliance. Temenos has only approximate records of the percentage of employees covered by CLAs.

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.

AGAINST FORCED AND CHILD LABOR

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 24x7 security.

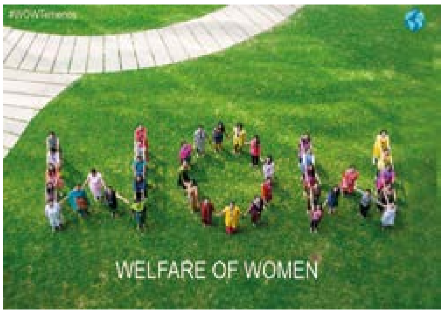
We are constantly enhancing the security measures and training of our employees, aiming at mitigating the travel risk for our employees.

HEALTH AND WELLNESS

At Temenos we are committed to supporting our employees' well-being and creating a work environment that helps employees maximize their physical and social wellness. Temenos global as well as local HR policies serve as the overall strategic direction and a clear point of contact and support on health and wellness issues for our employees and operations globally. We also encourage our employees to design actions and build groups on their own initiative that are tailored to their personal interests, time and work-life balance.

These policies indicatively include:

> Work from home options, in order to balance work and personal life
> International travel and medical insurance, including health screening
> Onsite and offsite team bonding and recreation opportunities
> Onsite recreational rooms and stress management programs
> Energy corners with healthy office snacks
> Training and development programs
> Multiple channels of internal communication and engagement with our employees across countries and at all levels
> Recognition of their work and contribution, as well as opportunities to learn more about Temenos and spend time with the leadership team
> Employee engagement in community service and volunteering projects.



FLYING SHOE EMPLOYEE WELLNESS INITIATIVE

In 2018, Temenos Bangalore employees launched an employee wellness initiative, Flying Shoes, to motivate employees to get active with any form of exercise/activity. While walking or running is an everyday activity, our employees gamified it to make it more of a challenge or group activity. They formed employee groups, each group consisting of five people. 48 teams (240 employees) registered to take part in this fitness challenge and started walking/jogging daily. The challenge was for five weeks. Every Friday they published leaderboards to share that week's winner, while accumulating the number of steps each participant walked/jogged. The big challenge was to walk around the world (measuring the cumulative steps of all participants). They ended up clocking the distance equivalent to 1.5 times the circumference of the Earth. Many of the participants developed healthy habits after that challenge and many more continued even after the event was over. Temenos Chennai employees set a target to duplicate the effort in 2019.

WELFARE OF WOMEN

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. This group is active in Bangalore and Chennai and is run by Temenos India women employees. WoW group decides and drives the employee-connect initiatives focusing on creating awareness on women's health through workshops and programs, as well as lifestyle initiatives that help women with their personality development. Through the 'Dialogue' forum, WoW invites women leaders to come and share their thoughts on leadership and excellence.

2019 Goal:

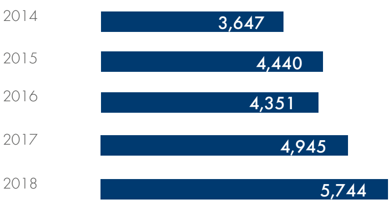
> To launch similar to WoW initiatives globally.

Investing in our people continued

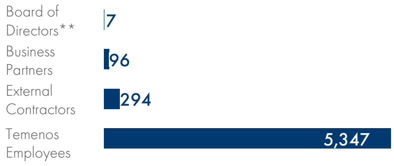
DIVERSITY DASHBOARD

TOTAL HEADCOUNT*

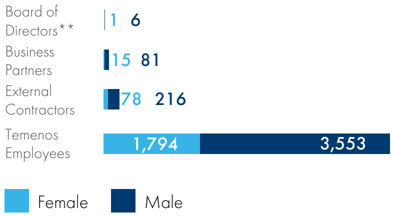
LAST FIVE YEARS



BY EMPLOYMENT TYPE



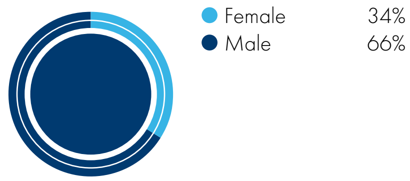
BY EMPLOYMENT TYPE AND GENDER



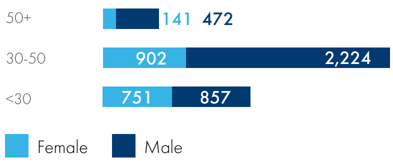
* Including newly acquired Avoka employees.
** Independent and Non-Executive Directors only.

TEMENOS EMPLOYEES

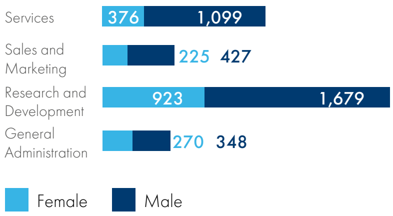
% BY GENDER



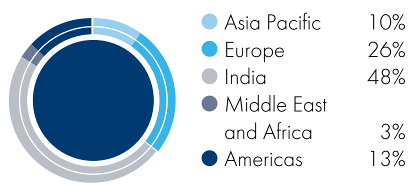
BY GENDER AND AGE



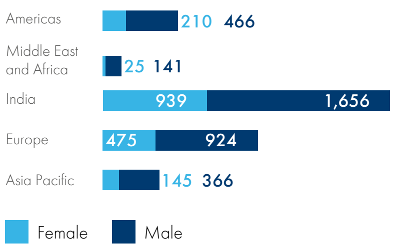
BY FUNCTION AND GENDER



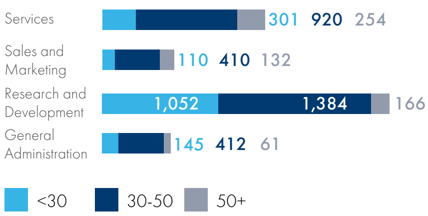
% BY REGION



BY GENDER AND REGION



BY FUNCTION AND AGE

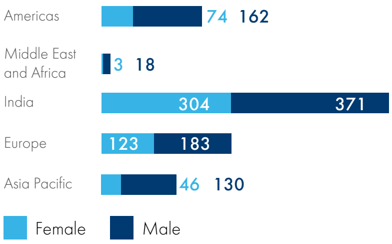


NEW EMPLOYEE HIRES

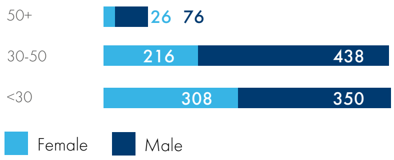
% BY GENDER

- Female 39%
- Male 61%

BY GENDER AND REGION



BY GENDER AND AGE

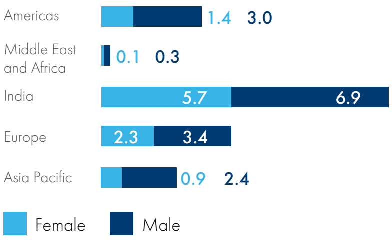


% BY REGION*

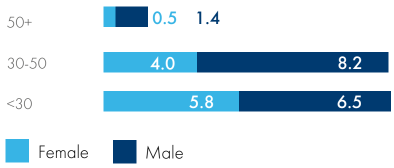
- Asia Pacific 12%
- Europe 22%
- India 48%
- Middle East and Africa 1%
- Americas 17%

* New employee hires at a region/ Total number of new employee hires.

% RATE BY GENDER AND REGION



% RATE BY GENDER AND AGE

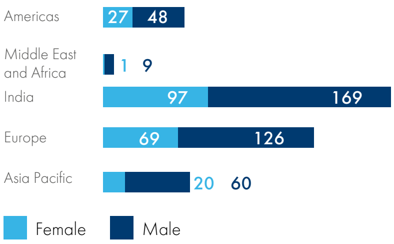


EMPLOYEE TURNOVER

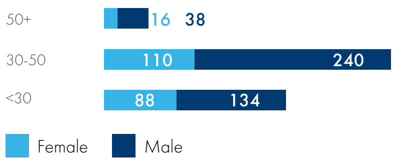
% BY GENDER

- Female 34%
- Male 66%

BY GENDER AND REGION



BY GENDER AND AGE

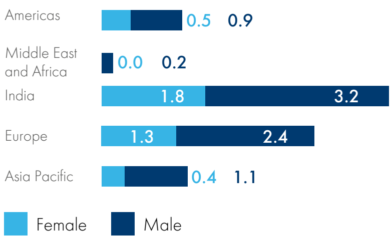


% BY REGION*

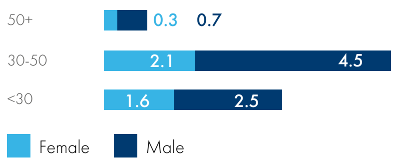
- Asia Pacific 13%
- Europe 31%
- India 42%
- Middle East and Africa 2%
- Americas 12 %

* New employee hires at a region/ Total number of new employee hires.

% RATE BY GENDER AND REGION



% RATE BY GENDER AND AGE



Investing in our people continued

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, 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 to drive a great employee experience while maintaining a positive employer brand.

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 the 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 Chief Executive Officer 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 Gartner, 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 2018 MyVoice employee engagement survey took place during February-March 2018, with 85% response rate, 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 2018-19. 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 2020.

TALENT AND DEVELOPMENT

Learning 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 people's potential and consider this as our competitive advantage. We believe training is not limited to formal instruction and our learning philosophy focuses on career development frameworks (Pathfinder), career and performance management (Compass), diverse 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 learning 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 certifications, personal and management development opportunities delivered through various channels that form part of the employee's learning portfolio. Various learning paths and training are provided through both internal and external training partners which allows employees to execute their development approach using a style that suits their needs and personality. To emphasize on 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 Talent and Development to improve the overall learning experience at Temenos.

In 2018, we achieved to increase the average number of training days to 17 days per employee compared to 11 days in 2017, 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 a comprehensive induction training that covers a broad range of topics, such as onboarding 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.

MYVOICE 2018*

- 85% response rate
- 58 questions
- Engagement: 16 categories measured
  - New categories:
    - Agility
    - Diversity and Inclusion
  - Alignment is a distinct category now

MYVOICE 2016

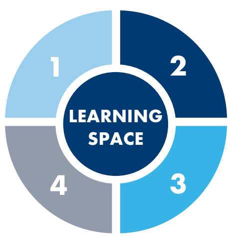
- 79% response rate
- 55 questions
- Engagement: 13 categories measured

* Excluding Avoka employees.

LEARNING SPACE

1
Induction, mandatory training and onboarding

2
Product and process training

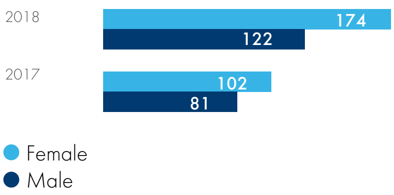


4
Soft-skills and management development training

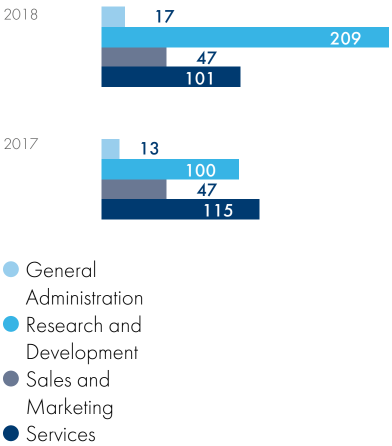
3
On-the-job training and learning events

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

BY GENDER



BY EMPLOYEE CATEGORY



* Excluding Avoka employees.

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 2018 has been split into two phases in the Compass platform: Year-end review and Start-of-year plan. By the end of 2018, 77% (employees only) had set their business priorities as part of their 2018 plan.

Temenos Incubation Center

The Temenos Fintech Services Incubator first opened its doors in 2017, bringing together Technical Consultants who wanted to fast-track their careers and combine the passion for fintech with travel. The Incubation Center aims 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 Incubation Center, the participants attend an intensive three-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.

Temenos Sales Academy

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. In 2018 we expanded the Academy beyond Sales and Business Solutions group to include Marketing as well. The 30 participants of the 2018-2019 program have 22 different nationalities and 46% among them are female trainees.

Their training focuses on fundamental concepts of Sales and Business Solutions. Based in Luxembourg for their first 3.5 to 6.5 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.

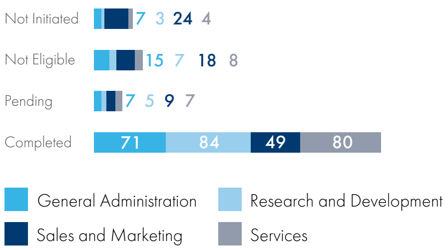
Temenos Services Masterclass

In 2018, we launched the Services Masterclass program in Greece and Romania, aiming to train and on-board senior professionals to our European services team. With this Masterclass program we are looking to develop the next generation of senior consultants who will have the opportunity to work on some of our most exciting projects, spread across Europe.

On joining the Masterclass, candidates will attend an intensive two-month training program, introducing them to our products. During the second phase, they will move into shadowing an experienced T24 colleague on a project, making their way to the final stage – working independently on-site with our client.

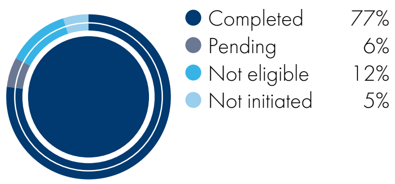
2018 YEAR END REVIEW*

% BY EMPLOYEE CATEGORY

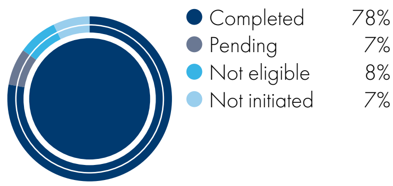


% BY GENDER

Female



Male



* Excluding Avoka employees.

Investing in our people continued

EMPLOYEE RECOGNITION

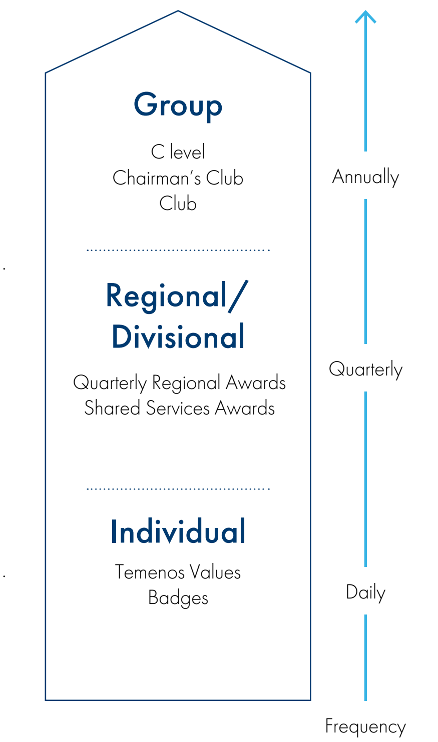
Recognition of great work and key contributions by both individuals and teams is critical to Temenos. Through these recognition programs, we encourage all employees at all levels to embrace the opportunity to appreciate great work and recognize efforts of performance excellence of their colleagues, team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

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 Chief Executive Officer. In 2018, 98 winners with their partners visited Scotland, spending quality time with our top management as part of the Temenos family. In the past, the Club awardees traveled to Iceland, Vietnam, Barbados, Capri in Italy, Kenya and India. In 2019, 80 winners with their partners will visit Sri Lanka, accompanied by our senior management.

In addition, through the Chairman's Club we recognize people who for several years have significantly contributed to Temenos growth from diverse parts of the Company. In 2018, the Chairman invited the five winners (three men – two women) and their partners to an exclusive weekend hosted by himself and his wife. In 2019, he has invited six winners (five men – one woman) from sales, product and finance.

CELEBRATING EXCELLENCE



GREAT PLACE TO WORK

Watch the video online

Great Place To Work. Best Workplaces HELLAS 2018

In April 2018, the Temenos Greece office competed, won and was recognized as one of the Best Workplaces in Greece by Great Place to Work®. This is the first time that any Temenos office has entered a Great Place to Work or similar competition globally. This distinction is in line with our global strategy aiming at raising awareness about the Temenos employer brand and demonstrating globally how our people, the most important asset of Temenos, contribute to our commercial success. We pride ourselves in relying and investing in our employees, a global team of diverse, highly committed and talented people. We strongly believe in the "People Power" adding value every day and we want our employees to feel the same. Our People are the KEY!

This award is a vote of confidence in the continuing hard work and commitment of our talented and inspirational Temenos Greece employees. With an impressive 97,56% participation response rate, Temenos Greece exceeded the average 86,76% of other companies. Furthermore, the Temenosian pride and loyalty were demonstrated through the 99% positive response rate in the Employee Trust Index.

2019 Goal:
To duplicate this effort in other Temenos offices globally.

Enabling access to financial services

OPENING DOORS

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 institutions 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.

Investing in our communities

CARING FOR 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 order to maximize the social impact of our community investment, we focus on the social impact rather than the donated budget. In addition, we have aligned 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.

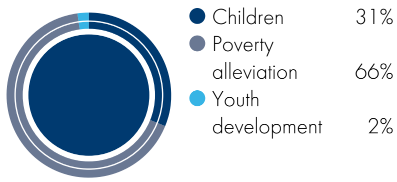
CONTRIBUTION TO THE SDGS

Corporate Monetary Contributions

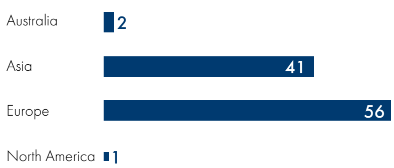
We rely on the efforts of all our employees to help us identify emerging issues and local community needs where Temenos can reach out, design programs and contribute to the communities in the regions where we operate and monitor the progress. We cooperate with our people in our local offices on the review, 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. In 2017-2018 we awarded around USD 300,000 to community development projects mainly in India and Romania. 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.

2018 DONATIONS

2018 DONATIONS BY CSR AREAS



% 2018 DONATIONS BY REGION



OUR STRATEGIC PRIORITIES

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

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 offered their time and expertise to support local community organizations, as well as to donate management time and expertise to support non-governmental organizations in the Company's core activities. In 2018, Temenos launched the Temenos Volunteering Day. Local HR with CSR champions in our offices globally select a day during the year based on the UN global days and organize a local volunteering activity for Temenos employees of that location. As recognition of our employees' volunteer work, Temenos is granting one day-off annually for volunteering during the Temenos Volunteering Day.

SUPPORTING LOCAL COMMUNITIES

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 52% 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. The concept was to identify secondary schools in need (government aided schools – privately managed) and use technology to enable social change. Our goal was to provide young students from disadvantaged local communities with digital skills and capabilities and help them unleash future opportunity and gain access to jobs, health and finance.

In 2017, Manur Chengalvaraya Naidu Higher Secondary School was identified and the first pilot project was implemented. In 2018 after a due diligence process of nine schools in total, two schools were selected in Chennai and Bangalore. St. Columba's Higher Secondary School is located in Chennai, 55 kilometers from one of the Chennai Temenos offices. The school has 1,127 students (313 girls and 814 boys). The second school, Government Kannada Higher Primary School is located in Bangalore, 4.5 kilometers from our office in Bangalore. The 91-year-old school has 172 students.

During 2017-2018, through the Temenos Adopt iT project, we built computer labs in three schools in India. In addition, we focused our actions on encouraging gender equality and inclusive education for all, by building girls' restrooms in two schools in India, helping girls stay in school and gain equal access to education and opportunities in life. 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.

Our Temenos India employees volunteered their time and skills during the initial phase to help with the setup of the computer labs and throughout the year, by teaching more than 1,500 students about computers, as well as art.

Watch the video online

Watch the video online

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 2018, we continued to support two organizations at a global, as well as at a local level, where Temenos has a significant number of employees:

> School for Children with Hearing Disabilities in Bucharest, Romania
> "Save a Child's Heart" initiative in Bucharest, Romania.

ADOPT A KID – INDIA

In 2018, Temenos India employees have raised USD 6,210 in order to assist 28 kids whose families (either two parents or a single parent) were facing financial difficulties.

'JOURNÉE OSER TOUS LES MÉTIERS' – SWITZERLAND

In November 2018, our Temenos Lausanne employees organized 'Journée Oser tous les Métiers'. The goal was to 'expose' Temenos employees' children to a real working environment and introduce them to 'gender-neutral' careers that were traditionally deemed female or male. During the day, the children met with Temenos employees from different departments such as Human Resources, Administration, IT, Business Analysis, Product Management, Development and Testing. Apart from that, the children had the opportunity to simulate a recruitment interview, participate in dismantling and reassembling a laptop and even develop their own game using Scratch program.

INSPIRING KIDS TO BE FUTURE READY! – SINGAPORE

In November 2018, our Temenos Singapore employees organized internally an activity to inspire young minds into computational and creative thinking. They invited children, especially from less privileged backgrounds for a day of learning and fun. With the collaboration of Future Ready Academy, they tried to give these kids a glimpse of the future and hopefully ignite their interest on key areas like robotics, coding, AI and all things digital.

Watch the video online

'GIVE A SMILE' PROJECT FOR CHILDREN WITH HEARING DISABILITIES – ROMANIA

For more than 12 years, Temenos has been supporting the School for Children with Hearing Disabilities in Bucharest, Romania, in collaboration with Rotary Pipera Club from Rotary International. In December 2018, in line with the "Give a Smile" project, Temenos Romania volunteers accompanied 30 primary school children with hearing disabilities to do Christmas shopping and choose their presents. These children come from very low-income families and they live in the boarding school.

EMERGENCY RELIEF – INDIA

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 August 2018, Kerala floods claimed the lives of 370 people across India, while dislocating 1,247,496 people, as a result of the intense flooding. In November 2018, Cyclone Gaja, claimed 45 lives across India. Temenos India employees collected and provided 45 cartons of food, supplies and relief material to families that were affected by these natural disasters.

2019 Goals

> To expand the Adopt iT program to more schools in India
> To explore partnerships with Universities in India to help young graduates gain digital skills and capabilities and access to jobs
> To focus 2019 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.

TEMENOS EMPLOYEES FUN RUN 2018

380 Temenos employees and partners run 5K during the two most prominent Temenos events: Global Sales Meeting (GSM) 2018 in Lisbon and Temenos Community Forum (TCF) 2018 in Dublin to support the local community of a village in Kenya, in partnership with Hand in Hand International. Through this poverty alleviation and local economic development program, that started in 2018 and is scheduled to be completed in 2020- Temenos awarded USD 30,000 to the local community in Kenya, aiming at training 400 villagers, creating around 350 jobs and lifting 1,250 children and adults out of poverty.

VOLUNTEERING FOR THE ENVIRONMENT – ROMANIA

Temenos Romania employees volunteered to "Let's Do It, Romania!", the biggest national volunteering event in Romania, with the aim to gather the waste from protected lands and habitats. Along with 136,000 volunteers, Temenos Romania employees gathered 168,000 bags of PET, glass, plastic bottles, aluminum cans, textiles, and shoes and electronics waste.

FOOD BANK VOLUNTEERING – CANADA

Temenos Canada employees volunteered at the Greater Vancouver Food Bank, sorting food to be distributed to its members.

FOOD BANK VOLUNTEERING – USA

Avoka Temenos employees in Colorado volunteered at Broomfield FISH, a food bank serving those in need at the local community, sorting the incoming donations to stock the food bank's shelves.

About this report

Unless otherwise indicated, the information provided in this report reflects the situation as of 31 December 2018 and covers all Temenos operations globally during the financial year 2018. This report is prepared in accordance with the Global Reporting Initiative Standards (Core), a set of internationally recognized reporting standards. Please see our online GRI Standards 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 third Corporate Responsibility Report. No restatements were done. We have assured the content through an internal review process, including Board of Directors and executive oversight of reviews and validation. Apart from the internal review process, an independent third party, Grant Thornton S.A. has provided their assurance on Temenos CSR Report 2018. The scope of the assured information is indicated in the independent practitioner's assurance report. Our first report with GRI was published in 2017.

