

Alfa<sup>Δ</sup>

# Focusing on future growth

Annual Report  
and Accounts 2018



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## 2018 Highlights

Total revenue

£71m

19% decrease on 2017

Operating profit

£22m

£34 million in 2017

Adjusted EBIT margin<sup>(1)</sup>

32%

47% in 2017

Alfa team at 31 December 2018

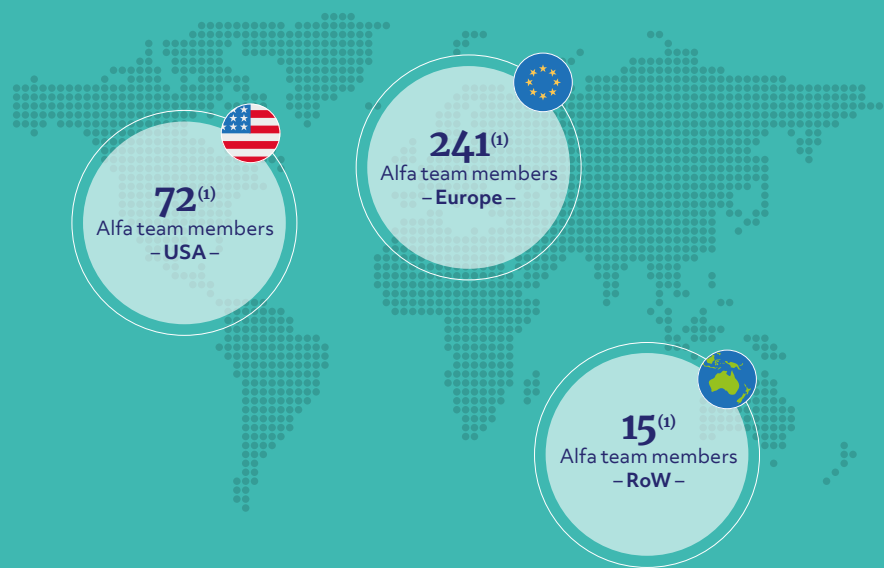
312 employees

net decrease of 17 in 2018

<sup>(1)</sup> Adjusted EBIT is defined as operating profit excluding pre-IPO share based payments and IPO-related costs

We analyse our 2018 business in a number of ways – geographies, revenue types, customer types and industry verticals

## Where we operate



(1) Average headcount numbers

### Europe

We have 22 customers based in Europe, including two ongoing implementation customers as at 31 December 2018. Alfa Systems has been implemented and is live in eight European countries, with a further expansion underway into 10 countries over the next two years. We have expanded our European operations in 2019 by setting up a subsidiary in Germany to serve as a base for our mainland European operations.

### USA

We primarily operate and serve customers in Texas, Michigan and Georgia, generating £33 million of revenue in 2018. We have deep experience of the US automotive sector and won our first US equipment customer in March 2018.

### Rest of World

We have operations in both Australia and New Zealand, and have 15 team members in this region specialising in both automotive and equipment finance.

## Our revenue streams

### Software implementation

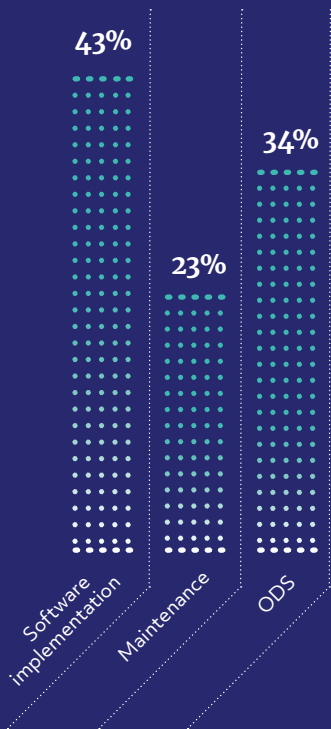
We have four ongoing implementations at 31 December 2018. Software implementations vary in length and size depending on the complexity of the lending portfolio, the number of systems being replaced and the level of change management required. During a software implementation, there may be a number of go-live events as different portfolios are migrated. Services include migration, development and configuration of customer-specific automated processes or reporting and testing.

### Maintenance

We have 30 customers paying annual maintenance fees, with 26 maintenance customers expected in 2019. Maintenance pricing is based on countries or geographical areas in which Alfa Systems is being used, number of finance contracts managed on Alfa Systems and types of assets.

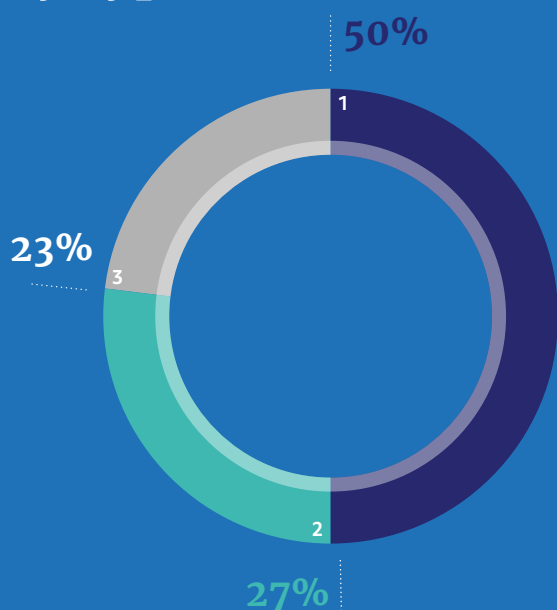
### ODS

**Ongoing Development and Services**  
ODS represents additional services or development provided to customers after the initial go-live of the software implementation.



