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 2019 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 2019 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 10'000'000
	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 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 ten additional entities located in nine different countries.
Audit scope	Our audit scope addressed all of the Group's revenue, approximately 96% of the Group's total assets and approximately 66% of the Group's total expenses.
Key audit matters	As key audit matters the following areas of focus were identified: • Software licensing revenue recognition • Services revenue recognition • Recoverability of account receivables and contract assets • Purchase price allocation for the Kony acquisition

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 10'000'000
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 against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD 0.5 million identified during our audit, as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The group audit team 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 pension and share based compensation. We also 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.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Software licensing revenue recognition

Key audit matter	How our audit addressed the key audit matter
For the year ended 31 December 2019, revenue from software licensing was USD 378 million (which includes software developments and customizations). We focused on initial license revenue because of its significance 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 are multiple element arrangements that typically include license, implementation and/or development services and maintenance elements. The identification and the allocation of the transaction price to the different performance obligations require management to use significant estimates in relation to the determination of the fair value of each component. In addition, there are critical judgments in determining whether existing uncertainties and contingencies preclude license revenue from being recognized. There is a risk that license revenue is overstated or recognised 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. Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgments) of the consolidated financial statements.	Firstly, we evaluated the compliance of Temenos's accounting policies with IFRS 15 key considerations. For all license deals that we considered to be individually significant and for a sample of the remaining software arrangements, we performed the following: • Inspected the existence of a signed version of the customer contract together with evidence of software delivery. • Reviewed the contracts and assessed potential impact of any unusual clause on revenue recognition. When 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 performance obligations identified in accordance with Temenos's revenue recognition policy and IFRS 15. • We performed cut-off testing procedures to ensure that revenue is recognised in the correct reporting period by reference to the contract and evidence of delivery. • We also looked for evidence to validate the authenticity of customer contracts. 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.

Services revenue recognition

Key audit matter	How our audit addressed the key audit matter
For the year ended 31 December 2019, services revenue was USD 178 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 man-days 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 man-days 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 analysed the evolution of 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 man-days estimated, we investigated further to obtain evidence of the status of the project and the reasonableness of the man-day estimates. 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 and reviewed a look-back analysis prepared by management for a sample of projects that compared actual total man-days to the estimates made in prior periods. 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 was 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 2019, accounts receivables and contract assets amounted to USD 275 million and USD 51 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, the size and the length of certain implementation projects, there is risk that an impairment charge or a revenue reversal is not recognised 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, where required. In addition, we challenged management's assessment of the recoverability of selected accounts receivable and contract assets balances (significant and randomly selected) with 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.

Purchase price allocation for the Kony acquisition

Key audit matter	How our audit addressed the key audit matter
On 20 September 2019, Temenos acquired control over 100% of the shares of Kony, a digital banking provider in the US. The total consideration amounted to USD 533 million (including a contingent consideration of USD 20 million). The Group, supported by its external valuation expert, has performed the purchase price allocation and identified acquired intangibles of USD 241 million. Goodwill resulting from the acquisition amounted to USD 433 million. The determination of the purchase price allocation required some significant judgments and estimates relating to the identification of the separately identifiable assets and their fair values. Refer to note 6 (Business combinations) and note 17 (Intangible assets).	With the support of our internal valuation experts, we performed the following detailed procedures over the acquisition accounting for Kony: • reviewed the adequacy of the methodologies used by management's expert for the fair value estimations and the key assumptions used by for the valuation of the intangible assets acquired. • evaluated competence, capabilities and objectivity of management's experts. • assessed the appropriateness of the purchase price allocation and related accounting treatment. • audited the adequacy of the disclosures and the presentation of the transaction in the consolidated financial statements. We presented the results of our procedures to the Audit Committee. We determined that the conclusions reached by management with regards to the acquisition accounting and the related disclosures were reasonable and supported.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Temenos 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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 scepticism 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

Yazen Jamjum Audit expert Auditor in charge	**Pierrick Misse** Audit expert

Geneva, 20 February 2020