Temenos operates 67 offices in large, leased, multi-tenant buildings in 41 countries (including newly acquired Avoka). Temenos' energy reporting and corresponding Scope 1 and 2 emissions cover the time period from December 1, 2017 to November 30, 2018 for 40 Temenos offices in top 15 countries, due to restrictions set by the availability and invoicing from the management companies of the buildings we lease. These top 15 countries – considered as significant locations of operation – were selected based on 31 December 2018 headcount, with more than 50 employees, representing 92% of the total Temenos population. The locations are as follows: India, United States, United Kingdom, Romania, Australia, Luxembourg, Singapore, Switzerland, Canada, United Arab Emirates, China, Germany, Ecuador, France, and Greece. The energy consumption of these offices represent actual consumption as reported on invoices from utility providers and management companies apart from three offices. The consumption for these three offices is based on the last year's same period consumptions due to unavailability of invoice before the CSR report publication time.

Our Scope 3 business travel related emissions from flights cover the financial year 2018 and all the countries where Temenos operates, representing 100% of the total employee concentration. The data were collected from the Company travel management system as well as travel agency providers. Our Scope 3 employee commute related emissions were gathered through an online, global, internal employee survey. The survey covered various aspects such as distance between home and the office, modes of transport – personal vehicles, mass transit, cycling, carpooling, walking, fuel efficiencies of personal vehicles used, average number of work from home or client locations. The data gathered cover personal vehicles owned by our employees, since the Company does not provide any company cars. The emissions have been calculated based on fuel efficiency, total distance traveled, fuel types and characteristics and emission factor for the fuel used.

Energy and emissions calculations follow the Greenhouse Gas Protocol with reference to ISO 14064:2006 –'Greenhouse gases, Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals. In the report, the metric ton/UK ton equivalent to 1,000 kilograms is stated solely as ton. The emissions are noted on the basis of measured or estimated energy and fuel use, multiplied by significant carbon emission factors such as DEFRA, GHGP, ICAO, ICEA, USPEA. All emissions figures are in tons of carbon dioxide equivalents (CO_2e).

Our headcount related figures are based on the GRI Standards 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. The total Temenos headcount includes the number of employees from the recent acquisition of Avoka that was completed within December 2018.

When referring to Governance Bodies, we include: Board of Directors, Executive Committee and Leadership Team. Training as well as Environmental data for financial year 2018 do not include Avoka employees.

CONTACT

The 2018 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
Director of Sustainability and Social Responsibility
Tel.: +30 211 1094604
csr@temenos.com

Independent assurance report

TO THE BOARD OF DIRECTORS OF TEMENOS

The Board of Directors of Temenos S.A. (the "Company") engaged "Grant Thornton S.A. Chartered Accountants Management Consultants" ("Grant Thornton") to review selected non-financial/ sustainability data included in the Annual Report of Temenos (in the section Operating Responsibly) for the fiscal year ended on December 31st, 2018 ("selected data"), in accordance with the Global Reporting Initiative (GRI) Standards ("GRI-Standards"). For the purposes of this Report, Temenos encompasses the 67 offices which operates in 41 countries. There is an exception to the environmental data presented in the Report which refer only to the top 15 countries (most significant locations of operation) of Temenos: India, United States, United Kingdom, Romania, Australia, Luxembourg, Singapore, Switzerland, Canada, United Arab Emirates, China, Germany, Ecuador, France and Greece.

SCOPE

We performed our engagement in accordance with International Standard on Assurance Engagements 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE 3000"), in order to provide limited level assurance opinion on the selected non-financial/sustainability data of the Annual Report 2018, with regard to:

> The "In accordance" – Core adherence related to GRI Standards.
> The completeness and accuracy of quantitative data and the plausibility of statements related to GRI 102: General Disclosures.
> The completeness and accuracy of Disclosures on Management Approach, which correspond to ten (10) material issues (Disclosures 201-1, 203-1, 205-2, 302-1, 305-2, 308-1, 404-3, 401-1), as well as to the two (2) specific Temenos' indicators.
> The completeness and accuracy of the GRI - Topic specific Standards on the previous ten (10) material issues Disclosures 201-1, 203-1, 205-2, 302-1, 305-2, 308-1, 404-3, 401-1), as well as the two (2) specific Temenos' indicators.
> The methodology of materiality assessment, with regard to the AA1000 AccountAbility Principles.

MANAGEMENT RESPONSIBILITY

The Temenos Management is responsible for the preparation and presentation of the selected sustainability data provided to us, as incorporated in the Annual Report 2018, as well as for the completeness and accuracy of those data. Furthermore, the Management is responsible for maintaining records and adequate internal controls that are designed to support the reporting process.

GRANT THORNTON RESPONSIBILITY

Our responsibility is to carry out a limited assurance engagement and to express our conclusions based on the procedures carried out for the selected data, as described in the "Scope" section.

The procedures we carried out were designed to provide limited assurance, as specified in ISAE 3000, based on which we shaped the conclusion to our engagement. These procedures are not as extensive as those required for providing reasonable assurance; consequently, a lower level of assurance is obtained.

Our responsibility is limited to the information related to the fiscal year that ended on December 31, 2018, as these were included in the Temenos Annual Report 2018.

To the extent it is permitted by the legislation in force, we neither accept nor assume any responsibility for our engagement or this report towards anyone other than the Company, unless the terms have been agreed explicitly in writing, with our prior consent.

LIMITATIONS

> To conduct our work, we relied exclusively on the information provided to us by Temenos executives, which we accepted in good faith as being complete, accurate, real and not misleading. Therefore, we did not submit it to any verification procedures, apart from the procedures explicitly stated in our Report and which arise from our mutually agreed methodology.
> Our engagement was limited to the English version of the report.
> No work has been conducted on data for previous reporting periods, as well as on data related to forecasts and targets.
> No work has been conducted on anything other than the agreed scope and consequently, our opinion is limited to that scope.

WORK CONDUCTED

We conducted our work so as to collect all the data, relevant documentation, information and explanations we considered necessary as to the selected data described in the "Scope" section. The procedures followed with regard to the selected data included:

> Read the Annual Report 2018 (in its entirety) to ensure it is in accordance with the guidelines and reporting principles of GRI Standards.
> Interview key personnel responsible for the preparation of the "Operating Responsibly" section of the Annual Report 2018, providing the sustainability performance information, in order to understand and evaluate processes, internal controls and information systems related to the data included in the Report.
> Review and assessment of the processes and controls used to collect, aggregate, validate and report the data;
> Perform sample-based audits on the collected data, conversion factors and formulas, where required.
> Review of the GRI Content Index, as well as the relevant references included therein, against our scope of work.

INDEPENDENCE

Grant Thornton implements the requirements of International Standard on Quality Control 1. Based on this, it maintains an integrated quality control system that includes policies and procedures for compliance with moral principles, professional standards and relevant legal and regulatory requirements. We comply with the independence requirements and other ethical standards of the IFAC Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, impartiality, professional adequacy, confidentiality and professional conduct. In this context, the assurance team is independent from the Company and has not participated in the preparation of the Temenos Annual Report 2018.

CONCLUSION

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that there are any errors or misstatements that would materially affect the sustainability disclosures (including explanatory notes and relevant references) as presented in the Annual Report of Temenos for the year ended 31 December 2018. Moreover, nothing has come to our attention that causes us to believe that the sustainability data presented, are not prepared, in all material aspects, in accordance with the criteria mentioned above, in the "Scope of work" section

Panagiotis Christopoulos
Athens, 15 March 2019
The Chartered Accountant
CPA (GR) Reg. No.28481
Grant Thornton

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	GRI STANDARDS
HUMAN RIGHTS			
1	Businesses should support and respect the protection of internationally proclaimed human rights; and	Investing in Our People	412-2
2	Make sure they are not complicit in human rights abuses.	Investing in Our People	414-1
LABOR			
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Investing in Our People	102-41
4	The elimination of all forms of forced and compulsory labor;	Investing in Our People	409-1
5	The effective abolition of child labor; and	Investing in Our People	408-1
6	The elimination of discrimination in respect of employment and occupation.	Investing in Our People	102-8, 401-1, 404-1, 404-3, 405-1, 406-1
ENVIRONMENT			
7	Businesses should support a precautionary approach to environmental challenges;	Operating Responsibly	302-1, 305-1, 305-2, 305-3
8	Undertake initiatives to promote greater environmental responsibility; and	Operating Responsibly	302-1, 305-1, 305-2, 305-3, 308-1
9	Encourage the development and diffusion of environmentally – friendly technologies.	Operating Responsibly	302-1, 305-1, 305-2, 305-3, 308-1
ANTI-CORRUPTION			
10	Businesses should work against corruption in all its forms, including extortion and bribery.	Operating Responsibly	102-16, 102-17, 205-2, 205-3

GRI content index

This report has been prepared in accordance with the GRI Standards: Core option

The table below describes the location of relevant report content correlating to the Global Reporting Initiative's GRI Standards. 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 DISCLOSURES		REFERENCE	EXTERNAL ASSURANCE
ORGANIZATIONAL PROFILE			
GRI 102: General Disclosures 2018	102-1 Name of the organization	About Temenos; p.1 Annual Report: Welcome	v
	102-2 Activities, brands, products, and services	About Temenos; p.11 Annual Report: Our Solutions	v
	102-3 Location of headquarters	About Temenos; p.95 Annual Report: Group Structure and Shareholders	v
	102-4 Location of operations	p.95 Annual Report: Group Structure and Shareholders; p. 189 Annual Report: Temenos worldwide offices; p.151 Annual Report: Consolidated Financial Statements: 5. Group Companies	v
	102-5 Ownership and legal form	p.95 Annual Report: Group Structure and Shareholders	v
	102-6 Markets served	p.95 Annual Report: Group Structure and Shareholders	v
	102-7 Scale of the organization	About Temenos; About this Report; p.95 Annual Report: Group Structure and Shareholders; p.189 Annual Report: Temenos worldwide offices; p.151 Annual Report: Consolidated Financial Statements: 5. Group Companies	v
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	102-10 Significant changes to the organization and its supply chain	About Temenos; About this Report; Diversity Dashboard; Investing in Our People, p.151 Annual Report: Consolidated Financial Statements: 5. Group Companies; p.95 Annual Report: Group Structure and Shareholders	v
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GENERAL DISCLOSURES continued		**REFERENCE**	**EXTERNAL ASSURANCE**
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GRI 102: General Disclosures 2018	102-14 Statement from senior decision-maker	Message from the CEO	v
ETHICS AND INTEGRITY			
GRI 102: General Disclosures 2018	102-16 Values, principles, standards and norms of behavior	Mission, Vision and Core Values, Ethical Business Conduct and Governance	v
	102-17 Mechanisms for advice and concerns about ethics	Ethical Business Conduct and Governance	
GOVERNANCE			
GRI 102: General Disclosures 2018	102-18 Governance Structure	Corporate Governance; CSR and Ethics Governance; p.94 Annual Report: Corporate Governance	v
	102-19 Delegating Authority	Corporate Governance; CSR and Ethics Governance; p.94 Annual Report: Corporate Governance	
	102-20 Executive-level responsibility for economic, environmental and social topics	Corporate Governance; CSR and Ethics Governance; p.94 Annual Report: Corporate Governance	
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	102-23 Chair of the highest governance body	Corporate Governance; CSR and Ethics Governance; p.94 Annual Report: Corporate Governance	
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	102-32 Highest governance body's role in sustainability reporting	About this Report	
	102-35 Remuneration Policies	p. 108 Annual Report: Compensation Report: Compensation Components	
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STAKEHOLDER ENGAGEMENT			
GRI 102: General Disclosures 2018	102-40 List of stakeholder groups	Stakeholder Engagement	v
	102-41 Collective bargaining agreements	Employee Relations	v
	102-42 Identifying and selecting stakeholders	Stakeholder Engagement	v
	102-43 Approach to stakeholder engagement	Stakeholder Engagement	v
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	102-48 Restatements of information	About this Report	v
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	102-52 Reporting cycle	About this Report; Annual	v
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	102-54 Claims of reporting in accordance with the GRI Standards	GRI content index; Core	v
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GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	p. 138 Annual Report: Employee Benefits; p. 157 Annual Report: Employee Benefit Expenses; p. 168 Annual Report: Retirement Benefit Obligations; Economic Impact; p.154 Annual Report: Consolidated Financial Statements: 7 Segment Information	
	103-2 The management approach and its components	p. 138 Annual Report: Employee Benefits; p. 157 Annual Report: Employee Benefit Expenses; p. 168 Annual Report: Retirement Benefit Obligations; Economic Impact; p.154 Annual Report: Consolidated Financial Statements: 7 Segment Information	
	103-3 Evaluation of the management approach	p. 138 Annual Report: Employee Benefits; p. 157 Annual Report: Employee Benefit Expenses; p. 168 Annual Report: Retirement Benefit Obligations; Economic Impact; p.154 Annual Report: Consolidated Financial Statements: 7 Segment Information	
GRI 201: Economic Performance 2018	201-1 Direct economic value generated and distributed	Economic Impact; p.154 Annual Report: Consolidated Financial Statements: 7 Segment Information	v
	201-3 Defined benefit plan obligations and other retirement plans	p. 138 Annual Report: Employee Benefits; p. 157 Annual Report: Employee Benefit Expenses; p. 168 Annual Report: Retirement Benefit Obligations	
	201-4 Financial assistance received from government	Economic Impact	
SOCIAL RESPONSIBILITY AND COMMUNITY INVESTMENT			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Community Investment; Responsible Procurement	
	103-2 The management approach and its components	Community Investment; Responsible Procurement	
	103-3 Evaluation of the management approach	Community Investment; Responsible Procurement	
GRI 203: Indirect Economic Impacts 2018	203-1 Infrastructure investments and services supported	Community Investment	v
GRI 204: Procurement Practices 2018	204-1 Proportion of spending on local suppliers	Responsible Procurement	

GRI content index continued

MATERIAL TOPICS continued		REFERENCE	EXTERNAL ASSURANCE
ETHICAL BUSINESS CONDUCT AND GOVERNANCE			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Anti-Corruption and Bribery; Elimination of Discrimination and Prevention of Harassment; Ethical Business Conduct Monitoring and Reporting; Environmental Responsibility	
	103-2 The management approach and its components	Anti-Corruption and Bribery; Elimination of Discrimination and Prevention of Harassment; Ethical Business Conduct Monitoring and Reporting; Environmental Responsibility	
	103-3 Evaluation of the management approach	Anti-Corruption and Bribery; Elimination of Discrimination and Prevention of Harassment; Ethical Business Conduct Monitoring and Reporting; Environmental Responsibility	
GRI 205: Anti-Corruption 2018	205-2 Communication and training about anti-corruption policies and procedures	Anti-Corruption and Bribery	v
	205-3 Confirmed incidents of corruption and actions taken	Anti-Corruption and Bribery	
GRI 406: Non-Discrimination 2018	406-1 Incidents of non-discrimination and corrective actions taken	Elimination of Discrimination and Prevention of Harassment; Ethical Business Conduct Monitoring and Reporting	
GRI 419: Socioeconomic Compliance 2018	419-1 Non-Compliance with laws and regulations in the social and economic area	Environmental Responsibility	
ENERGY			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Environmental Responsibility	
	103-2 The management approach and its components	Environmental Responsibility	
	103-3 Evaluation of the management approach	Environmental Responsibility	
GRI 302: Energy 2018	302-1 Energy consumption within the organization	Environmental Responsibility	v
EMISSIONS			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Environmental Responsibility	
	103-2 The management approach and its components	Environmental Responsibility	
	103-3 Evaluation of the management approach	Environmental Responsibility	
GRI 305: Emissions 2018	305-1 Direct (Scope 1) GHG emissions	Environmental Responsibility	
	305-2 Energy indirect (Scope 2) GHG emissions	Environmental Responsibility	v
	305-3 Other indirect (Scope 3) GHG emissions	Environmental Responsibility	
RESPONSIBLE PROCUREMENT			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Responsible Procurement	
	103-2 The management approach and its components	Responsible Procurement	
	103-3 Evaluation of the management approach	Responsible Procurement	
GRI 308: Supplier Environment Assessment 2018	308-1 Percentage of new suppliers that were screened using environmental criteria	Responsible Procurement	v
GRI 414: Supplier Social Assessment 2018	414-1 New Suppliers that were screened using social criteria	Responsible Procurement	

MATERIAL TOPICS continued		REFERENCE	EXTERNAL ASSURANCE
TALENT & DEVELOPMENT			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Talent and Development	
	103-2 The management approach and its components	Talent and Development	
	103-3 Evaluation of the management approach	Talent and Development	
GRI 404: Training and Education 2018	404-1 Average hours of training per year per employee	Talent and Development	
	404-3 Percentage of employees receiving regular performance and career development reviews	Talent and Development	v
DIVERSITY & INCLUSION			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Investing in Our People; Diversity Dashboard; Diversity, Inclusion and Equal Opportunity	
	103-2 The management approach and its components	Investing in Our People; Diversity Dashboard; Diversity, Inclusion and Equal Opportunity	
	103-3 Evaluation of the management approach	Investing in Our People; Diversity Dashboard; Diversity, Inclusion and Equal Opportunity	
GRI 401: Employment 2018	401-1 New employee hires and employee turnover	Investing in Our People; Diversity Dashboard	v
GRI 405: Diversity and Equal Opportunity 2018	405-1 Diversity of governance bodies and employees	Diversity, Inclusion and Equal Opportunity; Diversity Dashboard	
HUMAN RIGHTS			
GRI 103: Management Approach 2018	103-1 Explanation of the material topic and its Boundaries	Human Rights; Against Forced and Child Labor; Corporate Policies	
	103-2 The management approach and its components	Human Rights; Against Forced and Child Labor; Corporate Policies	
	103-3 Evaluation of the management approach	Human Rights; Against Forced and Child Labor; Corporate Policies	
GRI 408: Child Labor 2018	408-1 Operations and suppliers at significant risk for incidents of child labor	Human Rights; Against Forced and Child Labor	
GRI 409: Forced or Compulsory Labor 2018	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Human Rights; Against Forced and Child Labor	
GRI 412: Human Rights Assessment 2018	412-2 Employee training on human rights policies or procedures	Human Rights; Corporate Policies	
TECHNOLOGY AND INNOVATION			
Temenos 1	% of revenue spend on R&D	p. 24 Annual Report: R&D	v
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Temenos 2	Client Satisfaction: improvement by % points annually	Focus on Client Engagement	v
	Client Voice: Number of participants annually and Net Promoter score	Focus on Client Engagement	v

I GOVERNANCE

GOVERNANCE

Board of Directors

FORWARD-LOOKING **LEADERSHIP**

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 5,000 and to more than 3,000 clients generating in excess of USD 845 million in annual revenues and achieving a market capitalization of circa USD 10 billion, establishing it as the global leader in banking software. Since 2003 the market capitalization of Temenos has grown by approximately 225 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 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 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 Giacoletto-Roggio is currently an Operating Partner with Advent International, a global private equity firm.

Mr. Giacoletto-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. Giacoletto-Roggio was President, Value Added Services for Europe at AT&T. Earlier in his career, Mr. Giacoletto-Roggio spent 20 years with Digital Equipment Corporation in various senior management and executive roles in services, sales, marketing and information management.

Mr. Giacoletto-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. Koukis has been active in the software industry for more than 40 years, having begun at Qantas where he was heavily involved with the computerization 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 organization 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).

THIBAULT 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 CFO of the company since 1988 and Senior EVP since 2006. He was named Senior executive vice-president and General Secretary in January 2018.

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 totaling around USD 5bn. 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, in his capacity of General Secretary is responsible for new business models definition, corporate structure and governance, compliance and internal audit. He has more than 30 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 in 1952

Mr. Erik Hansen is a recognized software industry veteran with over 30 years of experience as a senior executive at leading software companies.

Mr. Hansen has previously been Chairman of Myriad Group AG (2012-2018) and has served as CEO 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) 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 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 a Director of Vitagreen, Hong Kong (2011-2018) and 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 (2006-2010), 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 MBA 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 holds a BA and MA in Theoretical Physics from Cambridge University and a Ph.D. in Astrophysics from University College London.

Executive Committee

EXPERT MANAGEMENT

MAX CHUARD 1

Chief Executive Officer
Swiss, born in 1973

Mr. Max Chuard is Chief Executive Officer of Temenos, the World's #1 Banking Software Company.

Before being named CEO in 2019, Mr. Chuard held various leadership positions at Temenos since joining the Company in 2002. He was Chief Financial Officer of Temenos since 2012, where he had overall responsibility for finance, planning, treasury, information technology, investor relations, compensation and benefits and internal controls.

In 2015, Mr. Chuard was appointed Chief Operating Officer in addition to his Chief Financial Officer role, and was responsible for go-to-market operations including client management, delivery and driving Temenos' expansion in the US. Mr. Chuard also led the Company's mergers and acquisitions strategy, and has conducted more than 10 successful transactions including Akcelerant, Multifonds and Avoka. Mr. Chuard was also instrumental in revolutionizing Temenos' banking software platform with the launch of two new cloud native, cloud agnostic products – Temenos Infinity and Temenos T24 Transact to accelerate cloud adoption.

Prior to joining Temenos, 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 Master's of Science in Finance from the University of Lausanne (HEC Lausanne), Switzerland.

PANAGIOTIS "TAKIS" SPILIOPOULOS 2

Chief Financial Officer
Greek, born in 1970

Before being appointed CFO in 2019, Mr. Panagiotis "Takis" Spiliopoulos was Head of Research and member of the Investment Banking management team at leading Swiss bank Vontobel, where he successfully built the #1 franchise in Swiss equities over the last ten years, as recognized by Thomson Extel. He has been advising institutional clients as key opinion leader on technology investments. Before that, he led the technology research practice at the same bank and had the lead on numerous capital market transactions. Before joining Vontobel in 2001, Mr. Spiliopoulos was Head of Investments and Member of the Executive Management Board at a venture capital technology where he was responsible for due diligence, company valuation, investment proposal, deal negotiations and setup of deal structure.

Before switching to the investment side in 1999, Mr. Spiliopoulos worked as management and technology consultant for leading international players, among others Accenture (formerly Andersen Consulting, where he started his career in 1995), advising financial institutions on strategy and information technology matters, including the implementation of new processes and applications.

Mr. Spiliopoulos holds a Master's Degree in Computer Science and Business Economics from the Swiss Federal Institute of Technology (ETH Zürich), Switzerland. He also holds an Executive MBA and a degree in financial analysis (CEFA/EFFAS).

ANDRÉ 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 40 years' experience in IT, over 30 of them in financial services. Prior to joining Temenos, Mr. Winterburn held the position of VP Solutions Management & Product Development at Misys, and held a number of senior positions at Lloyds TSB, with a proven track record of driving large and complex IT change programmes.

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 Operating Officer
French, born in 1963

Mr. Jean-Michel Hilsenkopf was appointed Chief Operating Officer of Temenos in February 2019. 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 regional strategy forward.

Prior to taking up his current role, Mr. Hilsenkopf was the Chief Revenue Officer. He previously held the position of managing director for Temenos in Europe, Middle East, Africa and Latin American regions, as well as Temenos Cloud, regional general manager for Europe. Mr. Hilsenkopf has 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 MBA in International Marketing from the University of Geneva, Switzerland as well as a Masters' degree in Computer Engineering from the Polytech of Clermont-Ferrand, France.

ALEXA GUENOUN 6

Chief Client Officer
French, born in 1972

Ms. Alexa Guenoun has been the Chief Client Officer at Temenos since 2017 and has responsibility for Services, Partners and Support globally. Ms. Guenoun was appointed as a member of the Executive Committee in February 2019. Ms. Guenoun joined Temenos in 2006 and has held a number of key roles within sales and business development including most recently her role as Regional Director for French speaking territories.

Ms. Guenoun has over 20 years of experience in global banking technology having worked in Luxembourg, Hong Kong, Singapore and New York. Prior to joining Temenos, she held a number of positions at Misys including Head of Regional Business Development for APAC.

Ms. Guenoun holds a Bachelor's Degree in Marketing and Finance from the American BBA INSEEC in Paris.

