

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%

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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).

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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.

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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. Giacometto-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

Name	Position	Shares		Grant year	Plan	Exercise price USD	SARS	
		2018	2017				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. Arnoit	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.