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.

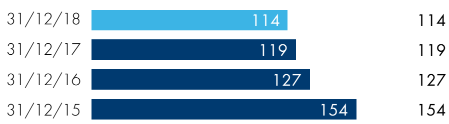
DIVIDEND

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

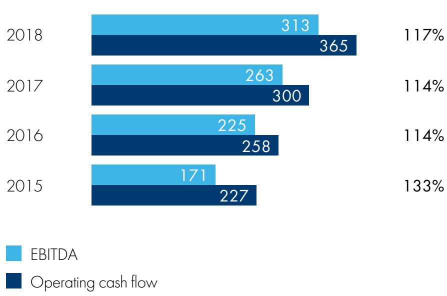
DSOs

Days



CASH CONVERSION

USDm



Business and financial review continued

USDm, except EBIT margin and EPS	Non-IFRS (IAS 18) 2018	2017	**Change**	IFRS 2018 IFRS 15	2018 IAS 18	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