Corporate governance

GOVERNING THE GROUP

OUR GOVERNANCE FRAMEWORK

GENERAL MEETING OF SHAREHOLDERS

MAIN RESPONSIBILITIES:

> Approves the annual financial statements;
> Elects the members of the Board of Directors and of the Compensation Committee;
> Approves the compensation of the members of the Board of Directors and of the Executive Committee; and
> Adopts and amends the Articles of Association.

BOARD OF DIRECTORS

MAIN RESPONSIBILITIES:

> Chaired by the Executive Chairman whose role is defined on page 99;
> Approves the strategy of the Group;
> Appoints and oversees the members of the Executive Committee; and
> Approves acquisitions and major investments.

CHIEF EXECUTIVE OFFICER

MAIN RESPONSIBILITIES:

> Is responsible for managing the day-to-day business of the Group; and
> Chairs the Executive Committee.

EXECUTIVE COMMITTEE

MAIN RESPONSIBILITIES:

> Develops the three year strategic plan of the Group and monitors performance against it;
> Submits to the Board of Directors proposed acquisitions, divestments and product capex investments; and
> Deals with any other matters as assigned by the Board of Directors.

COMPENSATION COMMITTEE

MAIN RESPONSIBILITIES:

> Recommends to the Board of Directors compensation practices and policies that are equitable, performance based and in line with market norms;
> Reviews the competitiveness of the executive compensation programs;
> Submits to the Board of Directors proposals for approval by the Annual General Meeting of Shareholders of the total compensation of the Board of Directors and of the Executive Committee members; and
> Prepares the Compensation Report to be submitted to the Board of Directors for approval.

AUDIT COMMITTEE

MAIN RESPONSIBILITIES:

> Reviews and challenges where necessary, the actions and judgments of management, in relation to the financial statements;
> Reviews the internal controls environment and risk management framework;
> Monitors the performance and effectiveness of the internal audit function; and
> Reviews the findings of the external audit reports and monitors their implementation.

NOMINATION COMMITTEE

MAIN RESPONSIBILITIES:

> Reviews the structure, size and composition of the Board of Directors;
> Establishes the qualification criteria for Board of Directors membership;
> Reviews and proposes to the Board of Directors candidates to be recommended for election; and
> Considers succession planning for both Board of Directors and Executive Committee members.

INTRODUCTION

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance as at 1 May 2018 (DCG) available at https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06_16-DCG_en.pdf, its Guidelines available at https://www.six-exchange-regulation.com/dam/downloads/publication/obligations/guidelines/guideline-dcg-en.pdf and with 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 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 2018.

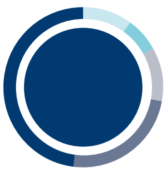
Temenos AG (formerly named Temenos Group AG) is hereinafter referred to as 'the Company'.

Temenos 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'.

GOVERNANCE DASHBOARD

EXECUTIVE CHAIRMAN REMUNERATION MIX

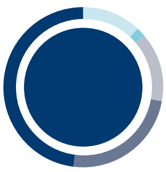


Fixed fee/salary	10%
Other compensation	7%
Variable short term incentives	11%
LTIP earned	24%
LTIP not yet earned	48%

Read more on > 112

Total compensation at risk 83%

EXECUTIVE COMMITTEE REMUNERATION MIX



Fixed salary	12%
Other compensation	2%
Variable short term incentives	14%
LTIP earned	24%
LTIP not yet earned	48%

Read more on > 113

Total compensation at risk 86%

MEETINGS HELD IN 2018

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

The ultimate holding company, Temenos 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:

MAX CHUARD
Chief Executive Officer

PANAGIOTIS "TAKIS" SPILIOPOULOS
Chief Financial Officer

MARK WINTERBURN
Chief Product Officer

ANDRÉ LOUSTAU
Chief Technology Officer

JEAN-MICHEL HILSENKOPF
Chief Operating Officer

ALEXA GUENOUN
Chief Client Officer

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, Australia and China.

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

Name	Temenos 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 8,376,119,079*
Security Number	1245391
ISIN number	CH0012453913
Symbol	TEMN
Reuters	TEMN.S
Bloomberg	TEMN SW

* Based on the issued share capital as of 31.12.2018 composed of 71,044,267 shares.

Please refer to the Information for Investors' section on page 188 for statistics on Temenos shares.

Corporate governance continued

1.1 Group structure continued

1.1.3 Please find below the main non-listed companies belonging to the Group as of 31.12.2018:
(All companies are directly or indirectly wholly owned subsidiaries of Temenos 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
Avoka (Germany) GmbH	Frankfurt am Main	Germany	25,000 EUR
Avoka (USA), Inc.	Broomfield	USA	0.1 USD
Avoka Europe Limited	London	United Kingdom	1 GBP
Avoka Hong Kong Limited	Hong Kong	Hong Kong	1,000 HKD
Avoka Technologies Pty Limited	Manly	Australia	43,561,356.50 AUD
Avoka Technologies Canada Inc.	Vancouver	Canada	100 shares (no par value)
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
Genisys Technology Limited	London	United Kingdom	51,505 GBP
Igefi Deutschland GmbH	Frankfurt am Main	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
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 Cloud Americas LLC	Wilmington	USA	No par value
Temenos Cloud Switzerland SA	Geneva	Switzerland	100,000 CHF
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	439,195,301 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 2018 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 ff. of the Financial Market Infrastructure Act.

Beneficial owner	Number of voting rights	Percentage of share capital
Martin and Rosmarie Ebner	7,695,000	10.83%
The Capital Group Companies, Inc.	7,105,217	10.00%
BlackRock, Inc.[1]	3,833,868	5.40%
Massachusetts Mutual Life Insurance Company[2]	3,554,954	5.00%
Artisan Partners Limited[3]	2,180,153	3.07%
Harding Loevner LP	2,147,681	3.02%

(1) Out of this number, 562,758 voting rights are delegated by a third party and can be exercised at one's own discretion.
(2) Out of this number, 135,888 voting rights are delegated by a third party and can be exercised at one's own discretion.
(3) Out of this number, 2,180,153 voting rights are delegated by a third party and can be exercised at one's own discretion.

Based on the registered capital as of 31.12.2018 composed of 71,044,267 shares.

For more recent information on major shareholders, please refer to page 188.

Disclosure notifications made in accordance with Article 120 ff. 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?companyId=TEMENOS.

1.3 Cross-shareholdings

There are no cross-shareholdings to report.

2. CAPITAL STRUCTURE

2.1 Capital

On 31 December 2018, the registered ordinary share capital amounted to CHF 355,221,335 consisting of 71,044,267 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 34,028,285 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.

Corporate governance continued

2.2 Authorized and Conditional capital continued

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 34,028,285 by issuing up to 6,805,657 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.

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

	31.12.18 CHF 000	31.12.17 CHF 000	31.12.16 CHF 000
Ordinary issued share capital	**355,221**	354,250	348,106
Conditional share capital	**67,068**	47,767	53,911
Authorized share capital	**69,500**	69,500	69,500

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 Meeting 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 Meeting 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).

As at **31 December 2018**, the registered share capital amounted to CHF 355,221,335 consisting of 71,044,267 registered shares, each with a par value of CHF 5 further to the registration on 17 October 2018 of 194,343 shares that were created out of conditional capital during 2018 (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 0.75 per share on 21 May 2019, subject to shareholders' approval at the Annual General Meeting of Shareholders on 15 May 2019. The dividend record date will be set on 20 May 2019 with the shares trading ex-dividend on 17 May 2019. Like in the past years, the 2018 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 26 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.

In **November 2018**, the Company issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 1.875% paid annually on 30 November. The bond will mature on 30 November 2023 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 2018, the Board of Directors comprised 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 90 and 91 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.

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:

a. mandates in companies which are controlled by the Company or which control the Company;
b. 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
c. 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 Executive 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 Executive 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 Executive 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.

Corporate governance continued

3.5 Internal organizational structure continued
3.5.1 Allocation of tasks within the Board of Directors continued
Vice-Chairman

In case the Executive Chairman is unavailable or absent, the Vice-Chairman calls meetings of the Board of Directors; also, in case the Executive 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 Executive 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 Executive Chairman.

In 2018, the Vice-Chairman acted as Lead Independent 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 104.

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 2018, the following meetings were held:

	Number of meetings	**Attendance**	**Average duration**
Board of Directors	8	92%	2h30
Audit Committee	4	100%	3h
Compensation Committee	3	100%	1h30
Nomination Committee	1	75%	1h

All physical meetings were held at Temenos offices in Geneva.

Both the external and internal auditors attended all the Audit Committee meetings in 2018.

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 2018 evaluation results were discussed at the meeting held in July 2018 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.

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

The Board of Directors is responsible for the Group's risk management, security and system of internal controls. Overseeing 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 that allow them to discharge their above duties.

The Chief Executive Officer and Chief Financial 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 Head of Internal Audit 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 at every meeting. 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. Key risks are reviewed by the Audit Committee and then by the Board of Directors itself.

The organizational structure ensures that specialized functions such as Quality, Security and IT continuously support the management of risks.

4. EXECUTIVE COMMITTEE

4.1 Members of the Executive Committee

As at 31 December 2018, the Executive Committee comprised 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
Jean-Michel Hilsenkopf[1]	Chief Revenue Officer

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

Mr. David Arnott resigned as Chief Executive Officer effective 28 February 2019.

Mr. Max Chuard was appointed as Chief Executive Officer effective 1 March 2019.

Mr. Paniagotis "Takis" Spiliopoulos was appointed as a member of the Executive Committee (Chief Financial Officer) effective 31 March 2019.

Ms. Alexa Guenoun was appointed as a member of the Executive Committee (Chief Client Officer) effective 12 February 2019.

Mr. Jean-Michel Hilsenkopf was appointed Chief Operating Officer effective 12 February 2019.

Please refer to pages 92 and 93 for their biographies.

4.2 Other activities and vested interests

Except those mentioned in the biographies section on pages 92 and 93, 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:

a. mandates in companies which are controlled by the Company or which control the Company;
b. 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
c. 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 104.

Corporate governance continued

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.

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 of Shareholders.

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 of Shareholders, 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 of Shareholders.

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 15 May 2018 for a period of one year (first elected in 2003).

8.1.2 Mr. Mike Foley was appointed new lead auditor on 15 May 2018 at the Annual General Meeting of Shareholders.

8.2 Auditing fees

Included in general and administrative expenses is an amount of USD 1,711,206 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 1,497,206) 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 (total of USD 214,000).

8.3 Additional fees

In addition, other fees of USD 1,290,000 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	97
Transactions	77
Non Audit Fees – Audit related	**174**
Tax Advisory	644
Other Advisory	472
Non Audit related	**1,116**
Total Non Audit Fees	**1,290**

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 inquiries please contact the Company at TemenosIR@temenos.com and for management dealings inquiries/disclosures of shareholdings notifications at companysecretarial@temenos.com.

Meeting Temenos

On 15 May 2019, 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 2019 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

"We are pleased to present you with our 2018 Compensation Report. Once again last year, shareholders sent a positive message on our compensation proposals and its structures with positive affirmation on all of our resolution items.

In January 2018, we extended our Executive Committee with the addition of Jean-Michel Hilsenkopf as our Chief Revenue Officer (CRO). In addition, on 20 December 2018, we acquired Avoka, a leader in digital customer acquisition and onboarding, and I am very pleased to welcome the employees to the Temenos family."

LETTER FROM THE CHAIRMAN OF THE COMPENSATION COMMITTEE

In February 2019, David Arnott decided to step down to spend more time with his family. I am delighted to announce that Max Chuard, former CFO/COO, has been appointed as CEO with effect from 1 March 2019. Panagiotis "Takis" Spiliopoulos, will be joining as CFO on 31 March 2019. Jean-Michel Hilsenkopf has been appointed as COO and Alexa Guenoun joins the Executive Committee in her position as CCO (Chief Client Officer).

2018 was another successful year for Temenos with non-IFRS total software license growth of 21% and non-IFRS EPS growth of 21%. The Company's strong financial performance was driven by excellent execution on the part of our commercial teams, coupled with strong control of our operating costs.

We have grown shareholder returns by 133% over three years and 854 % over the last ten years. Below is the historical growth compared to the average of our peer group:

Total Shareholder Return (TSR)	3 years	5 years	10 years	10 year average
Temenos	133%	340%	854%	85%
Average of peer group	66%	120%	660%	66%

As part of its mandate, the Compensation Committee continues to monitor and ensure that:

> We have a strong link between pay and performance and that the success of management mirrors that of our shareholders;
> Variable compensation is based on achievement of business goals and on share price performance;
> We have the support of our shareholders on our compensation proposals.

In 2018, we have continued to make improvements to our governance, in particular, this year we are disclosing product revenue targets on a prospective basis for the LTIP program for the first time.

Shareholder feedback is obtained on a continuing basis by senior management and as in previous years, I have offered to meet with key shareholders specifically on Compensation topics, and meetings are taking place in February and March 2019. The Compensation Committee remains committed to this dialogue with shareholders, and we welcome regular feedback on our compensation policies.

I look forward to having the opportunity of meeting with you again in 2019 and we look forward to receiving your support at the AGM.

Sergio Giacoletto-Roggio
Chairman of the Compensation Committee

A. COMPENSATION POLICY AND PRINCIPLES

A.1. Compensation objectives

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, **85% 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.

A.2. Organization and competencies

Executives

The Executives who served in the 2018 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)
> Jean-Michel Hilsenkopf, Chief Revenue Officer (CRO), effective 12 January 2018
> 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 2018 financial year are:

> Sergio Giacoletto-Roggio, Vice Chairman
> Ian Cookson
> Erik Hansen
> George Koukis
> Thibault de Tersant
> Amy Yip
> Peter Spenser

A.3.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 2018, 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

The Compensation Committee members are elected annually by shareholders.

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

Compensation Report continued

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 2018. The Comparator 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; and
> Financial services software companies that industry analysts rank as global top performers.

Fidessa was acquired during 2018, and has been replaced by Workday. All other companies are the same as those used in 2017. Temenos is close to the median market capitalization of our peer group of USD 10 billion, and at USD 0.8 billion of revenues in 2018 we are approaching the median revenue of our peer group.

A large part of the 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.

The following 17 companies are those used for the benchmark:

Organization	Country	Organization	Country
ACI Worldwide	USA	Quality Systems	USA
Broadridge Financial Solutions	USA	SDL	UK
Citrix	USA	Simcorp	Denmark
Fidelity National Information Services	USA	Software AG	Germany
Fiserv	USA	SS&C	USA
Jack Henry and Associates	USA	The Sage Group	UK
Intuit	USA	Wirecard	Germany
Logitech International	Switzerland	Workday	USA
Micro Focus International plc	UK		

Shareholder engagement

We routinely engage with shareholders to discuss business, performance, compensation and governance matters.

Specifically with regard to executive compensation, in November 2018 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 during February and March 2019.

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 the 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.

B. 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 2018. The fixed salary and benefits are the only unconditional, i.e. 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. Compared to our peer group, the portion of our at-risk compensation is higher and corresponds to significantly more stretching threshold goals, with EPS growth target in-line with the average.

	At risk compensation	Minimum thresholds	EPS growth CAGR over 2 years
Temenos	86%	85%	19%
Average of peer group	56%	41%	19%

In 2018, 86% of total compensation was variable and conditional upon performance targets and therefore at risk. Based on the outstanding growth delivered in 2018 one third of the long term incentive is earned and the short term targets were exceeded.

The compensation for the Executive Chairman and Executive Committee was made up as follows:

2018 EXECUTIVE CHAIRMAN AND EXECUTIVE COMMITTEE

Fixed fee/salary	12%
Other compensation	2%
Variable short term incentives	14%
LTIP earned	24%
LTIP not earned	48%
At risk compensation	86%

The 'LTIP earned' is the part of the 2018 grant relating to the delivery of non-IFRS EPS and non-IFRS product revenue targets for the financial year 2018. The target for 2018 has been met and the component of the 2018 LTIP grant can no longer be forfeited, even though subject to time vesting criteria until February 2021.

SAR PAYOUT vs NON-IFRS EPS CAGR GROWTH FOR 3 YEAR PLAN

Year of SAR plan	Payout
2007	100%
2008	0%
2009	60%
2010	30%
2011	0%
2012	13%
2013	101%
2014	100%
2015	110%
2016	121%

With regard to the Long Term Incentive Plan, the chart above shows the trend of payout vs CAGR growth of non-IFRS EPS targets during the vesting period of the scheme.

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 Report continued

C. COMPENSATION COMPONENTS

C.1. Summary of Compensation elements for employees

The table below explains the compensation elements for 2018:

		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	Yes
	KPIs	No	Yes	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

C.2. 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 99. 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.

C.3. Summary of Key Compensation changes in 2018

> There was no change in fixed compensation for any of the Executives, nor the Board members.
> The main changes made in 2018 are:
>> For the short term incentive, a SaaS ACV target was introduced for the first time. 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 the Executives incentive plan was also aligned to this strategic initiative.
>> For the long term incentive, the weighting of the KPIs was amended to give a higher weighting to Product Revenues to reinforce the Company strategy, supported by the shareholders, of driving growth of the top line.

C.4. Variable Short Term Incentive

The incentive for 2018 is due in cash on approval of the results for the financial year 2018 by the Board of Directors.

Performance criteria

Annual targets for Executives are set by the Board based on recommendations by the Compensation Committee.

For 2018, the short term incentive plan was based on the following targets:

> Non-IFRS software licensing (40%)
> SaaS ACV (15%)
> Non-IFRS EPS (20%)
> Operating cash flow (25%)

On-target performance is rewarded at 100% of fixed salary.

Annual incentive payouts for other senior managers are based on a mix of corporate and specific regional objectives.

Final overall payout for the Executives is 114%. The targets and respective achievements are set out in the table below:

2018 Target	Percentage of Bonus	Target USD	Actual USD	Threshold	% of Achievement	% Paid
Non-IFRS software licensing	40%	373m	373m	90%	100%	100%
SaaS ACV	15%	7.5m	10.0m	90%	134%	150%*
Non-IFRS EPS	20%	2.75	2.95	90%	107%	115%
Net Operating Cash flow	25%	341m	365m	90%	107%	114%
Total					107%	114%

* Maximum achievement of 125% was exceeded, hence payout capped at 150%.

C.5. 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 recipient. In this way, we incentivize the management team to deliver strong revenue growth and profitability over the long term.

The SAR plan is available for the Executive Chairman, Executive Committee members and senior managers. Grant conditions are 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.

SARs are valued on a fair value basis by an independent organization using the Enhanced American Model so as to comply with IFRS 2. 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 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.

Overview of Executive SAR schemes

The Schemes that are not yet vested are outlined in the table below, including 2018 scheme granted in this compensation year:

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
2018	635,400	127.00	30.10	14 February 2018	On Board of Directors approval of the results for the year ending 31 December 2020
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 plus 268,909 for overachievement	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

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 are outlined below:

KPI	Weighting 2016 and 2017 SARs	Weighting 2018 SARs
Non-IFRS EPS Targets	60%	40%
Non-IFRS Product Revenues	40%	60%

The weighting was changed in 2018 to reinforce the board's strategic priority of delivering faster product revenue growth which is also in line with the top priority of our shareholders.

The targets for the 2018 plan for non-IFRS EPS are based on a CAGR of 15% for the three year period to the vesting of each grant and for non-product revenues are based on a CAGR of 13% for the three year period to the vesting of each grant.

Vesting profile
The vesting profile of SARs is the greater of:

i. 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%.
ii. 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 of the 2016 SAR scheme
Under the 2016 SAR scheme, which vested on 13 February 2019, the non-IFRS EPS performance targets and respective achievements were:

Year	Target	Actual achievement	Growth on prior year
2016	USD 1.98	USD 2.07	20%
2017	USD 2.27	USD 2.45	18%
2018	USD 2.62	USD 2.95	20%
Cumulative	USD 6.87	USD 7.47	19% CAGR
Achievement for non-IFRS EPS		109%	

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 2016-2018 non-IFRS Product Revenues	1,696	1,922	18% CAGR
Achievement for non-IFRS Product Revenues		113%	

* Actual results are restated at constant currency compared to plan.

The combined payout for the 2016 SAR plan as a result of overachievement on both KPIs is as follows:

Combined Payout for 2016 SAR plan	Weighting	Actual achievement	Payout
Cumulative 2016-2018 non-IFRS EPS	60%	109%	117%
Cumulative 2016-2018 non-IFRS Product Revenues	40%	113%	127%
Combined Achievement and Payout		110%	121%

C.6. Share ownership
Temenos runs a policy for Stock Ownership and Retention for the Executive Chairman 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 2018, other than CRO who is a new member this year. New members must achieve the requirement by the later of two years after appointment to the Executive Committee or their first SAR vesting date after their appointment to the Executive Committee.

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 2018 is calculated based on the share price of 31 December 2017 and fixed salary for the year 2018. 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.

The shareholdings are shown in section F.1.

C.7. 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 price rises; 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 44 are exercised when the share price is USD 130, then the gain is USD 86,000, equivalent to a 662 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 2016-2018 on a CAGR basis was less than 1% pa. This compares to an EPS growth of 19% pa on a CAGR basis for the same period.

The total cumulative dilution as of 31 December 2018 from all outstanding SARs and stock options was 5% and historically it has been well under the 10% level which is considered generally acceptable dilution for fast growing companies.

C.8. 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 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 AG.

In case of dismissal for cause, all unvested options and SARs are forfeited. In case of termination, conditions vary by role and are described in each plan.

C.9. Compensation elements for Non-Executive Directors
The Non-Executive Directors were compensated in 2018 with a fee for their Board duties, together with a supplementary fee for Audit, Nomination and Compensation Committees' chairs.

Compensation Report continued

D. COMPENSATION FOR FINANCIAL YEAR UNDER REVIEW – AUDITED

This section (page 112 to page 114) 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 2018 and the average exchange rate for 2017 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 i.e. for 2018 it includes 100% of the fair value of the 2018 grant. The SARs grant (number of SARs) is only realized if (i) non-IFRS EPS and non-IFRS product revenue targets are achieved AND (ii) the time vesting criteria have been satisfied. For any value to be realized, even if the SAR is granted, the stock price has to rise above the grant price. The valuation method, conditions and grant details are explained in the paragraph titled Compensation Components. In order for the 2018 fair value to be realized 100% the following need to be satisfied:

Product revenues of at least 13% CAGR growth over the three years
AND
EPS CAGR growth of at least 15%
(or a different combination between the two in accordance with the weightings and over/under achievement)
AND
Stock price CAGR of at least 7.3% compared to the grant stock price of USD 127.

D.1. 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 7.415 million approved by the shareholders at the Annual General Meeting on 10 May 2017.

Out of the total Executive Chairman's 2018 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 2019-2020 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 of 0.5% from 2017 to 2018 was approved by shareholders at the AGM in May 2017. The increase is due to Peter Spencer joining the Board as non-Executive Director mid-year in 2017.