*Our purpose: to deliver our leading-edge technology with smart, diverse people, making our customers future-ready.*

## Our customers by type



### 1. Banks

Customers classified as banking institutions are finance entities associated with regulated banking groups. Such financing is often referred to as white label finance.



### 2. OEMs

#### Original Equipment Manufacturers

OEMs include both equipment and automotive manufacturers, whose main purpose is the sale of the asset rather than the provision of financing.



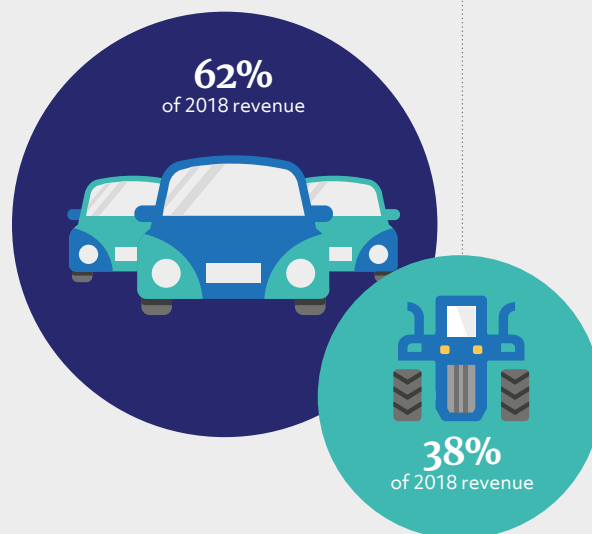
### 3. Independents

Independent customers are customers who are neither part of a regulated banking group nor manufacturers of the asset being financed. Independent customers tend to be smaller, both in portfolio volumes and personnel using Alfa Systems.

## Our verticals

### Automotive finance

The automotive finance industry provides a range of financial products to fund the acquisition of new and used vehicles. Our customers can be banking institutions providing finance to dealers, OEMs or independent sellers of automotive vehicles.



### Equipment finance

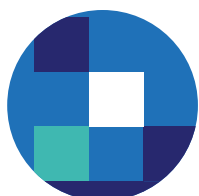
Equipment finance covers a myriad of asset types – from vending machines, which are high volume, low value, to power plants; low volume, high value. At Alfa we predominantly service the lending for agriculture, manufacturing, mining, construction and transportation equipment. Historically, lending products on offer have been relatively vanilla, yet the equipment industry is seeing significant evolution towards consumption-based or subscription models. Generally lenders classified as equipment financiers, have a variety of assets under finance in their portfolios and may have some automotive finance as well, but this is not the predominant asset.

# Focusing on future growth

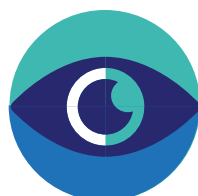
Using our leading-edge digital technologies and smart, diverse workforce, we are always looking to innovate and improve the solutions we provide.

We believe everything can be improved through critical thinking. Whatever it is, we ask ourselves “how can it be better”.

These areas of focus are:



**Focus on Digital**  
Page 2



**Focus on Partners**  
Page 4



**Accessing the volume market**  
Page 6



**Creating a high performance organisation**  
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## Access enhanced video content on pages of this report with Reydar

The video content included throughout the report does not form part of the Annual Report and Accounts 2018 of Alfa Financial Software Holdings PLC.



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Watch it  
come to life

### Self-serve applications

With digital solutions we have seen the ability to choose an asset from the comfort of your sofa become a reality. Integration of Alfa Systems with third party providers is now a must as customer identification and credit checking becomes something which can occur in a matter of minutes or indeed seconds as new technologies are used to read data and carry out statistical matching.

Alfa Systems can now provide the technological solutions for our customers' customers to select their leased asset, tailor the asset and the loan product to their needs and to complete credit checking processes to initiate the loan. Moving into the life of the product, we have application-based products which provide the end-customers with immediate access to their loan data, customer support and ongoing service solutions. All of this is tailored to our customer's branding and user interface to provide their customers with a cohesive solution which promotes efficiency and satisfaction.



### IoT and increased connectivity to the asset

The connectivity amongst everyday technologies continues to increase – not only do we now see farm equipment measure weather or humidity in harvest, which then allows the manufacturers or lessors of that equipment to forecast profitability or harvest success, we are also seeing data which allows lessors to assess maintenance requirements or residual values from how the asset is being used.

