

## 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 111 bps 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 Promoter Score. In doing so, it serves to effectively concentrate the organization on always giving outstanding service and moving client opinion from negative or neutral to highly positive (a promoter has a satisfaction score of nine or ten out of ten). However, the discipline of Net Promoter, which is used widely by B2B companies, goes deeper than just tracking a metric, it is a whole system designed to operationalize client data throughout the organization in order to drive change, systemize learnings and improve client experiences.

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

#### Client Satisfaction

In order to drive our focus on client experience further, a complementary initiative to the Temenos Client Voice program, the Improve Client Satisfaction Project, was launched in March 2014. The aim of the Improve Client Satisfaction Project is to cement the Company's focus on client satisfaction and make Temenos an even more client-centric company. The project is sponsored by our Chief Client Officer. Within the project, each department is represented by a carefully selected individual/group of individuals.

They are tasked with setting KPIs and actions to enhance satisfaction in their areas according to the feedback collected through the Temenos Client Voice program. The representatives are also responsible for making sure that the actions are completed and that the target improvements within their areas are achieved. The KPIs and actions are tracked and reported on a monthly basis at the executive level. They are also reviewed regularly based on incoming feedback in order to ensure that they remain relevant and continue addressing the correct areas.

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

Since the metric was launched, our NPS has improved by 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
<b>ISO/IEC 27001:2013 Information Security Management System with extensions: ISO 27017 ISO 27018 ISO 27032</b>	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.
<b>ISO 22301:2012 Business Continuity</b>	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.
<b>ISO 9001:2015 Quality Management</b>	Temenos India offices and UK offices –Product Core CMB, CSD, PACS, Model Bank, Technology. Temenos Australia.	To extend the certification to US Model Bank.
<b>ISO 14001:2015 Environmental Management</b>	Three Temenos India offices are ISO 14001:2015 certified.	To extend the certification to other Temenos offices in Europe.
<b>AICPA SOC System and Organization Controls SOC 1 Type 2 SOC 2 Type 2</b>	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.
<b>CSA STAR Certificate/Cloud Security Alliance – Cloud Controls Matrix (CCCM)</b>	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.
<b>PCI DSS level 1 Payment Card Industry – Data Security Standard</b>	Temenos Australia gap analysis concluded.	To implement controls and obtain the certification in 2019 for Temenos Australia.