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]	2018	639,846	728,536	138,763	**1,507,145**	4,679,045	**6,186,190**	141,380	**6,327,570**	
Executive Chairman	2017	636,375	727,318	131,310	**1,495,003**	4,679,157	**6,174,160**	141,227	**6,315,387**	
S. Giacoletto-Roggio[4]	2018	145,000	–	–	**145,000**	–	**145,000**	9,716	**154,716**	
Vice Chairman	2017	145,000	–	–	**145,000**	–	**145,000**	9,736	**154,736**	
G. Koukis	2018	105,000	–	0	**105,000**	–	**105,000**	7,712	**112,712**	
Member	2017	105,000	–	13,504	**118,504**	–	**118,504**	7,722	**126,226**	
T. de Tersant[5]	2018	145,000	–	–	**145,000**	–	**145,000**	12,616	**157,616**	
Member	2017	145,000	–	–	**145,000**	–	**145,000**	12,629	**157,629**	
I. Cookson	2018	105,000	–	–	**105,000**	–	**105,000**	6,673	**111,673**	
Member	2017	105,000	–	–	**105,000**	–	**105,000**	6,691	**111,691**	
E. Hansen	2018	114,160	–	–	**114,160**	–	**114,160**	0	**114,160**	
Member	2017	114,186	–	–	**114,186**	–	**114,186**	0	**114,186**	
A. Yip	2018	105,000	–	–	**105,000**	–	**105,000**	6,673	**111,673**	
Member	2017	105,000	–	–	**105,000**	–	**105,000**	6,691	**111,691**	
P. Spenser	2018	105,000	–	–	**105,000**	–	**105,000**	0	**105,000**	
Member	2017	65,597	–	–	**65,597**	–	**65,597**	0	**65,597**	
Total Board	2018	1,464,006	728,536	138,763	**2,331,305**	4,679,045	**7,010,350**	184,770	**7,195,120**	**7,415,000**
of Directors	2017	1,421,158	727,318	144,814	**2,293,290**	4,679,157	**6,972,447**	184,696	**7,157,143**	**7,300,000**

(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 2018 executive team SAR award. The variable short term incentive is 113% of the on-target amount, payable in February 2019. The LTIP for Mr. Andreades consists of 155,450 SARs which were granted on 15 February 2018 at a grant price of USD 127 and a fair value of USD 30.10.

(4) Mr. Giacoletto-Roggio's fees comprise a basic fee of USD 105,000 (USD 105,000 for 2017) annually plus USD 40,000 (USD 40,000 for 2017) 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 105,000 for 2017) annually plus USD 40,000 (USD 40,000 for 2017) annually for his duties as Chairman of the Audit Committee.

D.2. Executive Committee

The total compensation for the Executive Committee including social security charges totals USD 22.1 million. Shareholders approved USD 18.5 million at the AGM on 10 May 2017. As per the Articles of Association, an additional 40% of the approved amount can be added in case of a new member joining the Executive Committee. With the addition of Mr. Jean-Michel Hilsenkopf we were therefore permitted to exceed the approved amount by up to USD 7.4 million but we only used USD 3.6 million. The compensation of its other five members did not exceed the USD 18.5 million approved, the additional amount was wholly due to the addition of Mr. Hilsenkopf.

The total of all compensation, in US dollars, earned in 2018 and 2017 by the members of the Executive Committee is shown below. From the total compensation of USD 20.1 million, USD 9.5 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 2019-2020 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 2018 were Mr. Arnott, Mr. Chuard, Mr. Hilsenkopf, Mr. Loustau and Mr. Winterburn. Mr. Hilsenkopf joined the Executive Committee on 12 January 2018, hence his full year's compensation has been included. 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 2017 to 2018 is as a result of Mr. Hilsenkopf joining the Executive Committee in the role of Chief Revenue Officer.

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
2018	2,488,210	2,834,072	303,167	**5,625,449**	14,446,495	**20,071,944**	1,986,832	**22,058,776**	**18,500,000 plus 7,400,00 for new member**
2017	1,895,994	3,006,253	202,835	**5,105,082**	10,943,681	**16,048,763**	1,634,514	**17,683,277**	**18,500,000**

(1) The variable short term incentive is 113% of the on-target payable amount. The variable short term incentive is payable in February 2019.
(2) All other compensation includes life, medical, disability, accident insurances, pension and car allowance.
(3) The LTIP for the Executive Committee consists of 479,950 SARs which were granted on 13 February 2018 at a grant price of USD 127 and a fair value of USD 30.10.
(4) 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.

D.3 Highest paid member of the Executive Committee

Mr. Arnott, our CEO, was the highest paid member of the Executive Committee in 2018 with compensation, in US dollars, as shown below. 88% of his total compensation in 2018 was variable and conditional upon the 2019-2020 performance targets to be achieved.

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
2018	823,239	937,669	68,497	**1,829,405**	5,674,452	**7,503,857**	647,832	**8,151,689**
2017	817,896	932,402	55,113	**1,805,411**	5,674,620	**7,480,031**	647,513	**8,127,544**

(1) The LTIP for the CEO consists of 188,520 SARs which were granted on 13 February 2018 at a grant price of USD 127 and a fair value of USD 30.10.

Compensation Report continued

D.4. 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 2018 was 0.9784 (2017: 0.9847).

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	2018	1,428,960	712,786	135,763	**2,277,509**	4,577,889	**6,855,398**	180,776	**7,036,174**
	2017	1,399,515	716,243	142,609	**2,258,367**	4,607,902	**6,866,269**	181,883	**7,048,152**

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	2018	2,434,419	2,772,803	296,611	**5,503,833**	14,134,176	**19,638,009**	1,943,879	**21,581,888**
	2017	1,867,121	2,960,474	199,746	**5,027,341**	10,777,028	**15,804,369**	1,609,623	**17,413,991**

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, CEO	2018	805,441	917,396	67,018	**1,789,855**	5,551,776	**7,341,631**	633,827	**7,975,458**
	2017	805,441	918,203	54,274	**1,777,918**	5,588,205	**7,366,123**	637,653	**8,003,776**

D.5. Loans granted to members of governing bodies

As of 31 December 2018 and 31 December 2017 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.

E. THE YEAR AHEAD: COMPENSATION OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE FOR 2019

At the Annual General Meeting in 2018, the shareholders approved total compensation including social charges for year 2019 for the Board of Directors of USD 7.5 million and for the Executive Committee of USD 23.1 million.

E.1. Changes that affect 2019 fixed compensation

The Executive Committee has been changed in 2019. David Arnott, the CEO, has resigned effective 28 February 2019 and the new Executive Committee is as follows:

Max Chuard, CEO (Chief Executive Officer) appointed CEO effective 1 March 2019
Panagiotis "Takis" Spiliopoulos, CFO (Chief Financial Officer) appointed as member of the Executive Committee (CFO) effective 31 March 2019
Jean-Michel Hilsenkopf, COO (Chief Operating Officer) appointed COO effective 12 February 2019
André Loustau, CTO (Chief Technology Officer)
Mark Winterburn, CPO (Chief Product Officer)
Alexa Guenoun, CCO (Chief Client Officer) appointed as member of the Executive Committee (CCO) effective 12 February 2019

The addition of one member (CCO) to the team will mean an additional cost compared to that approved, but the compensation of the other 5 members will be within the shareholder approval.

> The new CEO compensation will be in line with the previous CEO.
> 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 2018.
> The variable Short Term Incentive for the Executives will remain at a maximum of 150%.

E.2. 2019 Variable Short Term Incentive for Executives

For 2019, the performance metrics and their weighting will remain the same as in 2018, that is:

> 40% Non-IFRS Software Licensing
> 15% SaaS Annual Contract Value
> 20% Non-IFRS EPS
> 25% Non-IFRS Operating Cash

The targets are considered commercially sensitive and are not disclosed in advance.

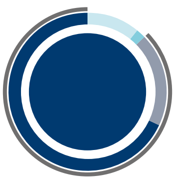
E.3. 2019 Long Term Incentive Plan Awards for Executives

The LTIP award for 2019 was issued in February 2019. 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 2019-2021. The targets for non-IFRS product revenues are based on a CAGR of 14 % for the three year period 2019-2021. The performance against those measures will be disclosed in the year of vesting.

E.4. 2019 Compensation Plan components

For 2019, the split of aggregate compensation for the Executives 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 2019 to 2021 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.

2019 EXECUTIVES



Fixed fee/salary	11%
Other compensation	2%
Variable short term incentives	19%
LTIP	68%
At risk compensation	87%

The LTIP for 2019 is subject to delivery of the non-IFRS EPS and non-IFRS product revenue targets for the financial years 2019, 2020 and 2021 that are still at risk, hence not yet earned.

Compensation Report continued

F. OTHER INFORMATION

F.1. Shareholdings and equity incentives

Non-Executive Directors

Name	Position	**31 December 2018 Shares**	31 December 2017 Shares
S. Giacoletto-Roggio	Vice-Chairman	**9,000**	11,000
I. Cookson	Member	**15,500**	15,500
T. de Tersant	Member	**3,000**	3,000
E. Hansen	Member	**11,000**	11,000
G. Koukis	Member	**15,000**	–
A. Yip	Member	**–**	–
P. Spenser	Member	**–**	–

Executive Chairman and Executive Committee members

		Shares		**SARS**				
Name	**Position**	**2018**	**2017**	**Grant year**	**Plan**	**Exercise price USD**	**Number of unvested SARs 2018**	**Number of unvested SARs 2017**
A. Andreades	Executive Chairman	582,369	752,629	2014[2]	2015 scheme[3]	35.45	–	380,949
				2016	2016 scheme[1]	43.69	325,000	325,000
					2016 scheme[1]	49.12	46,000	46,000
				2017	2017 scheme	70.87	291,900	291,900
				2018	2018 scheme	127.00	155,450	–
D. Arnott	CEO	35,000	57,500	2014[2]	2015 scheme[3]	35.45	–	507,932
				2016	2016 scheme[1]	43.69	432,000	432,000
					2016 scheme[1]	49.12	66,000	66,000
				2017	2017 scheme	70.87	354,000	354,000
				2018	2018 scheme	127.00	188,520	–
M. Chuard	CFO/COO	65,000	65,000	2014[2]	2015 scheme[3]	35.45	–	253,966
				2016	2016 scheme[1]	43.69	258,000	258,000
					2016 scheme[1]	49.12	35,000	35,000
				2017	2017 scheme	70.87	254,300	254,300
				2018	2018 scheme	127.00	135,430	–
J. Hilsenkopf	CRO	0	na	2018	2018 scheme	127.00	92,000	na
A. Loustau	CTO	3,673	3,673	2014[2]	2015 scheme[3]	35.45	–	49,689
				2016	2016 scheme[1]	43.69	45,000	45,000
				2017	2017 scheme	70.87	29,400	29,400
				2018	2018 scheme	127.00	27,000	–
M. Winterburn	CPO	3,975	3,975	2014[2]	2015 scheme[3]	35.45	–	82,815
				2016	2016 scheme[1]	43.69	65,000	65,000
				2017	2017 scheme	70.87	45,000	45,000
				2018	2018 scheme	127.00	37,000	–

(1) The SARs granted under the 2016 scheme vested on 13 February 2019. The numbers above include the overachievement of 121%.

(2) The 2015 grant was issued in November 2014 but was considered compensation for 2015.

(3) The SARs granted under the 2015 scheme vested on 13 February 2018. The numbers above include the overachievement of 110.42%.

No options and/or shares were held on 31 December 2018 and 2017 by persons related to the members of the Board of Directors and of the Executive Committee.

F.2. Options and SARs outstanding

The following table lists all options and SARs outstanding as at 31 December 2018. This includes the SARs outstanding for the Executive Chairman and Executive Committee members shown in the tables on page 116 and all other staff eligible for options and SARs.

Grant year	Plan	Exercise price USD	Total number of outstanding SARs/options/ STI shares	Number of vested SARs	Number of vested options	Number of unvested SARs/ STI shares
2008	2008	21.37	1,097	1,097		
2008	2009	9.71	7,963	7,963		
2009	2009	6.10	5,468	5,468		
2009	2009	6.10	2,098	2,098		
2009	2009	13.26	590	590		
2009	2010	21.78	14,529	14,529		
2010	2010	23.78	20,416	20,416		
2010	2010	26.26	359	359		
2011	2011	26.55	1,065	1,065		
2011	2011	31.39	3,000		3,000	
2011	2011	14.55	2,657	2,657		
2011	2012	14.55	29,907	29,907		
2012	2012	16.26	6,741	6,741		
2012	2012	14.95	1,912	1,912		
2012	2012	13.55	87,045	87,045		
2012	2012	12.50	4,865	4,865		
2013	2013	17.45	15,210	15,210		
2013	2013	19.63	125,238	125,238		
2013	2013	22.52	1,035	1,035		
2013	2013	35.33	20,500	20,500		
2014	2014	35.45	157,776	157,776		
2014	2015	35.15	87,547	87,547		
2015	2015	32.83	2,275	2,275		
2015	2015	35.34	10,600	10,600		
2015	2015	35.29	489,020	489,020		
2016	2016	46.53	14,354			14,354
2016	2016	44.00	18,772			18,772
2016	2016	43.69	2,103,165			2,103,165
2016	2016	49.12	204,728			204,728
2016	2016	54.07	3,000			3,000
2016	2016	53.38	2,423			2,423
2016	2016	57.07	235,034			235,034
2016	2016	63.17	6,057			6,057
2016	2016	63.10	3,634			3,634

Compensation Report continued

Grant year	Plan	Exercise price USD	Total number of outstanding SARs/options/ STI shares	Number of vested SARs	Number of vested options	Number of unvested SARs/ STI shares
2016	2016	65.92	9,691			9,691
2017	2017	70.87	1,618,155			1,618,155
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	49,000			49,000
2017	2017	96.59	60,000			60,000
2017	2017	103.74	15,000			15,000
2017	2017	101.86	1,000			1,000
2018	2018	127.00	1,017,400			1,017,400
2018	2018	127.68	2,500			2,500
2018	2018	161.33	3,000			3,000
2018	2018	164.00	5,000			5,000
2018	2018	138.63	1,000			1,000
2018	2018	113.64	81,500			81,500
STI shares 2017			40,629			40,629
STI shares 2018			7,081			7,081
Total			**6,614,036**	**1,095,913**	**3,000**	**5,515,123**

The weighted average exercise price is USD 59.81.

The SARs from the 2016 scheme vested on 12 February 2019. The numbers above for 2018 include the overachievement of 121%.

Report of the statutory auditor on the Compensation Report

Report of the statutory auditor to the General Meeting of Temenos AG, Geneva

We have audited page 112 to page 114 of the accompanying compensation report of Temenos AG for the year ended 31 December 2018.

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 compensation 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 compensation 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 compensation 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 compensation 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 compensation report of Temenos AG for the year ended 31 December 2018 complies with Swiss law and articles 14-16 of the Ordinance.

PricewaterhouseCoopers SA

Mike Foley
Audit expert
Auditor in charge

Yazen Jamjum
Audit expert

Geneva, 19 February 2019

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

APPENDIX

Report of the statutory auditor on the consolidated financial statements

Report of the statutory auditor to the General Meeting of Temenos AG, Geneva

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Temenos AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of other 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 2018 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

Materiality	Overall Group materiality: USD 9,000,000 The Group audit team performed the audit over selected financial statement line items such as revenue, accounts receivables, contract assets and contract liabilities, cash balances, and capitalized development costs, in addition to auditing the consolidation which includes taxation, pension and share based compensation. We performed a full scope audit over one entity located in Switzerland and audits of selected financial statement line items were performed on eleven additional entities located in nine different countries.
Audit scope	Our audit scope addressed all of the Group's revenue, approximately 97% of the Group's total assets and approximately 58% of the Group's total expenses.
Key audit matters	As key audit matters the following areas of focus have been identified: > Software licensing revenue recognition > Services revenue recognition > Recoverability of account receivables and contract assets

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 materiality	USD 9,000,000
How we determined it	5% of profit before tax, rounded
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark together with revenue 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 450,000 identified during our audit, as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated 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.

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 performed the audit over selected financial statement line items such as revenue, accounts receivables, contract assets and contract liabilities, cash balances, and capitalized development costs, in addition to auditing the consolidation, which includes taxation, pension and share based compensation.

Furthermore, we performed a full scope audit over one entity located in Switzerland and audits of selected financial statement line items were performed on eleven additional entities located in nine different countries.

We finally validated the compliance of the consolidated financial statements with IFRS and Swiss law.

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

As at 31 December 2018, revenue from software licensing was USD 342 million.

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.

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.

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.

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.

As described in note 2 to the consolidated financial statements, IFRS 15 “Revenue from Contracts with Customers” has come into effect as of 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The Group applied the modified retrospective method and the exemption provided by IFRS 15 “Revenue from Contracts with Customers” not to restate the comparative periods as a result of the IFRS 15 adoption. The key judgments involved in the transition were around the timing of revenue recognition of certain performance obligations, the assessment of options for future goods and services and the impact of variable consideration.

Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgments) of the consolidated financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Firstly, we evaluated the compliance of Temenos’ accounting policies with IFRS 15 key considerations.

As part of the adoption of IFRS 15, we obtained the schedule of cumulative adjustments as at 1 January 2018 and evaluated it for completeness and accuracy by assessing whether it reflected appropriate considerations for the changes in the revenue recognition under IFRS 15.

For all license deals that we considered to be individually significant and for a sample of the remaining deals, we performed the following:

> Inspected the existence of a signed version of the customer contract together with evidence of software delivery.
> Read 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. When necessary, we also discussed with internal legal counsel their interpretation of certain contractual terms to assess their impact on revenue recognition.
> Reviewed and evaluated the fair value allocations between the various elements of the contract in accordance with Temenos’ revenue recognition policy and IFRS 15.
> We assessed whether the options for future goods and services included in license agreements we reviewed represent material rights under IFRS 15.

We performed cut-off testing procedures to ensure that revenue is recognized in the correct reporting period by reference to the contract and evidence of delivery.

We performed journal entry tests targeting license revenue deals with certain characteristics and obtained evidence that substantiates the revenue recognized.

We also looked for third party evidence to validate the authenticity of customer contracts. Finally, we performed a look-back analysis on management’s past judgments and estimates by comparing previous estimates with actuals both quantitatively and qualitatively.

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.

Based on the work performed, we concluded that the critical judgments and estimates made by management were reasonable and the accounting for license revenue appropriate.

Report of the statutory auditor on the consolidated financial statements continued

Services revenue recognition

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
As at 31 December 2018, services revenue was USD 154 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 for fixed price service implementation projects combined with the enhanced risk involved in medium to long-term projects. 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. 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. Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgments) of the consolidated financial statements.	We analyzed the quarterly and annual movements in the percentage of completion for a random selection of 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. In certain cases, we also discussed with the service project managers to understand the progress, difficulties associated with the implementation, if any, and likely future scenarios. 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 built on these experiences. We selected a sample of fixed priced projects and tested the accuracy of the percentage of completion calculation and the resulting service revenue recognized. The outcome of our procedures and the look back analysis were presented to, and discussed with, the Audit Committee. Based on the work performed, we concluded that the manday estimates made by management were reasonable and the accounting for service revenue appropriate.

Recoverability of accounts receivables and contract assets

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
As at 31 December 2018, accounts receivables and contract assets amounted to USD 231 million and USD 37 million, respectively. We focused on this risk as the balances are material and there are many significant judgments involved in assessing recoverability of accounts receivables and contract assets in the software industry. This is especially the case as some of these balances could be significant or overdue. 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. Given the complexity, size and length of certain implementation projects, there is risk that an impairment charge or a revenue reversal is not recognized timely and/or accurately. Refer to note 2.5 (accounting policies) and note 14 (trade and other receivables) of the consolidated financial statements.	We reviewed management's analysis for all projects with potential exposure at risk. 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. In addition, we challenged management's assessment of the recoverability of selected accounts receivable and contract assets balances (significant and randomly selected) with license and service departments, project managers and senior management, as appropriate. When deemed necessary, we also discussed certain potential exposures with the internal legal counsel and agreed it to available confirmations from external lawyers. We evaluated management's assessment of whether the resulting impact of the recoverability of the receivable is a result of a credit default and therefore bad debt expense or a form of variable consideration that reduces revenue under IFRS 15. We confirmed selected material customer balances to verify their intention to settle the outstanding balance in the future. 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. We presented the results of our procedures to the Audit Committee. The level of the provision made against accounts receivables and contract assets was deemed appropriate and corresponds to the risks identified.

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 compensation report of Temenos 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.

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

Mike Foley Audit expert Auditor in charge	Yazen Jamjum Audit expert

Geneva, 19 February 2019

Consolidated statement of profit or loss For the year ended 31 December

	2018 USD 000	2017* USD 000
REVENUES		
Software licensing	341,555	248,541
SaaS & subscription	31,265	66,244
Total software licensing	**372,820**	**314,785**
Maintenance	314,353	274,794
Services	153,688	145,784
Total revenues (note 7)	**840,861**	**735,363**
OPERATING EXPENSES		
Cost of sales	(229,191)	(206,903)
Sales and marketing	(144,528)	(123,637)
General and administrative	(87,730)	(79,194)
Other operating expenses	(160,642)	(147,324)
Total operating expenses (note 9)	**(622,091)**	**(557,058)**
OPERATING PROFIT	**218,770**	**178,305**
Finance income	3,117	1,859
Finance costs	(26,486)	(19,216)
Finance costs – net (note 11)	**(23,369)**	**(17,357)**
Profit before taxation	**195,401**	**160,948**
Taxation (note 20)	(27,173)	(22,542)
Profit for the year	**168,228**	**138,406**
Attributable to:		
Equity holders of the Company	168,228	138,406
Non-controlling interest	–	–
	168,228	**138,406**
Earnings per share (in USD) (note 12):		
basic	2.43	1.98
diluted	2.31	1.90

* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 131 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income For the year ended 31 December

	2018 USD 000	2017* USD 000
Profit for the year	**168,228**	**138,406**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment defined benefit obligations (note 22)	(2,290)	814
	(2,290)	814
Items that may be subsequently reclassified to profit or loss		
Available-for-sale financial assets (note 25)	–	(18)
Cash flow hedges (note 25)	6,782	(3,351)
Currency translation differences (note 25)	(32,883)	41,196
	(26,101)	37,827
Other comprehensive income for the year, net of tax	**(28,391)**	**38,641**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**139,837**	**177,047**
Attributable to:		
Equity holders of the Company	139,837	177,047
Non-controlling interest	–	–
	139,837	**177,047**

* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 131 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of financial position As at 31 December

	2018 USD 000	2017* USD 000
ASSETS		
Current assets		
Cash and cash equivalents (note 13)	287,439	167,855
Trade and other receivables (note 14)	283,395	258,632
Other financial assets (note 15)	6,579	3,967
Total current assets	**577,413**	**430,454**
Non-current assets		
Property, plant and equipment (note 16)	18,021	16,385
Intangible assets (note 17)	1,008,873	795,961
Trade and other receivables (note 14)	10,987	10,379
Other financial assets (note 15)	15,423	161
Deferred tax assets (note 20)	17,663	21,943
Total non-current assets	**1,070,967**	**844,829**
Total assets	**1,648,380**	**1,275,283**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables (note 18)	163,052	124,652
Other financial liabilities (note 15)	2,234	3,184
Deferred revenue (note 8)	262,861	232,489
Income tax liabilities	38,568	41,042
Borrowings (note 19)	107,797	5,885
Provisions for other liabilities and charges (note 21)	1,259	3,085
Total current liabilities	**575,771**	**410,337**
Non-current liabilities		
Other financial liabilities (note 15)	19,385	27,752
Borrowings (note 19)	706,278	434,299
Provisions for other liabilities and charges (note 21)	261	238
Deferred tax liabilities (note 20)	37,594	15,408
Retirement benefit obligations (note 22)	10,320	7,736
Total non-current liabilities	**773,838**	**485,433**
Total liabilities	**1,349,609**	**895,770**
Capital and reserves attributable to the Company's equity holders		
Share capital	233,217	232,192
Treasury shares	(264,608)	(197,750)
Share premium and other reserves (note 24)	(289,095)	(186,287)
Other equity (note 25)	(121,491)	(93,341)
Retained earnings	740,748	624,699
	298,771	**379,513**
Non-controlling interest	–	–
Total equity	**298,771**	**379,513**
Total liabilities and equity	**1,648,380**	**1,275,283**

* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 131 to 176 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows For the year ended 31 December

	2018 USD 000	2017* USD 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**195,401**	**160,948**
Adjustments:		
Property, plant and equipment depreciation, intangible asset amortization and impairment of financial assets	95,726	96,083
Loss on retirements of property, plant and equipment and intangible assets (note 16 and 17)	14	220
Cost of share options (note 26)	38,018	32,661
Foreign exchange (gain)/loss on non-operating activities	(5,495)	3,323
Interest expenses, net (note 11)	11,847	11,053
Net loss/(gain) from financial instruments (note 11)	2,064	1,254
Other finance costs (note 11)	10,605	3,811
Other non-cash items	336	1,196
Changes in:		
Trade and other receivables	(35,294)	(18,588)
Trade and other payables, provisions and retirement benefit obligations	27,194	5,645
Deferred revenues	24,638	2,100
Cash generated from operations	**365,054**	**299,706**
Income taxes paid	(20,880)	(11,930)
Net cash generated from operating activities	**344,174**	**287,776**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,305)	(5,787)
Purchase of intangible assets	(3,692)	(4,646)
Capitalized development costs (note 17)	(52,625)	(50,468)
Acquisitions of subsidiary, net of cash acquired (note 6)	(242,462)	(49,780)
Investment in equity securities (note 15)	(15,000)	–
Settlement of financial instruments	(3,885)	(2,276)
Interest received	1,760	1,735
Net cash used in investing activities	**(324,209)**	**(111,222)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid (note 27)	(46,134)	(39,506)
Acquisition of treasury shares	(205,578)	(189,624)
Proceeds from borrowings (note 19)	200,000	–
Repayments of borrowings	(92)	(11,576)
Proceeds from issuance of bond	174,418	148,781
Repayment of bond	–	(105,401)
Interest payments	(12,663)	(12,221)
Payment of other financing costs	(8,953)	(2,603)
Net cash generated/(used in) financing activities	**100,998**	**(212,150)**
Effect of exchange rate changes	(1,379)	9,111
Net increase/(decrease) in cash and cash equivalents in the year	**119,584**	**(26,485)**
Cash and cash equivalents at the beginning of the year	**167,855**	**194,340**
Cash and cash equivalents at the end of the year	**287,439**	**167,855**

* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 131 to 176 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 24) USD 000	Other equity (note 25) USD 000	Retained earnings USD 000	Total USD 000
Balance at 1 January 2017	**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 26)	–	–	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**
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–	(3,755)	(3,755)
Adjusted balance at 1 January 2018	**232,192**	**(197,750)**	**(186,287)**	**(93,341)**	**620,944**	**375,758**
Profit for the year	–	–	–	–	168,228	168,228
Other comprehensive income for the year, net of tax	–	–	–	(26,101)	(2,290)	(28,391)
Total comprehensive income	–	–	–	(26,101)	165,938	139,837
Dividend paid (note 27)	–	–	–	–	(46,134)	(46,134)
Hedging gains transferred to deferred revenues	–	–	–	(2,049)	–	(2,049)
Cost of share options (note 26)	–	–	38,018	–	–	38,018
Exercise of share-based payment transactions (note 24)	1,025	138,720	(139,745)	–	–	–
Acquisition of treasury shares	–	(205,578)	–	–	–	(205,578)
Costs associated with equity transactions	–	–	(1,081)	–	–	(1,081)
	1,025	(66,858)	(102,808)	(28,150)	119,804	(76,987)
Balance at 31 December 2018	**233,217**	**(264,608)**	**(289,095)**	**(121,491)**	**740,748**	**298,771**

* Comparative information is not restated based on transition method chosen by the Group on application of IFRS 9 and IFRS 15 at 1 January 2018.

Notes on pages 131 to 176 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements 31 December 2018

1. GENERAL INFORMATION

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

Further to approval by the shareholders at the Annual General Meeting held on 15 May 2018, the Company's name was changed from 'Temenos Group AG' to 'Temenos AG'.

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 12 February 2019.

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 where IFRS explicitly requires use of other values.

The preparation of financial statements in conformity with the IRFS 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 estates 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 2018

IFRS 9 ' Financial instruments '

As of 1 January 2018, the Group has adopted IFRS 9 'Financial Instruments'. 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 measured at amortized cost. It also introduces new rules for hedge accounting. The Group has applied the modified retrospective approach so that prior periods need not to be restated and the effect of the initial application was recognized as an adjustment to the opening retained earnings. For hedge accounting, the Group applied this standard prospectively.

Other then the new disclosure requirements and the rename of the classification categories, the adoption of the new standard had no effect on the Group's policies related to the measurement of the Group's financial instruments.

The following table presents the reclassification of financial instruments on adoption of IFRS 9 at 1 January 2018.

Reclassifications of financial instruments on adoption of IFRS 9 at 1 January 2018

	Measurement category	
	Original (IAS 39)	New IFRS 9
FINANCIAL ASSETS		
Cash and cash equivalents	Loans and receivables/Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables/Amortized cost	Amortized cost
Derivatives instruments held for trading	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)
Derivatives instruments used for hedging	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)
FINANCIAL LIABILITIES		
Trade and other payables	Amortized cost	Amortized cost
Borrowings	Amortized cost	Amortized cost
Derivatives instruments held for trading	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)
Derivatives instruments used for hedging	Fair value through profit or loss (FVTPL)	Fair value through profit or loss (FVTPL)

The Group has elected to adopt the new standard for hedge accounting. As the hedging relationships that were existing at the initial application met the requirements according to IFRS 9, the adoption of the standard had no effect in the Group's financial statements and policies.

The effect of introduction of the expected credit loss impairment model on opening retained earnings was not significant, since the Group's historical default rate due to credit risk was rather limited in light of its customer profile.

Notes to the consolidated financial statements 31 December 2018 continued

2. ACCOUNTING POLICIES CONTINUED

2.1 Basis of preparation continued

IFRS 15 'Revenue from contracts with Customers'

As of 1 January 2018, IFRS 15 'Revenue from contracts with Customers' has come in to effect. The new standard replaces 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-step 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 has adopted IFRS 15 effective 1 January 2018 applying the modified retrospective application, and chose to apply IFRS 15 on all contracts that are not completed at date of initial application. The Group also elected the practical expedient to apply the contract modifications guidance to contract modification that occur before the date of initial application. Following the adoption of the new standard, the Group has updated its accounting policies for revenue recognition detailed on note 2.17.

The transition effect into the new revenue recognition standard is accounted by recognizing the cumulative effect of initially applying the standard as an opening balance sheet adjustment to equity at 1 January 2018 without any adjustment to prior year comparative information and it's continued to be reported under IAS 18. The cumulative effect of policy change was a reduction of equity of USD 3.8 million (net of tax).

The following are the main areas which has an impact on application of 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 transferred to the client. The revenue due under maintenance service obligations will be recognized rateably over the life of the contract. In effect, the total amount of revenue from subscription contracts has not changed, only the pattern of recognition of revenue over the term of contract has been modified.

> With the change in subscription software contracts, financing has become a factor in a small number of contracts where the financing component is considered significant to the value of that contract. Under IFRS 15 if some of the consideration for a performance obligation is due greater than 1 year from the point the performance obligation was satisfied, then financing is to be assessed. If the financing is a significant component then the total transaction price is discounted and the difference is recorded as an interest income.

> Non-generic development fees were previously recognized on a percentage of completion basis. Under IFRS 15, licensed development revenue is recognized upon delivery of the software, with any costs incurred to fulfill the contract to be deferred until the relevant revenue is recognized. This results in some deferral of development revenue recognition and associated cost.

> Under IFRS 15 standard optional additional copies of the software, renewals and additional modules or products might give rise to a material right. In these cases a performance obligation for the material right is identified and consideration allocated, based on standalone selling price, is assigned to the performance obligation. The transaction price allocation to the material right is then recognized as revenue once the option is exercised or lapsed. Under our current accounting policies, such options do not have an impact on the amount or pattern of revenue recognized.

> Under IAS 18, 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 results in deferral of revenue previously recognized.

The following tables summarizes the impact of adopting IFRS 15 on the Group's consolidated statement of profit and loss for year ended 31 December 2018 and statement of financial position as at 31 December 2018 for each of the lines affected.

Impact on the Group's consolidated statement of profit or loss for year ended 31 December 2018

	As reported USD 000	Impact of IFRS 15 USD 000	Amounts without adoption of IFRS 15 USD 000
Software licensing	341,555	(34,130)	307,425
SaaS & subscription	31,265	44,235	75,500
Total software licensing	**372,820**	**10,105**	**382,925**
Maintenance	314,353	(6,832)	307,521
Services	153,688	2,472	156,160
Total revenues	**840,861**	**5,745**	**846,606**
Operating expenses	(622,091)	(4,733)	(626,824)
Operating profit	**218,770**	**1,012**	**219,782**
Finance cost – net	(23,369)	–	(23,369)
Profit before taxation	**195,401**	**1,012**	**196,413**
Taxation	(27,173)	(88)	(27,261)
Profit for the period	**168,228**	**924**	**169,152**

Impact on Group's consolidation statement of financial position as at 31 December 2018

	As reported USD 000	Impact of IFRS 15 USD 000	Amounts without adoption of IFRS 15 USD 000
Current Asset			
Trade and other receivables	283,395	5,515	288,910
Deferred tax assets	17,663	(525)	17,138
Current liabilities			
Deferred revenues	262,861	908	263,769
Deferred tax liabilities	37,594	(596)	36,998
Equity			
Retained earnings	740,748	4,678	745,426

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 add 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 did not have any impact on the Group's financial statements since the Group's share-base payment transactions are all qualified as equity settled share-based payments. The Group has applied the amendment for the financial reporting period commencing on 1 January 2018.

IFRIC 22 (new interpretation) 'Foreign Currency Transactions and Advance Consideration', 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 did not have any impact on the Group's financial statements since the Group already measure the derecognition of its related non-monetary asset or non-monetary liability in accordance with rules of this new interpretation. The Group has applied this amendment for the financial reporting period commencing on 1 January 2018.

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 2019 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 16 (standard) 'Leases', effective for annual periods beginning on or after 1 January 2019 and replaces IAS 17 'Leases'.

The Group adopted the standard per its effective date of 1 January 2019, using modified retrospective approach.

IFRS 16 primarily changes lease accounting for leases. Lease agreements will give rise to recognition of an asset representing the right to use the leased asset and an obligation for future lease payables. The Group has identified all the leases that are currently in use and majority of these leases are for office rentals.

Application of IFRS 16, will result in an increase in non-current assets of USD 47-50 million and borrowings of USD 52-55 million with a reduction in equity of less than USD 3 million. It would be accounted as an adjustment to the opening balance of retained earnings. The Group does not expect a significant impact on net profit in 2019 however, there will be a reallocation of its current operating lease expense between operating profit and financing expenses.

The Group will take exemptions to elect not to apply IFRS 16 requirements to short term leases and low value leases.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

> accounting for operating leases with remaining lease term of less than 12 months as at 1 January 2018 as short term leases
> the exclusion of initial direct cost for the measurement of the right-of-use-asset at the date of initial application

IFRIC 23 (interpretation) 'Uncertainty over Income tax Treatments', 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 amendment to have an significant impact on the Group financial statements. The Group will apply this amendment for the financial reporting period commencing on 1 January 2019.

IAS 19 (amendment) 'Employee benefit' effective for annual periods beginning on or after 1 January 2019. The amendment provides guidance in connection with accounting for plan amendment, curtailments and settlements. The amendment requires use of current assumptions to determine service cost and to remeasure its net defined benefit liability or asset when a plan event such as amendment, curtailments or settlement occurs. The Group will apply this amendment for the financial reporting period commencing on 1 January 2019.

IFRS 9 (amendment) 'Financial instruments', effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. This amendment enables entities to measure at amortized cost some prepayable financial assets with negative compensation. The Group will apply this amendment for the financial reporting period commencing on 1 January 2019.

Notes to the consolidated financial statements 31 December 2018 continued

2. ACCOUNTING POLICIES CONTINUED

2.1 Basis of preparation continued

Standards, amendments and interpretations relevant to the Group's operation that are not yet effective and have not been early adopted by the Group continued

2015-2017 cycle annual improvements (amendments), effective for annual periods beginning on or after 1 January 2019. The Group will apply these amendments for the financial reporting period commencing on 1 January 2019.

IFRS 3 (amendment) 'Business combination', effective for annual periods beginning on or after 1 January 2020. The amendment clarifies the definition of a business and also permit a simplified assessment of whether an acquired set of activities and assets is merely a group of assets rather than a business. The Group will apply the new definition of business to assess any future acquisitions by the Group. The Group will apply this amendment for the financial reporting period commencing on 1 January 2020.

IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' (amendment), effective for annual period beginning on or after 1 January 2020. This amendment clarifies the definition of material and its application by aligning the wording of definition of material across all IFRS standards. This amendment would assist the Group to make materiality judgments going forward. The Group will apply this amendment for the financial reporting period commencing on 1 January 2020.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Temenos 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. When the Group pays or receives consideration in advance in foreign currency the date of transactions is the date when the consideration is realized. 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 current accounts, time 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.

As the Group's objective and business model are to hold this asset to collect the contractual cash flows, cash and cash equivalents are initially measured at fair value and subsequently measured at amortized costs.

Cash and cash equivalents are subject to the impairment requirements of IFRS 9. Since this asset is substantially held with reputable major institutions with an 'investment grade' or similar rating and the period over which the Group is exposed is very short, the Group applies the low credit risk option and, therefore, the Group allocates this asset to the stage 1 of the credit loss model. Loss allowance is then measured at an amount equal to 12-month expected credit losses.

2.5 Trade and other receivables

Trade receivables and contract assets

Trade receivables are recognized initially at the transaction price or at fair value if they contain a significant financing components. They are subsequently measured at amortized cost using the effective interest method as the Group's objective and business model are to hold this asset to collect the contractual cash flows.

Contract assets represents consideration which is conditional upon factors other then passage of time. They are initially recognized and subsequently measured as per the provisions of IFRS 15.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses lifetime expected credit loss allowance for all trade receivable including trade receivable with significant financing components, and contract assets. The Group exercises judgment in determining expected credit loss allowance. In this judgment, the Group identifies default rate by analyzing the historical experience with credit losses, considering it to represent a reasonable approximation for future expected defaults and apply to the current receivables. The Group also takes into consideration forward looking factors, including changes in the overall economic environment or changes in regulation and if material reflects these in the expected credit loss allowance.

A credit impairment 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. Evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization.

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 expense from expected credit loss allowance as well as from credit impaired debtors 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.

Non-current trade receivables represent balances expected to be recovered after 12 months.

Other receivables

Other receivables include other receivables (financial assets) and other assets (non-financial assets).

Other receivables (financial assets) represent receivables raised from transactions outside the ordinary activities of the Group.

As the Group's objective and business model are to hold this type of asset to collect the contractual cash flows, they are initially measured at fair value and subsequently measured at amortized costs. Interest income, foreign exchange gain or loss and impairment are recognized in profit or loss within 'Finance costs-net'.

When the impact of applying the effective interest method is not significant, the gross carrying amount equals to the contractual amount or the fair value at initial recognition.

Balances to be collected after 12 months from the reporting period are presented as non-current.

The Group applies the same impairment policy that are used to measure the expected credit loss for its trade receivables.

Other assets (non-financial assets) primarily represent prepayments, contract costs according to IFRS 15 and statutory accruals. They are reported as current assets.

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 2018 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 initially recognized 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 over the period of the relevant instrument.

Fees directly attributable to the establishment of a financing facility are recognized as a prepayment for liquidity services that is subsequently amortized within 'Finance costs' over the life of the instrument.

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.

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 24), 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 24).

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'.

Notes to the consolidated financial statements 31 December 2018 continued

2. ACCOUNTING POLICIES CONTINUED

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 revenue from following four main sources:

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 at the point the software is delivered, functional and control has been passed to the customer. Temenos includes software that is either sold on a term basis or perpetual basis and includes software licenses that are sold on a subscription payment basis. Software developments and customizations are included within this revenue line and are recognized when they meet the same criteria as the licensed software.

SaaS

Software as a Service (SaaS) revenue is earned through the use of Temenos software to provide a service to the customer, whereby the customer does not have the ability to take infrastructure of the software under a licensed arrangement. This includes the support and development of the software as well as the hosting infrastructure. The hosting infrastructure in the arrangement may be Temenos' own infrastructure or that of a third party hosting infrastructure that Temenos has engaged with.

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 over time on a percentage-of-completion basis using the inputs method. Time and Material contracts are recognized as utilized by the client.

The IFRS 15 requires estimates and judgments to be made and consistently applied by the Group in accounting for the revenue from contracts with customers. The areas that require estimates and judgments by the Group are detailed below:

Identification of Contract

Temenos often enters in to multiple contracts with a customer and will assess these for the need to combine if the contracts are negotiated in and around the same time, are for the same economic purpose or are dependent upon one another.

Initial/master agreements often have additional purchases, addendum or terms modified throughout their term. At each point a contract is modified, Temenos assesses the contract under the standard to determine if modifications are treated as a modification or a separate contract.

Temenos makes an assessment initially to determine if the customer has the ability and intent to pay the consideration in the contract. Should Temenos determine the customer doesn't meet either of these criteria then Temenos does not believe it is in a position to recognize revenue from this contract until such a time as the customer has both the ability and intent or Temenos has been paid in full and has meet all of the performance obligations.

Identifying Performance Obligations

Temenos commonly sells clearly defined separate performance obligations as identified by the disclosed revenue streams. The significant judgment arises when developments and customizations are included and Temenos must determine if these significantly alter the functionality of the software licensed initially. If Temenos concludes the developments or customizations significantly modify the software licensed the performance obligations will be bundled as one performance obligation and recognized when the combined performance obligation complete, functional and complete.

Temenos often grants options to purchase additional products or services in its contracts with customers. These can be additional usage rights, renewals, products, modules or premium maintenance. Temenos assess each option to see if it provides that customer a material right. If a material right has been granted Temenos will identify this as a separate performance obligation and later in the revenue accounting process, allocate the appropriate consideration to the performance obligation.

Determining the Transaction Price

Judgment is required in assessing the total consideration that will be paid in exchange for the satisfied performance obligations. This includes not only assessing the variable amounts which may be included in the consideration but also assessing if any concessions, discounts or other variable factors may reduce the fixed fees in the contract. Temenos uses internal historical experiences as well as external factors in making the necessary estimates.

Allocating the Consideration to the Performance Obligation

Temenos applies the consideration based on a standalone alone selling price hierarchy. This hierarchy is based on priority being given to performance obligations that have a high level of externally observable inputs and not highly variable in price, such as implementation services. Low priority in the hierarchy is given to items that have little to no external comparability and have a highly variable selling price. Finally once all other performance obligations have been valued the residual is allocated to the licenses.

In addition, management exercises judgments with respect to the determination of the appropriate method to estimate the standalone selling price for the various performance obligations in a contract which eventually impacts the amount of revenue recognized in the consolidated financial statements for each performance obligation.

Temenos also use renewal rates, historical data and cost inputs to determine the standalone selling price and its position in the allocation hierarchy.

Standalone selling price of a material rights factor in the judgments about the likelihood of the customer taking up the option using historical data and the nature of the material right.

Timing of revenue recognition

Temenos recognizes all licensed software (available products, development or customizations) at a point in time when the software is delivered, functional and the customer has control. Control is primarily seen as the customer can take possession of the functional software and use it within the licensed usage rights.

SaaS is recognized over time starting from the point the service is made available to the customer to access the service.

Maintenance services are recognized over the period the service is provided on a straight-line basis. The standard maintenance offering is a stand ready obligation to provide technical support and unspecified updates, upgrades and enhancements on a when and if available basis. Customers simultaneously receive and consume the benefits of these support services as performed.

Professional services are recognized over time using a percentage of completion based on input method for the fixed price service offering. Temenos uses an inputs method aligned to milestones and the consideration recoverable.

Payment terms

In the majority of contracts with customers Temenos will look for payment upfront for the licensed software, payment annually in advance for the maintenance and SaaS contracts and Professional Services paid on set project milestones with a portion paid on contract signature.

Incremental Costs of Obtaining Customer Contracts

The assets recognized for the incremental costs to obtain a contract are predominantly made up of sales commissions earned by Temenos sales force in obtaining SaaS contracts. The asset is amortized over the life of the contract committed for by the customer as the commissions are driven by the commitment period.

Notes to the consolidated financial statements 31 December 2018 continued

2. ACCOUNTING POLICIES CONTINUED

2.17 Revenue recognition continued

Cost to fulfill a contract

The cost to fulfill a contract with a customer that are associated with customization developments are deferred on the balance sheet as work in progress until the development performance obligation is met, at which point the cost will recognized in line with the revenue.

Contract balances – Assets and Receivable

The Group classifies the right to consideration in exchange for products or services transferred to a client as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional on factors other than passage of time whereas a contract asset is a right to consideration that is conditional upon other factors.

Contract assets represents revenue where the right to consideration is subject to future performance being satisfied such as the completion of milestones on service fixed price contracts or satisfaction of maintenance for future periods.

Deferred revenues

Deferred revenues (referred as 'Contract liabilities' as per IFRS 15 terminology) represents prepayment from clients for wholly unsatisfied or partially satisfied performance obligations mainly in relation to maintenance and SaaS contracts.

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 Other financial assets

Other financial assets include derivatives held with positive value and equity investments.

Other financial assets are initially recorded at fair value. Any transaction costs are expensed in profit or loss.

Regular way 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 financial instruments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Derivative assets held for trading

A derivative is held for trading if it is:

> Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
> Not designated and effective hedging instrument.

While the objective of holding these assets was to provide effective economic hedges under the Group's risk management strategy, these derivatives are not designated as hedging instruments according to IFRS 9 since all relevant conditions are not met. Therefore, subsequent 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 reported as a current assets.

Derivative assets used for hedging

Derivatives used for hedging are subsequently measured at fair value. Subsequent changes in fair value are accounted according to the provisions for hedge accounting in IFRS 9. They are reported as non-current assets when they are expected to be settled more than 12 months after the reporting period.

Equity investments

Equity instruments are subsequently measured at fair value with movements recorded either in profit or loss or in other comprehensive income for securities held as strategic investment that the Group irrevocably elects to classify as fair value through other comprehensive income (FVOCI) on the acquisition date.

For securities measured at FVOCI, there is no reclassification of the accumulated changes in fair value to profit or loss when the instrument is sold. Any distribution of dividend is recognized in profit or loss.

2.21 Other financial liabilities

Other financial liabilities include derivatives held with negative value.

At initial recognition, other financial liabilities are measured at fair value. Any transaction costs are expensed in profit or loss.

Derivative liabilities held for trading

A derivative is held for trading if it is:

> Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
> Not designated and effective hedging instrument.

While the objective of holding these liabilities was to provide effective economic hedges under the Group's risk management strategy, these derivatives are not designated as hedging instruments according to IFRS 9 since all relevant conditions are not met. Therefore, subsequent 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 reported as a current liabilities.

Derivative liabilities used for hedging

Derivatives used for hedging are subsequently measured at fair value. Subsequent changes in fair value are accounted according to the provisions for hedge accounting in IFRS 9. They are reported as non-current liabilities when they are expected to be settled more than 12 months after the reporting period.

2.22 Hedging activities

At inception of the hedge relationship, the Group documents the economic relationship between the hedging instrument and the hedged item, the risk management objective and strategy as well as the methodology to assess the hedge effectiveness requirements.

The Group does not currently apply fair value hedge or hedge of a net investment.

Cash flow hedge

In a cash flow hedge designation, the effective portion of change in fair value of the hedging instrument is recognized in other comprehensive income. The ineffective portion is immediately recognized in profit or loss.

Accumulated amounts deferred in other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast 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 removed to the initial cost of the asset or the carry amount of the liability.

When the Group separates the time value of an option, the forward element of a forward contract or the currency basis spread of a swap instrument from the designation of the hedging instrument, the movement in fair value of these elements are recognized in other comprehensive income as 'cost of hedging' to the extent they relate to the hedge item. The value that is priced into the instrument on the designation date is recognized in profit or loss or included in the initial cost or carry amount of a non-financial asset or liability either over the period of the hedging relationship if it is a 'time-period related' hedge or when the hedge item occurs for 'transaction related' hedge.

Hedge accounting is discontinued when the hedging instrument expires, or is sold or terminated, or when the risk management objective is no longer met. The amount accumulated in other comprehensive income remains in equity until the hedge item occurs. If there is no longer expectation that the forecast transaction will realize, the amount is immediately reclassified to profit or loss.

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 similar inputs that the market participants would use when pricing the asset or liability and 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 as 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 the estimates and assumptions on a regular basis but, in all cases, at each interim period. Any changes that may have a significant effect on the reported fair value are reported to the management.

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.

Notes to the consolidated financial statements 31 December 2018 continued

2. ACCOUNTING POLICIES CONTINUED

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 Group'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.

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' apply:

As per IAS 39

	2017 USD 000
FINANCIAL ASSETS	
Fair value through profit or loss (FVTPL)	
Held for trading	2,464
Derivatives instruments used for hedging	1,664
Financial asset measured at amortized cost	418,877
Total	423,005
FINANCIAL LIABILITIES	
Fair value through profit or loss (FVTPL)	
Held for trading	1,298
Contingent consideration	–
Derivatives instruments used for hedging	29,638
Financial liabilities measured at amortized cost	561,713
Total	592,649

As per IFRS 9

	2018 USD 000
FINANCIAL ASSETS	
Financial asset measured at fair value through profit or loss (FVTPL)	**4,215**
Financial asset measured at fair value through other comprehensive income (FVOCI)	**15,000**
Derivatives instruments used for hedging	**2,787**
Financial asset measured at amortized cost	**562,339**
Total	**584,341**
FINANCIAL LIABILITIES	
Financial liabilities measured at fair value through profit or loss (FVTPL)	**1,087**
Derivatives instruments used for hedging	**20,532**
Financial liabilities measured at amortized cost	**974,597**
Total	**996,216**

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 statements. The Group uses derivatives to hedge certain risk exposures.

Market risk

Market risk management is carried out by a central treasury team under policies and procedures approved by the management. The Group's risk policies are primarily set out to identify the source of the risks, to monitor the risks with clear sets of rules and controls and to establish strategies in order to protect the Group's financial statements against any adverse financial effect arising from these risks. The Group's policies and the related procedures are regularly updated to reflect changes in market conditions, Group activities and emergence of new risks. They are also regularly overseen by the Group's internal audit team for compliance as well as detection of control deficiency.

(i) Foreign exchange risk

The Group operates internationally and, therefore, is exposed to transactional foreign exchange risk in various currencies, primarily with respect to those described hereunder. Foreign exchange risk arises from:

> Forecast transactions 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.

The Group's policy is to protect its profit or loss from the variability in cash flows that is attributable to the movement in currencies associated with its forecast transactions and monetary assets and liabilities recognized in the statement of financial position. This is implemented by 1) aligning the revenue streams to currencies that match the cost base and 2) using derivatives to offset the change in value of the exposure.

The Group risk strategy is to continuously maintain its 12-18 month projection of future transactions within predetermined coverage parameters with a higher hedging ratio for front-loaded quarters. The hedging strategy is executed in layers and only for currencies for which the combination of exposure and volatility may have an adverse effect in the financial statements. The Group uses forward exchange contracts with maturities that are closely aligned to the dates when the forecast cash flows are expected to realize.

Except for maintenance revenue for which the effective portion of the hedge become part of the carrying amount reported in 'Deferred revenues' line, forecast transactions are expected to be recognized in profit or loss during the same period as the hedging instrument.

The Group hedges the EUR/CHF currency risk arising from a bond issued in 2015 with a cross currency swap. It applies cash flow hedge accounting for this hedging relationship.

Unless already designated in a hedging relationship, the Group risk strategy is to hedge material currency exposure arising from monetary assets and liabilities using forward exchange contracts with maturities not exceeding three months. The Group does not apply hedge accounting for this economic hedging relationship.

For all the hedging relationships where hedge accounting is applied, the hedge effectiveness is tested every quarter or upon a significant change in the assumptions. The existence of an economic relationship between the hedge item and the hedging instrument is assessed using either the 'critical term match' method or the 'dollar offset' method when the terms of the hedging instrument do not perfectly match the terms of the hedged item. Possible source of ineffectiveness may arise from 1) increase in credit risk from the derivative counterparty or 2) change in the timing of the cash flow realization of the forecast transaction.

Since the critical terms of the hedging instrument closely match those of the hedge items, the Group applies a hedge ratio of 1:1.

The Group is also exposed to foreign currency risk arising from the translation of its foreign operations in USD dollars, but it does not hold any derivatives to manage the exposure as there is no intention to divest any of it subsidiaries.

The table below illustrates the Group's most sensitive currency exposures:

	Net exposure	
	2018 FCY* 000	2017 FCY* 000
Euro	**3,891**	284
UK pounds	**(6,606)**	3,716
Swiss francs	**(8,788)**	(390)
India rupee	**(187,215)**	(116,866)

* Foreign currency.

A negative value represents a liability exposure.

These exposures represent monetary assets and liabilities, including derivatives held for trading, 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,

and that are not part of an existing cash flow hedge relationship.

Notes to the consolidated financial statements 31 December 2018 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

Sensitivity analysis

The following table represents the effect of a reasonable shift in the currencies above against the US dollars.

2018	Euro USD 000	UK pounds USD 000	Swiss francs USD 000	India rupee USD 000
Sensitivity assumption	+10%	+10%	+10%	+10%
Profit or (loss)	455	(827)	(884)	(268)
Other comprehensive income:				
Cash flow hedging related to forecast transaction	(4,574)	867	1,492	2,748
Cash flow hedging related to long-dated liability	(2,228)	–	1,568	–
	(6,802)	867	3,060	2,748
Equity	**(6,347)**	**40**	**2,176**	**2,480**
Sensitivity assumption	-10%	-10%	-10%	-10%
Profit or (loss)	(455)	827	884	268
Other comprehensive income:				
Cash flow hedging related to forecast transaction	4,574	(867)	(1,492)	(2,748)
Cash flow hedging related to long-dated liability	2,228	–	(1,568)	–
	6,802	(867)	(3,060)	(2,748)
Equity	**6,347**	**(40)**	**(2,176)**	**(2,480)**

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 forecast transaction	(4,001)	1,471	1,352	1,793
Cash flow hedging related to long-dated liability	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 forecast transaction	4,001	(1,471)	(1,352)	(1,793)
Cash flow hedging related to long-dated liability	(1,278)	–	(1,551)	–
	2,723	(1,471)	(2,903)	(1,793)
Equity	2,689	(1,972)	(2,863)	(1,610)

Given the volatility of these currencies, the current economic environment and the foreign exchange market conditions, these sensitivity assumptions represent management's assessment of reasonably possible changes in spot rates.

(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 fair value risk arising from its fixed rate borrowings since they are measured at amortized cost.

The Group's policy is to protect its profit or loss from the variability in cash flows that is attributable to the movement in interest rates from its financial instrument at floating rates. When the risk is deemed to be substantial, the Group enters into derivatives to hedge the exposure and hedge accounting is applied when all relevant conditions are met. At the reporting periods, no hedges were in place as the Group's exposure was not material.

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 section 3.1 above, represents the maximum credit exposure.

Trade receivables and contract assets

The Group determines the creditworthiness of any prospective or existing customers at the initial phase of each bid process. Assessment of credit risk is mainly based on assessing the creditworthiness of customers through external ratings, and in the case of existing customers, our past experience.

If a company is unrated, then historical payment experience, if available, together with country stability is taken into consideration to assess the credit risk.

Every credit check performed on prospective or existing customers at the initial phase of the negotiation goes through an approval process. The credit rating is taken into account during the revenue recognition process once contracts are signed.

Payment terms and requirement of financial security are adapted according to the degree of the credit quality and the past experience. At present, the Group does not hold any collateral security.

The Group assesses the credit risk for customers with significant balances on a regular basis.

In cases when delinquency in payments occurs, the Group may withhold services delivery under current implementation or limit the right to use its software.

As at 31 December 2018 and 2017, 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 receivables and contract assets' balances.

The Group performs impairment analysis using default rate to measure expected credit loss for all trade receivable including with significant financing components, and contract assets. The Group identifies the default rate by analysing the historical and current experience with credit losses, considering it to represent a reasonable approximation for future expected defaults and apply to the current receivables. The Group also takes into consideration forward looking factors, including changes in the economic environment or changes in regulation and if material reflects these in the expected credit loss allowance.

A credit impairment 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. Evidence of impairment includes severe financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization.

At 31 December 2018, the credit risk exposure on the Group's trade receivables and contract assets is as follows:

	2018 **USD 000**
Expected credit loss rate	2.13%
Gross carrying amount for trade receivables and contract assets	268,179
Provision for credit losses	**5,710**

As disclosed in note 2.1, the Group's exposure to credit risk from balances due from its customers is limited. Therefore, the Group has applied the expected credit loss rate calculated above to the overall receivable and contract asset balances without using a grouping criteria and hence a provision matrix is not presented for disclosure purposes.

Refer to note 14 for the movement in the loss allowance in respect of trade receivables and contract assets.

Financial instruments and cash deposits

The Group mitigates the counterparty risk related to cash and cash equivalents and derivative financial instruments by holding balances with major reputable financial institutions.

Credit risk related to derivative financial instruments is also mitigated by legally enforceable master netting agreements such as ISDAs or equivalent.

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's policy is to maintain a level of liquidity that meets its future financial outcome expected to be settled in the short or near term, under both normal and stressed conditions. Excess of liquidity is primarily used to repay any drawn borrowing facilities (note 19) and then invested in highly liquid instruments with maturities of three months or less.

The Group's treasury team manages the liquidity and funding risk by seeking to align the maturity profile of its financial assets with its financial liabilities. The Group's net debt and liquidity position are monitored through rolling forecasts on the basis of future cash flows.

Notes to the consolidated financial statements 31 December 2018 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

Liquidity risk continued

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 2018					
Trade and other payables	146,838	13,042	–	–	–
Property provision	58	323	261	–	–
Borrowings	310,648	3,380	9,655	380,953	155,104
Total non-derivatives financial liabilities	**457,544**	**16,745**	**9,916**	**380,953**	**155,104**

	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**

The following table details the Groups' 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 2018						
Cross currency swaps	–	2,215	–	2,215	18,278	–
Outflow foreign exchange derivatives	80,584	4,686	5,708	–	–	–
Inflow foreign exchange derivatives	(79,566)	(4,524)	(5,292)	–	–	–
Net settled foreign exchange derivatives	493	62	115	221	–	–
Total derivatives	**1,511**	**2,439**	**531**	**2,436**	**18,278**	**–**

	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**	**–**

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 financing agreements. 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 13) 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 2018	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts (note 15)	–	4,215	–	4,215
Derivatives used for hedging				
Forward foreign exchange contracts (note 15)	–	2,787	–	2,787
Financial assets at FVOCI				
Equity securities	–	–	15,000	15,000
Total	**–**	**7,002**	**15,000**	**22,002**

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL				
Forward foreign exchange contracts (note 15)	–	1,087	–	1,087
Derivatives used for hedging				
Forward foreign exchange contracts (note 15)	–	1,360	–	1,360
Cross currency swaps (note 15)	–	19,172	–	19,172
Total	**–**	**21,619**	**–**	**21,619**

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 15)	–	2,464	–	2,464
Derivatives used for hedging				
Forward foreign exchange contracts (note 15)	–	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 15)	–	1,298	–	1,298
Derivatives used for hedging				
Forward foreign exchange contracts (note 15)	–	2,017	–	2,017
Cross currency swap (note 15)	–	27,621	–	27,621
Total	**–**	**30,936**	**–**	**30,936**

There were no transfers between Level 1 and 2 in the current and prior periods.

Assets and liabilities in level 2

Forward foreign exchange contracts:

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

Cross currency swaps:

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

There were no changes in valuation techniques during the period.

Notes to the consolidated financial statements 31 December 2018 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.4 Fair value measurement continued

Assets and liabilities in level 3

Equity investments:

Discounted cash flow model: The fair value represents the financial projection provided by the company discounted at a risk adjusted rate of 11%. Since the acquisition of the equity securities occurred towards the end of the period, the change in fair value was deemed to be zero.

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

Reconciliation from the opening balances to the closing balances

	Equity Securities USD 000	Contingent Consideration USD 000
At 1 January 2017	–	1,542
Amount reversed within 'Cost of Sales'	–	(1,598)
Earn out true-up to 'Cost of Sales'	–	31
Unwinding of discount to 'Finance costs' (note 11)	–	25
At 31 December 2017	–	–
Purchase (note 15)	15,000	–
At 31 December 2018	**15,000**	**–**

3.5 Hedging

At the reporting dates, the Group did not apply any fair value hedge or hedge of a net investment.

At 31 December 2018 the Group held the following derivatives as hedging instruments.

	Time band		
	1-6 months USD 000	6-12 months USD 000	More than one year USD 000
Foreign currency risk			
Financial assets			
Forward exchange contracts:			
Nominal amount expressed in USD equivalent	28,474	19,881	6,055
USD/CHF VWAP*	0.97	0.93	0.96
GBP/USD VWAP*	1.35	1.41	–
USD/INR VWAP*	70.23	72.45	77.06
USD/RON VWAP*	3.99	3.98	4.17
Financial liabilities			
Forward exchange contracts:			
Nominal amount in USD equivalent	24,279	19,899	3,604
EUR/USD VWAP*	1.23	1.22	1.20
Cross currency swaps			
Nominal amount in USD equivalent			13,848
EUR/CHF VWAP*			1.03

* Volume weighted average price.

Since the critical terms of the hedging instruments closely match those of the hedge items, the Group applies a hedge ratio of 1:1.

The effect of hedge accounting on the financial position and performance

The table below shows the effect on the financial statements from the items designated as hedged items and hedging instruments.

Items designated as hedging instrument

Year ended 31 December 2018	Carrying amount Assets USD 000	Carrying amount Liabilities USD 000	Line item in the statement of financial position	Change in value used to determine hedge ineffectiveness USD 000
Foreign exchange risk				
Cash flow hedges				
Forward exchange contracts	2,787	1,360	Other financial assets and liabilities (note 15)	4,740
Cross currency swaps	–	19,172	Other financial assets and liabilities (note 15)	8,449

Items designated as hedge item

Year ended 31 December 2018	Change in value used to determine hedge ineffectiveness USD 000	Cash flow hedge reserve USD 000
Cash flow hedges		
Foreign exchange risk		
Forecast transactions	4,740	1,427
Borrowings	8,449	19,172

Note 25 provides details on change in fair value and amount reclassified to profit or loss by risk category.

There was no ineffectiveness recognized during the period (2017: USD nil).

The Group does not have any forecast transaction for which cash flow hedge accounting had been used in previous period, but which is no longer expected to occur.

3.6 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 has a set-off agreement with one of its Partners. Under the terms of this agreement, all amounts payable are offset against receivables and the net amount are settled between the parties.

Year ended 31 December 2018	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 and contract assets (note 14)	265,627	(3,158)	262,469	–	262,469
Derivatives financial assets (note 15)	7,002	–	7,002	(2,342)	4,660
Total	**272,629**	**(3,158)**	**269,471**	**(2,342)**	**267,129**
Financial liabilities					
Trade payables (note 18)	34,041	(3,158)	30,883	–	30,883
Derivatives financial liabilities (note 15)	21,619	–	21,619	(2,342)	19,277
Total	**55,660**	**(3,158)**	**52,502**	**(2,342)**	**50,160**

Notes to the consolidated financial statements 31 December 2018 continued

3. FINANCIAL INSTRUMENTS CONTINUED

3.6 Offsetting financial assets and financial liabilities continued

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 14)	85,929	(1,450)	84,479	–	84,479
Derivatives financial assets (note 15)	4,128	–	4,128	(2,146)	1,982
Total	**90,057**	**(1,450)**	**88,607**	**(2,146)**	**86,461**
Financial liabilities					
Trade payables (note 18)	26,362	(1,450)	24,912	–	24,912
Derivatives financial liabilities (note 15)	30,936	–	30,936	(2,146)	28,790
Total	**57,298**	**(1,450)**	**55,848**	**(2,146)**	**53,702**

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 17).

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 2018 the carrying amount of the goodwill amounts to USD 628.6 million (2017: USD 521.7 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 2018 the carrying amount of the deferred tax asset amounts to USD 17.7 million (2017: USD 21.9 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 at the point in time when all developments and customizations are complete, functional and delivered to the customer. However, the majority of such modifications or customizations have not been deemed significant in current or prior periods.

Under IFRS 15, the collection of cash is addressed from the outset, if Temenos doesn't believe the customer has the ability or intent to pay the consideration promised for the performance obligations then Temenos is not in possession of a contract and revenue recognition can not commence. If there is doubt about the sum of consideration to be paid then this is addressed under variable consideration. This is addressed under step three of the revenue recognition model 'understanding the consideration in the contract'. Both of these require judgment to be applied by Temenos.

In addition, management exercises judgments with respect to the determination of the appropriate method to estimate the standalone selling price for the various performance obligations in a contract which eventually impacts the amount of revenue recognized in the consolidated financial statements for each performance obligation.

In respect of services revenue, management exercises judgment in determining the percentage of completion, specifically with regards to the total mandays 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 229.5 million (2017: USD 203.2 million) and the total capitalized development costs was USD 52.6 million (2017: USD 50.5 million).

5. GROUP COMPANIES

The consolidated financial statements include the accounts of Temenos AG and the following entities as of 31 December 2018:

Company name	Country of incorporation	**2018 Ownership interest**	2017 Ownership interest
Amee Easy Software Solutions Pty Limited***	Australia	**0%**	100%
Amee Ip Holdings Pty Limited***	Australia	**0%**	100%
Avoka Technologies Pty Ltd*	Australia	**100%**	0%
Infinitive Pty Limited	Australia	**100%**	100%
Provisio Technologies Pty Limited***	Australia	**0%**	100%
Rubik Esop Trusco Pty Limited	Australia	**100%**	100%
Rubik Financial Technology Pty Limited***	Australia	**0%**	100%
Rubik Ip Holdings Pty Limited	Australia	**100%**	100%
Rubik Mortgages Pty Limited	Australia	**100%**	100%
Stargate Information Systems Pty Limited	Australia	**100%**	100%
Swift El-Ten Services Pty Limited***	Australia	**0%**	100%
Temenos Australia Pty Limited	Australia	**100%**	100%
Temenos Australia Financial Pty Limited	Australia	**100%**	100%
Temenos Australia Messaging Pty Limited	Australia	**100%**	100%
Temenos Australia Operations Pty Limited	Australia	**100%**	100%
Temenos Australia Services Pty Limited	Australia	**100%**	100%
Temenos Australia Technology Solutions Pty Limited	Australia	**100%**	100%
Temenos Solutions Australia Pty Limited	Australia	**100%**	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%
Avoka Technologies Canada Inc.*	Canada	**100%**	0%
Temenos Canada Inc.	Canada	**100%**	100%
Igefi Canada Inc.**	Canada	**0%**	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%
Avoka (Germany) Gmbh*	Germany	**100%**	0%
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%
Avoka Hong Kong Ltd*	Hong Kong	**100%**	0%
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	**0%**	100%
Igefi Software India Private Limited**	India	**0%**	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%

Notes to the consolidated financial statements 31 December 2018 continued

5. GROUP COMPANIES CONTINUED

Company name	Country of incorporation	2018 Ownership interest	2017 Ownership interest
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%
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%	100%
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%
Temenos Cloud Switzerland Sa****	Switzerland	100%	0%
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 Cloud Americas Llc****	USA	100%	0%
Avoka (USA), Inc *	USA	100%	0%
Temenos Ukraine Llc	Ukraine	100%	100%
Temenos UK Limited	United Kingdom	100%	100%
Avoka Europe Ltd*	United Kingdom	100%	0%
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 Holdings UK Limited****	United Kingdom	100%	0%
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); 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 as part of acquisition of business in 2018.
** Merger of companies Financial Objects Software (India) Pvt Limited and Igefi Software India Pvt Limited with Temenos India Pvt Limited / Merger of Igefi Canada Inc with Temenos Canada Inc in 2018.
*** Companies struck-off in 2018.
**** Companies set up in 2018.

Significant restrictions

Other than those described in note 13, 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 were no subsequent adjustments relating to the finalization of the initial accounting for prior year acquisition 'Rubik Financial Limited'.

Current year acquisitions

Avoka Technologies Pty Limited

On 20 December 2018, the Group acquired 100% of the share capital of Avoka Technologies Pty Limited a global leader in digital customer acquisition and onboarding software.

Avoka has more than 85 customers that are largely served through a SaaS model hosted on the cloud, and serves all key banking segments including retail, corporate and wealth. It's customer base has grown more rapidly with both top tier and mid-market banks with clients in Europe, Australia and US. With over 270 employees in offices across the US, UK and Australia, Avoka is purpose built for creating omni-channel customer acquisition and onboarding solutions that enable banks to create simple customer-friendly experiences that improve conversion rates.

The combination of Avoka and Temenos will further strengthen the Temenos Infinity product, which has over 300 banking clients and has been recognized as a leader by top analyst houses such as Forrester and Ovum. The Avoka platform will be integrated with the Temenos Infinity product, providing banks with a comprehensive single solution for their omni-channel digital banking needs.

The goodwill arising from the acquisition is mainly attributable to the cross-selling opportunities and to strengthen the Group's presence in digital front office.

The goodwill recognized is not tax deductible for income tax purposes.

Fair value of the consideration transferred at acquisition date	USD 000
Cash consideration	253,997

Fair value of the identifiable assets acquired and liabilities assumed	Total USD 000
Cash & cash equivalents	11,535
Trade and other receivables	9,271
Property, plant and equipment (note 16)	825
Intangible assets (note 17)	141,548
Trade and other payables	(5,919)
Provision for other liabilities (note 21)	(430)
Deferred tax liabilities (note 20)	(27,550)
Deferred revenues	(9,349)
Total	119,932
Goodwill (note 17)	134,066

Acquisition-related costs included in 'General and administrative' line in the statement of profit or loss	670
Net consideration paid in cash	253,997
Cash and cash equivalents acquired	(11,535)
Cash outflow on acquisition	242,462

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 acquire in the period between the date of acquisition and the reporting date are not material as the acquisition date occurred towards the end of the period.

Had the acquisition occurred on 1 January 2018, the Group's consolidated statement of profit or loss would have reported a pro-forma revenue of USD 880.8 million and a pro-forma profit of USD 156 million.

The initial accounting has been provisionally completed at 31 December 2018. The Group is still evaluating the fair value of the net assets which includes acquired intangible assets.

Notes to the consolidated financial statements 31 December 2018 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 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 contract assets (note 14).

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

	Product		Services		Total	
	2018 USD 000	2017 USD 000	**2018 USD 000**	2017 USD 000	**2018 USD 000**	2017 USD 000
Revenues	**687,279**	590,882	**153,688**	145,784	**840,967**	736,666
Operating contribution	**352,941**	293,328	**30,571**	28,419	**383,512**	321,747
Total assets	**198,170**	151,562	**64,299**	89,013	**262,469**	240,575

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 628.6 million (2017: USD 521.7 million) was allocated to the segment 'Products.'

Reconciliation to Group's consolidated financial statements	**2018 USD 000**	2017 USD 000
Total operating contribution from the reportable segments	383,512	321,747
Fair value adjustment on acquired deferred income liability	(106)	(1,303)
Depreciation and amortization (note 9)	(92,746)	(85,007)
Unallocated expenses	(71,890)	(57,132)
Finance costs – net (note 11)	(23,369)	(17,357)
Profit before taxation	**195,401**	160,948

Total assets	**2018 USD 000**	2017 USD 000
Total assets allocated to the reportable segments	262,469	240,575
UNALLOCATED ITEMS:		
Other receivables	31,913	28,436
Cash and cash equivalents	287,439	167,855
Other financial assets	22,002	4,128
Property, plant and equipment	18,021	16,385
Intangible assets	1,008,873	795,961
Deferred tax assets	17,663	21,943
Total assets per the statement of financial position	**1,648,380**	1,275,283

Geographical information

Revenues from external customers	**2018 USD 000**
Switzerland (country of the Group's domiciliation)	29,859
United Kingdom	52,840
Luxembourg	61,711
United States of America	94,115
Australia*	51,814
Ireland	43,722
TOTAL – MATERIAL COUNTRIES	**334,061**
Rest of Europe	184,096
Middle-East & Africa	148,350
Rest of Asia	108,774
Rest of Americas	65,580
TOTAL REVENUES	**840,861**

Revenues from external customers	2017 USD 000
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 & Africa	107,907
Rest of Asia	139,907
Rest of Americas	78,999
TOTAL REVENUES	735,363

* Denmark is not separately reported in the 2018 geographical information as the revenues from external customers attributed to it was not material. Australia has been added to 2018 geographical information as the revenue from external customers is deemed material.

Revenues are based on the location where the license and maintenance is sold or the service is provided.

Non-current assets other than financial instruments and deferred tax assets **USD 000**	**2018**
Switzerland (country of the Group's domiciliation)	133,236
Luxembourg	315,907
Australia	326,654
United Kingdom	53,165
France	61,365
United States of America	62,563
Other countries	74,004
Total	**1,026,894**

	2017 USD 000
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

Notes to the consolidated financial statements 31 December 2018 continued

8. REVENUE FROM CONTRACTS WITH CUSTOMERS

Future performance obligation

The following amounts of transaction prices allocated to the performance obligations that are partially unsatisfied or wholly unsatisfied as at 31 December 2018:

	Within one year USD 000	More than one year USD 000	**Total USD 000**
Revenue expected to be recognized	432,450	996,840	**1,429,290**

The remaining performance obligations expected to be recognized within one year and more than one year mainly relates ongoing maintenance support contracts.

Contract balances

	31 December 2018 USD 000	1 January 2018 USD 000
Contract assets	37,488	36,387
Deferred revenues	262,861	234,616

As a result of acquisition during the current reporting period, deferred revenues has increased by USD 9.3 million and movement on contract assets was immaterial (note 6).

The amount of revenue recognized for the period ended 31 December 2018 from the deferred revenues balance at the beginning of the period is USD 180.2 million.

The amount of revenue recognized for the period ended 31 December 2018 from performance obligations satisfied (or partially satisfied) in previous periods is USD 6.5 million. This is mainly due to movement in variable consideration where any variability related to transaction pricing and allocation of consideration has been removed.

Contract Costs

The Group has recognized an asset in relation to cost to obtain and fulfill the contract. This is presented within other receivables in the balance sheet.

	USD 000
Asset recognized from cost incurred to fulfill a contract at 31 December 2018	
– Customization developments capitalized as work in progress	2,319

Cost associated with customization developments is recognized to statement of profit or loss when delivery is performed. In 2018, the amount recognized to profit or loss was USD 3.8 million.

	USD 000
Asset recognized from cost to obtain the contract at 31 December 2018	
– Sales commission on SaaS contracts	988

Capitalized commission is amortized over the life of contract committed for by the customer as commission are driven by commitment period. In 2018, the amount amortized to profit or loss during the reporting period was USD 0.1 million.

The Group applies the practical expedient in paragraph 94 of IFRS 15, which allows to expense the cost to obtain the contract if the amortization period of the assets that the Group would have recognized is one year or less.

The impact on revenue on adoption of IFRS 15 has been separately disclosed in note 2.1.

9. EXPENSES BY NATURE

	2018 USD 000	2017 USD 000
Third party licences and commissions	23,257	18,503
Personnel costs and external consultants	450,845	409,540
Depreciation and amortization (notes 16 and 17)	92,746	85,007
Travel expenses	31,940	27,368
Rent and other occupancy costs	21,877	19,871
Marketing and other professional costs	24,150	17,992
Other costs	29,901	29,245
Capitalized development costs (note 17)	(52,625)	(50,468)
	622,091	557,058

10. EMPLOYEE BENEFIT EXPENSES

	2018 USD 000	2017 USD 000
Wages and salaries	278,028	253,068
Termination benefits	2,283	5,741
Social charges	56,200	50,901
Defined contribution pension costs	8,672	6,256
Defined benefit pension costs (note 22)	3,014	1,626
Cost of employee share option scheme (note 26)	38,018	32,661
	386,215	350,253

Included in the employee benefit expenses, is the remuneration of the key management personnel as illustrated below:

	2018 USD 000	2017 USD 000
Key management personnel of Temenos AG		
– Short term cash compensation and benefits	6,897	6,426
– Post-employment benefits	236	138
– Share-based payment	19,126	15,623
	26,259	22,187
Non-executive directors		
– Short term benefits	**824**	788

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.

11. FINANCE COSTS – NET

	2018 USD 000	2017 USD 000
Finance income:		
– Interest income on short term bank deposits and investments	1,766	1,738
– Interest income on non-current trade and other receivables measured at amortized cost	204	121
– Foreign exchange gain, net	1,147	–
Total finance income	**3,117**	1,859
Finance costs:		
– Interest expense on financial instruments measured at amortized cost	(13,817)	(12,887)
– Change in fair value of contingent consideration	–	(25)
– Other financing costs*	(10,605)	(3,811)
– Net loss on derivatives not designated as hedging instruments	(2,064)	(1,254)
– Foreign exchange loss, net	–	(1,239)
Total finance costs	**(26,486)**	(19,216)
Finance costs – net	**(23,369)**	(17,357)

* Other financing costs include commitment fees attributable to the undrawn portion of banking facilities, fees related to guarantees in issue and fees relating to the issuance of financing arrangements that is not recorded as an interest expense (calculated using the effective interest method) (note 2.11).

Notes to the consolidated financial statements 31 December 2018 continued

12. 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.

	2018	2017
Profit attributable to equity holders of the Company (USD 000)	**168,228**	138,406
Weighted average of ordinary shares outstanding during the year (in thousands)	**69,361**	69,927
Basic earnings per share (USD per share)	**2.43**	1.98

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 employees under share based payment'.

For the period ended 31 December 2017 and 31 December 2018, this category was fully dilutive.

	2018	2017
Profit used to determine diluted earnings per share (USD 000)	**168,228**	138,406
Weighted average of ordinary shares outstanding during the year (in thousands)	**69,361**	69,927
Adjustments for:		
– Share options and restricted shares (in thousands)	**3,596**	3,012
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**72,957**	72,939
Diluted earnings per share (USD per share)	**2.31**	1.90

13. NET DEBT ANALYSIS

	2018 USD 000	2017 USD 000
Cash at bank and in hand	189,915	103,452
Short term deposits	89,896	46,455
Other short term liquid investments	7,628	17,948
Cash and cash equivalents*	**287,439**	167,855
Borrowings – repayable within one year (note 19)	(107,797)	(5,885)
Borrowings – repayable after one year (note 19)	(706,278)	(434,299)
Cross currency swaps – cash flow hedges (note 15)	(19,172)	(27,621)
Net Debt	**(545,808)**	(299,950)

* Included in cash and cash equivalents, is USD 6.8 million (2017: USD 6.3 million) that are held in jurisdictions where regulatory exchange controls exist and, therefore, are not available for general use by the Group outside of such jurisdiction at the reporting date.

	Cross currency swaps – Principal USD 000	Other liabilities USD 000	Borrowings short term USD 000	Borrowings long term USD 000	Total USD 000
	Changes in liabilities from financing activities				
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	–	–	(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)**
Cash flows	–	13,245	8,463	(374,418)	(352,710)
Fair value and foreign exchange movement	8,449	–	5,228	(4,202)	9,475
Other non-cash movements	–	(13,826)	(115,603)	106,641	(22,788)
At 31 December 2018	**(19,172)**	**(1,815)**	**(107,797)**	**(706,278)**	**(835,062)**

14. TRADE AND OTHER RECEIVABLES

	2018 USD 000	2017 USD 000
Trade receivables	230,691	93,498
Contract assets (note 8)	37,488	–
Loss allowance	(5,710)	(9,019)
Trade receivables and contract assets – net	**262,469**	84,479
Accrued income*	–	156,096
VAT and other taxation recoverable	9,296	8,649
Other receivables	6,961	4,610
Prepayments	15,656	15,177
Total trade and other receivables	**294,382**	269,011
Less non-current portion	(10,987)	(10,379)
Total current trade and other receivables	**283,395**	258,632

* Accrued income is now classified as trade receivables or contract assets in accordance with the new definition under IFRS 15 adopted effective 1 January 2018.

Trade and other receivables are recognized initially at the transaction price or at fair value if they contain a significant financing component. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. 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 financial assets mentioned above. The Group's exposure to credit and market risk is disclosed in note 3.2.

Fair values of the trade and other receivables qualified as financial assets and measured at amortized cost.

	Carrying amount		Fair value	
	2018 USD 000	2017 USD 000	**2018 USD 000**	2017 USD 000
Current trade and other receivables	263,913	240,643	263,913	240,643
Non-current trade and other receivables.	10,987	10,379	10,692	10,057
	274,900	251,022	**274,605**	250,700

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.

Notes to the consolidated financial statements 31 December 2018 continued

14. TRADE AND OTHER RECEIVABLES CONTINUED

Movements in the provision for impairment

The allowance account is used for impairment of trade receivables and contract assets. The Group has not recognized any impairment on any other classes of assets. Comparatives for 2017 represents the provision for impairment losses on trade receivables under IAS 39.

	Loss allowance	
	2018 USD 000	2017 USD 000
Balance at 1 January under IAS 39	**9,019**	10,230
Reclassification**	(5,809)	–
Balance at 1 January under IFRS 9	**3,210**	10,230
Increase in loss allowance	2,926	3,064
Used amounts	(356)	(3,505)
Recoveries	–	(251)
Unused amounts	(52)	(529)
Exchange (loss) or gain	(18)	10
Balance at 31 December	**5,710**	9,019

** Reclassification out of the bad debt provision on 1 January 2018 is related to amounts provided for in last year's provision that are not credit risk related. As they relate to open customer contracts as of 1 January 2018, these amounts were reclassified from the provision balance and netted against the related receivable and contract assets as per the variable consideration guidance under IFRS 15.

Included in 'Sales and marketing', is USD 2.9 million (2017: USD 11.1 million) of impairment loss related to trade receivables and contract assets.

15. OTHER FINANCIAL ASSETS AND LIABILITIES

	2018		2017	
	Assets USD 000	**Liabilities USD 000**	Assets USD 000	Liabilities USD 000
Forward foreign exchange contracts – cash flow hedges	2,787	1,360	1,664	2,017
Forward foreign exchange contracts – held for trading	4,215	1,087	2,464	1,298
Cross currency swaps – cash flow hedges	–	19,172	–	27,621
Equity securities at FVOCI	15,000	–	–	–
At 31 December	**22,002**	**21,619**	4,128	30,936
Reported as follows:				
Current	6,579	2,234	3,967	3,184
Non-current	15,423	19,385	161	27,752
At 31 December	**22,002**	**21,619**	4,128	30,936

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.

Equity securities represent investment in NuoDB, a distributed SQL database provider headquartered in the US, that were acquired in December 2018. They are designated and measured at FVOCI as the Group intends to hold them for strategic purposes.

16. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2018	Leasehold improvements USD 000	Vehicles USD 000	Fixtures fittings & equipment USD 000	Land and buildings USD 000	Total USD 000
COST					
At 1 January 2018	15,085	515	48,039	2,657	66,296
Foreign currency exchange differences	(515)	(24)	(2,361)	(177)	(3,077)
Additions	984	137	7,111	–	8,232
Acquisition of business (note 6)	–	–	825	–	825
Retirements/Disposals	(204)	(19)	(810)	–	(1,033)
31 December 2018	**15,350**	**609**	**52,804**	**2,480**	**71,243**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	12,493	374	36,602	442	49,911
Foreign currency exchange differences	(451)	(15)	(1,795)	(33)	(2,294)
Charge for the year	1,013	60	5,505	46	6,624
Retirements/Disposals	(204)	(19)	(796)	–	(1,019)
31 December 2018	**12,851**	**400**	**39,516**	**455**	**53,223**
NET BOOK VALUE					
31 December 2018	**2,499**	**209**	**13,288**	**2,025**	**18,021**
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	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

Notes to the consolidated financial statements 31 December 2018 continued

17. INTANGIBLE ASSETS

Year ended 31 December 2018	Internally generated software development costs USD 000	Goodwill USD 000	Computer software USD 000	Customer related USD 000	Total USD 000
COST					
At 1 January 2018	435,373	521,671	185,555	157,899	1,300,498
Foreign currency exchange differences	(4,255)	(27,156)	(7,176)	(6,863)	(45,450)
Additions	52,625	–	4,115	–	56,740
Acquisition of business (note 6)	–	134,066	54,148	87,400	275,614
Retirements/Disposals	–	–	(4,996)	–	(4,996)
31 December 2018	**483,743**	**628,581**	**231,646**	**238,436**	**1,582,406**
AMORTIZATION					
At 1 January 2018	291,605	–	124,899	88,033	504,537
Foreign currency exchange differences	(3,197)	–	(4,871)	(4,062)	(12,130)
Charge for the year	44,875	–	25,443	15,804	86,122
Retirements/Disposals	–	–	(4,996)	–	(4,996)
31 December 2018	**333,283**	**–**	**140,475**	**99,775**	**573,533**
NET BOOK VALUE					
31 December 2018	**150,460**	**628,581**	**91,171**	**138,661**	**1,008,873**

Year ended 31 December 2017	Internally generated software development costs USD 000	Goodwill USD 000	Computer software USD 000	Customer related USD 000	Total USD 000
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

Amortization charge of USD 82.1 million (2017: USD 74.9 million) is included in the 'Cost of sales' line; USD 0.3 million (2017: USD 0.3 million) in 'Sales and marketing' line; USD 1 million (2017: USD 1.3 million) in 'Other operating expenses' line and USD 2.7 million (2017: USD 2.2 million) in 'General and administrative' line.

Impairment tests for goodwill

Goodwill is allocated to the 'Product' reportable segment.

	2018			2017		
	Carrying amount USD 000	**Growth rate %**	**Discount rate %**	Carrying amount USD 000	Growth rate %	Discount rate %
'Product' segment	**628,581**	**1**	**10.75**	521,671	1	10.17
	628,581			521,671		

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 (2017: 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.

18. TRADE AND OTHER PAYABLES

	2018 USD 000	2017 USD 000
Trade payables	30,883	24,912
Accrued expenses	116,176	86,228
Other payables	15,993	13,512
Total trade and other payables	**163,052**	124,652
Less non-current portion	**–**	–
Total current trade and other payables	**163,052**	124,652

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.

Fair values of the trade and other payables qualified as financial liabilities and measured at amortized cost.

	Carrying amount		Fair value	
	2018 USD 000	2017 USD 000	**2018 USD 000**	2017 USD 000
Current trade and other payables	**159,880**	121,240	**159,880**	121,240
Non-current trade and other payables	**–**	–	**–**	–
	159,880	121,240	**159,880**	121,240

The carrying amounts of the current trade and other payables is considered to be at their fair value, due to their short term nature.

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.

Notes to the consolidated financial statements 31 December 2018 continued

19. BORROWINGS

	2018 USD 000	2017 USD 000
CURRENT		
Other loans	75	58
Unsecured bonds	107,722	5,827
	107,797	5,885
NON-CURRENT		
Other loans	86	145
Bank borrowings	200,000	–
Unsecured bonds	506,192	434,154
	706,278	434,299
Total borrowings	**814,075**	440,184

Fair values of the borrowings

	Carrying amount		Fair value	
	2018 USD 000	2017 USD 000	**2018 USD 000**	2017 USD 000
Other loans	161	203	172	197
Bank Borrowings	200,000	–	200,014	–
Unsecured bonds	613,914	439,981	608,435	449,149
	814,075	440,184	**808,621**	449,346

The fair value measurement of other loans and bank borrowings is based on a discounted cash flow method using the LIBOR interest 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:

	2018 USD 000	2017 USD 000
Swiss francs	613,914	439,981
US dollars	200,000	–
Other currencies	161	203
	814,075	440,184

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 175 million with a coupon of 1.875% paid annually on 30 November. The bond will mature on 30 November 2023 at par and was issued in 2018; 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 facility of USD 500 million. The pertinent details are as follows:

> Interest at LIBOR plus margin adjustment, which is calculated by reference to financial covenants;
> The facility terminates on 19 February 2021; and
> Commitment fees are due on the undrawn portion.

As at 31 December 2018, a total of USD 200 million (2017: nil) was drawn under this new agreement.

The facility is subject to financial covenants which have been adhered to during the reported periods.

20. TAXATION

Tax expense

	2018 USD 000	2017 USD 000
Current tax on profits for the year	**29,591**	24,469
Adjustments in respect of prior years	**(1,150)**	1,063
Total current tax	**28,441**	25,533
Deferred tax – origination and reversal of temporary differences	**(1,268)**	(2,990)
Total tax expense	**27,173**	22,542

Temenos 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% (2017: 24.1%), is as follows:

	2018 USD 000	2017 USD 000
Profit before tax	**195,401**	160,948
Tax at the domestic rate of 24.1%	47,092	38,789
Non-taxable income and expenses	(14,601)	(39,915)
Net deferred tax impact on utilisation and recognition on losses	1,944	2,786
Tax adjustments related to prior periods	(1,150)	1,063
Reversal of deferred tax assets on intellectual property	42	56
Non-taxable consolidation adjustment on intellectual property amortization	(3,775)	(5,374)
Other movement on deferred tax assets and liabilities, including rate changes	522	(458)
Effects of different tax rates	(6,262)	17,926
Overseas withholding tax	4,454	4,249
Other tax and credits	(1,093)	3,420
Total tax expense	**27,173**	22,542

There is no income tax expense or tax credit arising relating to components of other comprehensive income (2017: USD nil). Due to the adoption of the IFRS 15 standard, a net tax charge of USD 159 thousand is directly posted to equity (2017: 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:

	2018 USD 000	2017 USD 000
Deferred tax assets – to be recovered after more than 12 months	17,562	10,144
Deferred tax assets – to be recovered within 12 months	101	11,799
Deferred tax assets	**17,663**	21,943
Deferred tax liabilities – to be recovered after more than 12 months	(35,633)	(14,107)
Deferred tax liabilities – to be recovered within 12 months	(1,961)	(1,301)
Deferred tax liabilities	**(37,594)**	(15,408)
Net deferred tax (liabilities)/assets	**(19,931)**	6,535

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.

Notes to the consolidated financial statements 31 December 2018 continued

20. TAXATION CONTINUED

Tax expense continued

The Group has not recognized deferred tax assets of USD 34,445 thousand (2017: USD 55,866 thousand) in respect of losses amounting to USD 189,780 thousand (2017: USD 457,686 thousand) that can be carried forward against future taxable income. Losses amounting to USD 90,877 thousand (2017: USD 209,631 thousand) will expire within the next 5 years, USD 22,836 thousand (2017: USD 54,417 thousand) will expire within 5 to 10 years and USD 9,922 thousand (2017: USD 10,254 thousand) will expire within 10 to 20 years. There are no unrecognized deferred tax liabilities.

The Group has recognized deferred tax assets of USD 162 thousand (2017: USD 204 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:

	2018 USD 000	2017 USD 000
At 1 January	6,535	2,383
Income statement credit	1,267	2,990
Foreign currency exchange differences	(183)	(1,864)
Acquisition of business	(27,550)	3,025
At 31 December	**(19,931)**	6,535

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 2017	18,332	260	409	–	19,001
Credited (charged) to the profit/(loss)	(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
Credited (charged) to the profit/(loss)	(2,237)	(42)	(475)	356	(2,397)
Acquisition of business	–	–	–	–	–
Transfer to deferred tax liability	–	–	187	(1,343)	(1,156)
Foreign currency exchange differences	(332)	–	(0)	(394)	(726)
At 31 December 2018	**14,511**	**162**	**0**	**2,990**	**17,663**

The movement in deferred tax liabilities is as follows:

	Intangible fair value adjustment USD 000	Other USD 000	Total USD 000
At 1 January 2017	(16,262)	(355)	(16,617)
Credited to the profit/(loss)	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)
Credited to the profit/(loss)	4,249	(584)	3,665
Acquisition of business	(25,800)	(1,750)	(27,550)
Transfer from deferred tax asset	–	1,156	1,156
Foreign currency exchange differences	512	31	543
At 31 December 2018	**(35,006)**	**(2,588)**	**(37,594)**

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal provision USD 000	Property provision USD 000	Termination benefits USD 000	Total USD 000
At 1 January 2018	400	289	2,634	3,323
Foreign currency exchange differences	(15)	(18)	(23)	(56)
Increase in provisions recognized in profit or loss	–	524	–	524
Acquisition of business (note 6)	–	–	430	430
Used during the year	(82)	(149)	(2,281)	(2,512)
Unused amounts reversed during the year	(61)	(3)	(123)	(188)
31 December 2018	**242**	**642**	**636**	**1,520**

Reported as follows:				
2018				
Current	242	381	636	1,259
Non-current	–	261	–	261
31 December 2018	**242**	**642**	**636**	**1,520**
2017				
Current	400	51	2,634	3,085
Non-current	–	238	–	238
31 December 2017	400	289	2,634	3,323

Legal provision
The amounts represent provisions for certain legal claims brought against the Group. The balance at 31 December 2018 is expected to be utilized in 2019. Management believes that the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2018.

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 261 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 2019.

Notes to the consolidated financial statements 31 December 2018 continued

22. 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 represent 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 collective foundation under the supervision and management of one of the leading 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 participants. 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:

	2018 USD 000	2017 USD 000
Present value of funded obligations	47,864	40,884
Fair value of plan assets	(41,612)	(36,942)
Deficit of funded plans	6,252	3,942
Present value of unfunded obligations	4,068	3,794
Net liability in the statement of financial position	**10,320**	7,736

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 2018	44,678	(36,942)	7,736	–	7,736
Current service costs	2,606	–	2,606	–	2,606
Past service costs	214	–	214	–	214
Other cost	–	38	38	–	38
Interest expense/(income)	608	(452)	156	–	156
	3,428	(414)	3,014	–	3,014
Remeasurements (included in OCI):					
– Return on plan assets, excluding interest income	–	1,126	1,126	–	1,126
– Actuarial loss (gain) from:					
– demographic assumptions	859	–	859	–	859
– financial assumptions	(863)	–	(863)	–	(863)
– experience adjustment	1,168	–	1,168	–	1,168
	1,164	1,126	2,290	–	2,290
– Exchange differences	(810)	672	(138)	–	(138)
Contributions:					
– Employers	–	(2,582)	(2,582)	–	(2,582)
– Plan participants	1,104	(1,104)	–	–	–
Payment from/to plans:					
– Benefit paid	2,368	(2,368)	–	–	–
	2,662	(5,382)	(2,720)	–	(2,720)
BALANCE AT 31 DECEMBER 2018	**51,932**	**(41,612)**	**10,320**	**–**	**10,320**
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
	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	–	–	–
	2,561	(4,813)	(2,252)	–	(2,252)
BALANCE AT 31 DECEMBER 2017	**44,678**	**(36,942)**	**7,736**	**–**	**7,736**

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.

Notes to the consolidated financial statements 31 December 2018 continued

22. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Plan assets comprise:

	2018	2017
Equity securities:		
– Quoted	19%	18%
– Unquoted	0%	0%
Fixed income securities:		
– Quoted	15%	15%
– Unquoted	0%	0%
Real estate	12%	11%
Insurance contracts	48%	54%
Other	6%	2%
	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):

	2018	2017
Discount rate	**1.82%**	1.46%
Inflation	**0.78%**	0.66%
Future salary growth	**2.37%**	2.36%

Sensitivity analysis:

The sensitivity of the defined benefit obligation to changes in the principal assumption is:

			2018
	Change in assumption	**Increase USD 000**	**Decrease USD 000**
Discount rate	**50bps**	**(2,514)**	**2,794**
Future salary growth	**0.50%**	**588**	**(562)**

			2017
	Change in assumption	Increase USD 000	Decrease USD 000
Discount rate	50bps	(1,989)	2,136
Future salary growth	0.50%	558	(568)

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 2019 are USD 2.6 million.

At 31 December 2018, the weighted-average duration of the defined benefit obligation was 10 years (2017: 12 years).

23. SHARE CAPITAL

As at 31 December 2018, the issued shares of Temenos AG comprised 71,044,267 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 2018 are summarized below:

	Number
Total number of shares issued, as at 31 December 2017	70,849,924
Treasury shares	(1,775,516)
Total number of shares outstanding, as at 31 December 2017	69,074,408
Creation of new ordinary shares out of conditional capital for share-based payment transactions	194,343
Disposal of treasury shares for share-based payment transactions	1,313,902
Acquisition of treasury shares (share buy-back)	(1,342,653)
Total number of shares outstanding, as at 31 December 2018	**69,240,000**

As at 31 December 2018, the number of treasury shares held by the Group amounted to 1,804,267 (2017: 1,775,516).

Temenos 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	6,805,657
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

24. 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 2017	115,924	174,095	(375,812)	(68,456)	(154,249)
Cost of share options (note 26)	–	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)
Cost of share options (note 26)	–	38,018	–	–	38,018
Exercise of share-based payment transactions	22,753	–	(162,498)	–	(139,745)
Costs associated with equity transactions	(1,081)	–	–	–	(1,081)
Balance at 31 December 2018	**243,490**	**244,774**	**(708,903)**	**(68,456)**	**(289,095)**

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.

Notes to the consolidated financial statements 31 December 2018 continued

24. SHARE PREMIUM AND OTHER RESERVES CONTINUED

Share options reserve

As detailed in note 26, 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 26, 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 AG

Temenos 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 AG shares, thus rendering Temenos Holdings Limited a wholly owned subsidiary of Temenos 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 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 AG, and share premium items arising prior to the creation of Temenos 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 AG' during the period ended 31 December 2001.

25. OTHER EQUITY

	Cumulative translation adjustment USD 000	Available-for-sale Investment USD 000	Financial asset at FVOCI USD 000	Fair value gains/ (losses) on qualifying cash flow hedges USD 000	Total USD 000
Balance at 1 January 2017	(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)
Change in fair value of equity investments at FVOCI	–	–	–	–	–
Currency translation differences	(32,883)	–	–	–	(32,883)
Foreign currency risk					
Transfer to profit or loss within 'Personnel costs'	–	–	–	429	429
Transfer to profit or loss within 'Software licensing revenue'	–	–	–	(1,309)	(1,309)
Transfer to 'Deferred revenues'	–	–	–	(2,049)	(2,049)
Transfer to profit or loss within 'finance costs'	–	–	–	(5,527)	(5,527)
Changes in fair value of hedging instruments	–	–	–	13,189	13,189
Balance at 31 December 2018	**(117,490)**	**–**	**–**	**(4,001)**	**(121,491)**

Cumulative translation reserve

It comprises all the foreign currency differences arising from the translation of the financial statements of the foreign operations into US dollars.

Financial assets measured at FVOCI

It comprises the cumulative net change in fair value of equity instruments measured at FVOCI (note 15) (2017: available-for-sale investment).

Fair value gains/(losses) on qualifying cash flow hedges

It comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges that are not yet recognized in profit or loss or as part of the carry amount of a non-financial assets or a non-financial liabilities.

26. 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:

	2018		2017	
	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	3,000	$31.94
Forfeited during the year	–	$0.00	–	n/a
Exercised during the year	–	$0.00	–	n/a
Outstanding at the end of the year	**3,000**	**$30.74**	3,000	$31.94

All of the outstanding options (2017: 3,000) were exercisable at the balance sheet date with a weighted average exercise price of USD 30.74 (2017: USD 31.94). No options were exercised in 2018, nor in 2017.

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:

	2018		2017	
	Number of rights	**Weighted average exercise price**	Number of rights	Weighted average exercise price
Outstanding at the beginning of the year	7,006,275	$46.89	8,480,851	$32.84
Granted during the year	1,644,992	$99.67	1,977,621	$68.97
Forfeited during the year	(35,868)	$56.08	(154,000)	$42.31
Exercised during the year	(2,052,073)	$34.78	(3,298,197)	-$23.14
Outstanding at the end of the year	**6,563,326**	**$63.82**	7,006,275	$46.89

621,893 of the outstanding share appreciation rights (2017: 431,144) were exercisable at the balance sheet date with a weighted average exercise price of USD 25.68 (2017: USD 18.60). The share appreciation rights exercised during the year had a weighted average share price at the time of exercise of USD 131.96 (2017: USD 75.49).

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. As at 31 December 2018 531,592 SARs have been added to the 2016-2018 plan as a result of overachievement. There are 5,409,841 remaining share appreciation rights (2017: 4,327,760) that may be subject to the over achievement provisions in the future with a weighted average exercise price of USD 70.15 (2017: USD 55.57).

Notes to the consolidated financial statements 31 December 2018 continued

26. SHARE BASED PAYMENTS CONTINUED

Share appreciation rights continued

Share options and share appreciation rights outstanding at the end of the year have exercise prices and weighted average remaining contractual lives as follows:

2018 **Exercise price (USD)**	**Number**	**Remaining contractual life (years)**
0-9.99	15,529	0.17
10-19.99	274,165	3.87
20-29.99	38,501	1.19
30-39.99	770,718	5.96
40-49.99	2,341,019	7.12
50-59.99	240,457	7.47
60-69.99	19,382	7.88
70-79.99	1,628,155	8.12
80-89.99	3,000	8.31
90-99.99	109,000	8.55
100-109.99	16,000	8.70
110-119.99	81,500	9.98
120-129.99	1,019,900	9.13
130-164.00	9,000	9.69
	6,566,326	**7.44**

2017 Exercise price (USD)	Number	Remaining contractual life (years)
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	7.60

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 share appreciation rights granted during the period was USD 23.53 (2017: USD 15.99). The significant inputs into the model were: weighted average share price at grant date of USD 99.96 (2017: USD 68.96), weighted average exercise price of USD 99.67 (2017: USD 68.97), standard deviation of expected share price returns of 30% (2017: 30%), weighted average option lives of 3.57 years (2017: 3.81 years), weighted average annual risk-free interest rate of 2.15% (2017: 2%) and weighted average expected dividend yield of 0.77% (2017: 1%). 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.

Bonus plan shares

	2018 Number of shares	2017 Number of shares
Outstanding at the beginning of the year	14,521	–
Granted during the year	39,163	14,521
Forfeited during the year	(5,974)	–
Exercised during the year	–	–
Outstanding at the end of the year	**47,710**	14,521

Bonus plan

'For the year ended 31 December 2018 and 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. In 2018 7,081 (2017: 14,521) deferred shares were committed under this scheme. The shares committed in 2017 vest on 1 March 2019 and the shares committed in 2018 vest on 1 March 2020.

Other Senior staff who fall under the Employee Short term variable plan are paid 50% of their bonus in cash and 50% in shares with 20% uplift. In 2018 31,637 deferred shares were committed under this scheme for the bonus relating to the financial year 2017. These shares will vest on 1 March 2019.'

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 38.0 million (2017: USD 32.7 million).

27. 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 2018 financial year is amounting to CHF 52 million (CHF 0.75 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 2018 related to 2017 financial year amounted to CHF 45.8 million (CHF 0.65 per share).

Notes to the consolidated financial statements 31 December 2018 continued

28. 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:

	2018 USD 000	2017 USD 000
Lease expense	17,713	16,697
Sub-lease income	(1,618)	(1,519)
	16,095	15,178

The future aggregate minimum lease and sub-lease payments under non-cancellable operating leases are as follows:

	2018 USD 000	2017 USD 000
No later than 1 year	15,695	15,299
Later than 1 year and no later than 5 years	37,299	33,568
Later than 5 years	3,960	6,791
Total	**56,953**	55,657

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 2018, the guarantees in issue were USD 10.8 million (2017: USD 11.4 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 21.

29. RELATED PARTY TRANSACTIONS AND BALANCES

Remuneration of executive and non-executive directors is described in note 10. Equity compensation for executive and non-executive directors granted in the form of options, stock appreciation rights and shares is described in note 26.

There were no other significant transactions with related parties during the year ended 31 December 2018.

30. 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 AG, Geneva

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Temenos AG, which comprise the balance sheet as at 31 December 2018, 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 2018 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

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 8,500,000
How we determined it	0.5% of total assets
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 450,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

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

Mike Foley Audit expert Auditor in charge	Yazen Jamjum Audit expert

Geneva, 19 February 2019

Unconsolidated balance sheet As at 31 December

	2018 CHF 000	2017 CHF 000
ASSETS		
Current assets		
Liquid funds	8,446	535
Receivables from other group entities	141,260	72,620
Prepayments	355	309
Total current assets	**150,062**	**73,464**
Non-current assets		
Long term receivables from other group entities	202,610	202,610
Investments in subsidiaries (note 2)	1,415,522	1,134,683
Total non-current assets	**1,618,132**	**1,337,293**
Total assets	**1,768,194**	**1,410,757**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade payables	74	388
Payables to other group entities	388	412
Short term interest-bearing liabilities (note 7)	106,021	5,689
Other liabilities	1,046	541
Tax payable	1,366	849
Deferred unrealized exchange gain	1,816	552
Total current liabilities	**110,710**	**8,432**
Non-current liabilities		
Long term interest-bearing liabilities (note 7)	498,197	423,883
Long term interest-bearing payables to other group entities	154,100	154,100
Total non-current liabilities	**652,297**	**577,983**
Shareholders' equity		
Share capital (note 3)	355,221	354,250
Ordinary legal reserve (note 4)	11,913	11,749
Share premium (note 4)	71,044	70,850
General reserve from capital contributions (note 4)	105,051	150,842
Reserve for treasury shares from share premium (note 4)	170,817	149,449
Reserve for treasury shares (note 4)	90,510	46,275
Retained earnings (note 4)	200,629	40,927
Treasury shares (note 5)	–	–
Total shareholders' equity	**1,005,187**	**824,343**
Total shareholders' equity and liabilities	**1,768,194**	**1,410,757**

Unconsolidated income statement For the year ended 31 December

	2018 CHF 000	2017 CHF 000
Income from investments in subsidiaries (note 8)	215,000	12,000
Financial (expense)/income	(6,407)	(5,446)
Expenses associated with the maintenance of the Register of Shareholders and other expenses	(3,832)	(2,688)
Profit before taxation	**204,761**	**3,867**
Taxation	(660)	(580)
PROFIT OF THE YEAR	**204,101**	**3,286**

Notes to the unconsolidated financial statements 31 December 2018

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Temenos AG ('the Company') was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of Temenos AG have been publicly traded on the SIX Swiss Exchange.

Further to approval by the shareholders at the Annual General Meeting held on 15 May 2018, the Company's name was changed from 'Temenos Group AG' to 'Temenos AG'.

Temenos 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 AG comply with the requirements of the Swiss Accounting Legislation (Title 32 of the Swiss Code of Obligations (SCO)).
For comparability reasons, certain amounts relating to the previous financial year have been reclassified in order to correspond to the presentation for the current year.

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 2018 continued

3. SHARE CAPITAL

As at 31 December 2018, the share capital amounts to CHF 355,221,335 and is composed of 71,044,267 shares with a nominal value of CHF 5.

The shares issued by the Company during the year are set out below:

	2018		2017	
	Quantity	**Value in CHF**	Quantity	Value in CHF
Total number of Temenos AG shares issued, as at 1 January	**70,849,924**	**354,249,620**	69,621,124	348,105,620
Shares issued and allotted under Employee Share Option Schemes	**194,343**	**971,715**	1,228,800	6,144,000
Total number of Temenos AG shares issued, as at 31 December	**71,044,267**	**355,221,335**	70,849,924	354,249,620

Temenos AG also has conditional and authorized capital, comprising:

	2018
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	**6,805,657**
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 2018 are as follows:

Martin and Rosmarie Ebner	**10.83%**
The Capital Group Companies, Inc.	**10.00%**
BlackRock, Inc.	**5.40%**
Massachusetts Mutual Life Insurance Company	**5.00%**
Artisan Partners Limited	**3.07%**
Harding Loevner LP	**3.02%**

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 2017	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
Appropriation of available earnings:									
– to General legal reserve	–	164	–	–	–	–	(164)	–	–
Repayment of 'General Reserve from Capital Contributions' as per 2018 Annual General Meeting ('AGM') resolution	–	–	–	(45,791)	–	–	–	–	(45,791)
Share capital and share premium on creation of conditional capital	972	–	21,562	–	–	–	–	–	22,534
Reserve for treasury shares movement of the year	–	–	(21,368)	–	21,368	44,235	(44,235)	–	–
Profit of the year	–	–	–	–	–	–	204,101	–	204,101
Balance at 31 December 2018	**355,221**	**11,913**	**71,044**	**105,051**	**170,817**	**90,510**	**200,630**	**–**	**1,005,187**

The reserve for treasury shares increased to CHF 261,327,209 in line with the value of treasury shares held by Temenos AG through a subsidiary as at 31 December 2018 (2017: CHF 195,724,630).

Notes to the unconsolidated financial statements 31 December 2018 continued

5. TREASURY SHARES, INCLUDING SHARES HELD BY SUBSIDIARIES (CARRYING VALUE)

Temenos AG holds directly or through a subsidiary a total of 1,804,267 shares at 31 December 2018 (2017: 1,775,516) that entirely may be used in conjunction with M&A, for resale or for allotting to members of the Temenos Employee Share Option Schemes.

	2018		2017	
	Quantity	**Value in CHF 000**	Quantity	Value in CHF 000
TEMENOS AG				
1 January	–	–	–	–
Acquisitions	–	–	–	–
Disposals	–	–	–	–
31 December	**–**	**–**	–	–
OTHER CONSOLIDATED COMPANIES				
1 January	1,775,516	195,725	1,133,853	65,330
Acquisitions	1,342,653	203,254	1,653,929	187,607
Disposals	(1,313,902)	(137,651)	(1,012,266)	(57,212)
31 December	**1,804,267**	**261,327**	1,775,516	195,725
Total balance as of 31 December	**1,804,267**	**261,327**	1,775,516	195,725

6. CONTINGENT LIABILITIES

Together with several of its subsidiaries, Temenos 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 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.

In November 2018, the Group issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 1.875% paid annually on 30 November. The bond will mature on 30 November 2023 at a redemption price of 100% of the principal amount.

	2018 CHF 000	2017 CHF 000
Bond CHF 100,000,000 – 2.000% – 31 March 2014 – 31 January 2019	–	99,931
Bond CHF 175,000,000 – 2.000% – 17 June 2015 – 17 June 2022	174,715	174,634
Bond CHF 150,000,000 – 1.750% – 5 April 2017 – 5 April 2024	149,424	149,317
Bond CHF 175,000,000 – 1.875% – 30 November 2018 – 30 November 2023	174,058	–
Long term interest-bearing liabilities	**498,197**	423,883
Bond CHF 100,000,000 – 2.000% – 31 March 2014 – 31 January 2019	101,900	–
Accrued bond interests at year end	4,121	5,689
Short term interest-bearing liabilities	**106,021**	5,689
Total bonds issued by Temenos AG	**604,218**	429,571

8. INCOME FROM INVESTMENTS IN SUBSIDIARIES

Temenos AG recognized an income from investments in subsidiaries of CHF 215 million following the decision of one of its direct subsidiaries made in June 2018 to distribute a dividend in relation to the 2018 fiscal year.

9. PROPOSAL FOR THE APPROPRIATION OF AVAILABLE EARNINGS

Based on the approved and audited financial statements for the financial year 2018, the Board of Directors proposes to the General Meeting to distribute an ordinary dividend in cash amounting to CHF 0.75 per share, for a total amount of CHF 52,000,000 (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 2018 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 2018, amounting to CHF 105,051,416 will be reduced as follows:

	2018 CHF 000	2017 CHF 000
RESERVES FROM CAPITAL CONTRIBUTIONS		
Balance before distribution	105,051	150,842
Repayment of General reserve from capital contributions*	(52,000)	(45,791)
Balance after distribution	**53,051**	105,051
RETAINED EARNINGS		
Retained earnings brought forward	40,763	18,586
Transfer to Reserve for Treasury shares	(44,235)	19,055
Net income	204,101	3,286
Retained earnings available for appropriation	**200,630**	40,927
Appropriation to legal reserves	**(10,205)**	(164)
Retained earnings to be carried forward	**190,425**	40,763

* 2017 comparative has been corrected from CHF 45,000,000 to CHF 45,790,915 to reflect the actual payment made in 2018. The dividend paid was CHF 0.65 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 17 May 2019 (Ex date). The dividend record date will be set on 20 May 2019 (Record date). The dividend will be payable as of 21 May 2019 (Payment date).

Temenos treasury shares are not entitled to dividends.

10. NUMBER OF FULL-TIME EQUIVALENT

Temenos AG does not have any employees as of 31 December 2018 and 2017 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 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 12 February 2019 and will be submitted to the Annual General Meeting of shareholders for approval on 15 May 2019.

There were no other significant events after the balance sheet date.

Notes to the unconsolidated financial statements 31 December 2018 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 2018 Shares	31 December 2017 Shares
S. Giacoletto-Roggio	Vice-Chairman	**9,000**	11,000
I. Cookson	Member	**15,500**	15,500
T. de Tersant	Member	**3,000**	3,000
E. Hansen	Member	**11,000**	11,000
G. Koukis	Member	**15,000**	–
A. Yip	Member	**–**	–
P. Spenser	Member	**–**	–

Executive Chairman and Executive Committee members

		Shares		SARS				
Name	**Position**	**2018**	**2017**	**Grant year**	**Plan**	**Exercise price USD**	**Number of unvested SARs 2018**	**Number of unvested SARs 2017**
A. Andreades	Executive Chairman	582,369	752,629	2014[2]	2015 scheme[3]	35.45	–	380,949
				2016	2016 scheme[1]	43.69	325,000	325,000
					2016 scheme[1]	49.12	46,000	46,000
				2017	2017 scheme	70.87	291,900	291,900
				2018	2018 scheme	127.00	155,450	–
D. Arnott	CEO	35,000	57,500	2014[2]	2015 scheme[3]	35.45	–	507,932
				2016	2016 scheme[1]	43.69	432,000	432,000
					2016 scheme[1]	49.12	66,000	66,000
				2017	2017 scheme	70.87	354,000	354,000
				2018	2018 scheme	127.00	188,520	–
M. Chuard	CFO/COO	65,000	65,000	2014[2]	2015 scheme[3]	35.45	–	253,966
				2016	2016 scheme[1]	43.69	258,000	258,000
					2016 scheme[1]	49.12	35,000	35,000
				2017	2017 scheme	70.87	254,300	254,300
				2018	2018 scheme	127.00	135,430	–
J. Hilsenkopf	CRO	0	na	2018	2018 scheme	127.00	92,000	na
A. Loustau	CTO	3,673	3,673	2014[2]	2015 scheme[3]	35.45	–	49,689
				2016	2016 scheme[1]	43.69	45,000	45,000
				2017	2017 scheme	70.87	29,400	29,400
				2018	2018 scheme	127.00	27,000	–
M. Winterburn	CPO	3,975	3,975	2014[2]	2015 scheme[3]	35.45	65,000	82,815
				2016	2016 scheme[1]	43.69	45,000	65,000
				2017	2017 scheme	70.87	37,000	45,000
				2018	2018 scheme	127.00		–

(1) The SARs granted under the 2016 scheme vested on 13 February 2019. The numbers above include the overachievement of 121%.
(2) The 2015 grant was issued in November 2014 but was considered compensation for 2015.
(3) The SARs granted under the 2015 scheme vested on 13 February 2018. The numbers above include the overachievement of 110.42%.

No options and/or shares were held on 31 December 2018 and 2017 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)

	2018	2017	2016	2015	2014
Revenues*	**840.9**	735.4	634.0	542.5	468.7
Operating expenses	**(622.1)**	(557.1)	(484.8)	(445.7)	(350.5)
OPERATING PROFIT	**218.8**	178.3	149.2	96.8	118.2
PROFIT BEFORE TAXATION	**195.4**	160.9	132.1	78.1	106.3
NET PROFIT AFTER TAX	**168.2**	138.4	115.8	66.3	91.6
EBITDA	**311.5**	263.3	225.3	171.2	167.8
DILUTED EARNINGS PER SHARE (IN USD)	**2.31**	1.90	1.61	0.95	1.32
CASH GENERATED FROM OPERATIONS	**365.1**	299.7	257.6	227.2	190.3
Current assets	**577.4**	430.5	430.2	440.8	427.4
Non-current assets	**1,071.0**	844.8	741.3	788.2	498.5
TOTAL ASSETS	**1,648.4**	1,275.3	1,171.5	1,229.0	925.9
Current liabilities (excluding deferred revenues)	**312.9**	177.8	246.0	143.7	110.4
Deferred revenues (Contract liabilities)	**262.9**	232.5	216.3	213.2	179.9
Total current liabilities	**575.8**	410.3	462.4	356.9	290.3
Non-current liabilities	**773.8**	485.4	310.0	496.8	293.6
Total liabilities	**1,349.6**	895.8	772.4	853.7	583.9
Total equity	**298.8**	379.5	399.1	375.3	342.0
TOTAL EQUITY AND LIABILITIES	**1,648.4**	1,275.3	1,171.5	1,229.0	925.9

* Prior period comparative revenues are not restated to the newly adopted IFRS 15 effective 1 January 2018.

Information for Investors

CAPITAL STRUCTURE

The registered share capital is divided into 71,044,267 shares with a par value of CHF 5.

APPROPRIATION OF PROFITS

Temenos expects to pay a dividend of CHF 0.75 in 2019.

REGISTER OF SHAREHOLDERS

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ANNUAL GENERAL MEETING

15 May 2019

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2018
Sector	Technology/Software
Market Segment	SIX Main Market
Index Member	SMIM/SPI/SLI
Swiss Security No	124 5391
ISIN No	CH0012453913
Symbol	TEMN
Number of issued shares at 31.12.2018	71,044,267
Number of registered shares at 31.12.2018	71,044,267
Market price high/low (CHF)	180.50/106.00
Market Price 31.12.2017 (CHF)	125.00
Market Price 31.12.2018 (CHF)	117.90
Market Capitalization high/low (CHFm)*	12,788/7,510
Share capital nominal value at 31.12.2018 (CHFm)*	355

* Based on the number of registered shares at the time.

Key figures per share	2018
Basic earnings per share (USD)	2.43
Diluted earnings per share (USD)	2.31
Non-IFRS earnings per share (USD)	2.96
Consolidated shareholders' equity (USDm)	298.8
Consolidated shareholders' equity per share (USD)	4.21

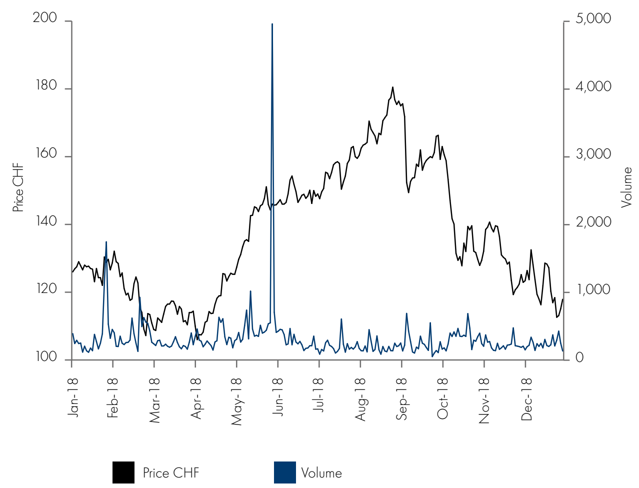
Major shareholders of Temenos AG* (as of 13.03.2019)

Name	Number of voting rights	Percentage of the share capital
Martin and Rosmarie Ebner	7,695,000	10.83%
The Capital Group Companies, Inc.	7,105,217	10.00%
BlackRock, Inc.	3,833,868	5.40%
Massachusetts Mutual Life Insurance Company	3,014,293	4.24%
Artisan Partners Limited Partnership	2,180,153	3.07%

* On the basis of Temenos AG registered capital of 71,044,267 shares and based on the disclosure notifications received.

Please refer to page 97 for the status as of 31.12.2018

DEVELOPMENT OF THE TEMENOS SHARE PRICE



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The following list is as of March 2019.
For any updated information please visit our website:
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