Ultimately these are all data points which allow the lessor to structure loan products or services to better suit the lessee – which becomes even more integral to the usership economy as end-customers move away from ownership and instead look for payments to be matched against usership and access. As the efficiency of IoT technologies and use of data increases, this will again contribute to increasing the enjoyment of the overall customer experience, with the aim of promoting loyalty of the end customer.

### Artificial intelligence

Again we have seen significant steps forward as machine learning programmes have assisted in self-service customer helplines, with FAQs and with clever routing of questions or requests. This will continue to develop and learn as it is used more and more across many loans and customer relationships and will continue to revolutionise the way that our customers do business.

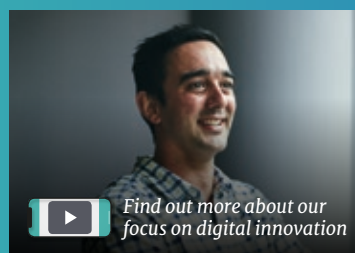
### Moving into 2019

Our customers are looking for ease of use and efficiency of solutions whilst maintaining one brand and interface for their customers – and our digital agenda has been tailored to take our customers' requirements and need for change into account. The basis for refining our digital agenda has been our highly successful European and US user groups which draws intelligence and feedback from a range of customers across a number of geographies and verticals.

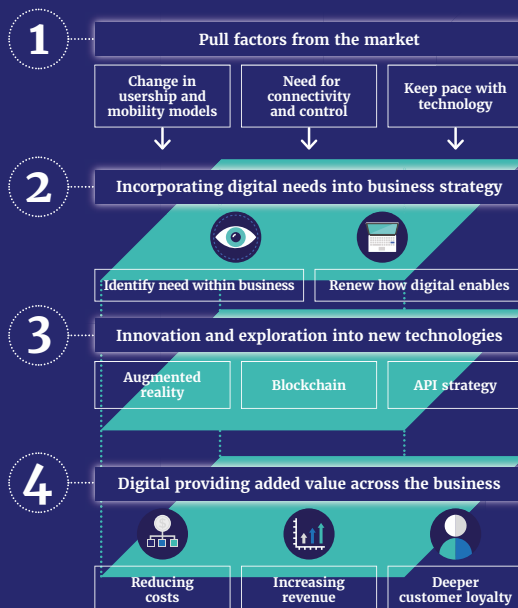


For more information on the digital agenda see our two reports on digital discovery.

# A focus on: Digital

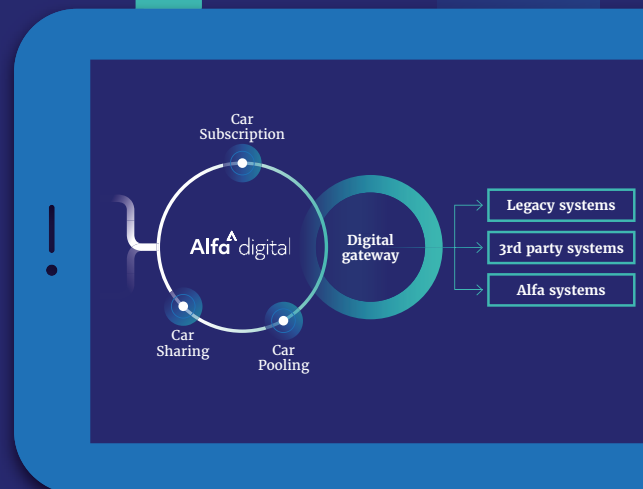


*Digital agendas have been at the top of many CIO's and CEO's priorities for the last few years and in 2018 and into 2019 we have seen this move from being a talking point to becoming a reality. The driving force behind this has been customer buying power as integrated fintech solutions have become a must for ensuring ongoing customer loyalty.*



### Our customers move towards digital

We are seeing significant innovation in financial technology as a result of changing end-customer needs.



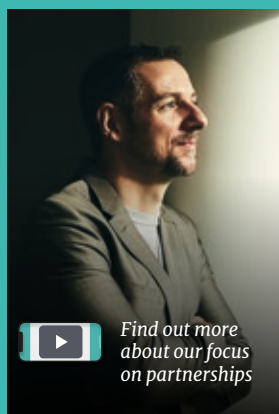


### Introduction

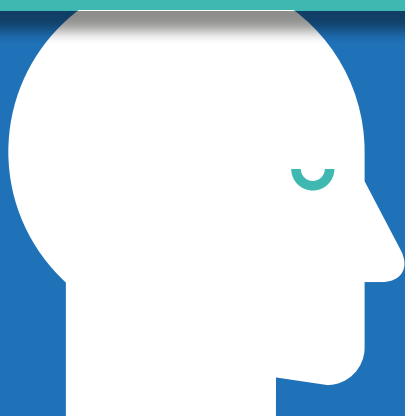
Since inception, we have always delivered Alfa Systems and supported our customers ourselves. While this model has served us well, allowing us to maintain control and ensure quality of the product and ensure delivery, it has necessarily coupled our ability to grow and develop the Alfa Team to top line growth.

In order to move forward, we believe that setting up a compact global ecosystem of partners will allow us to ultimately deliver more Alfa Systems implementations and grow our customer base but is expected to also provide sales leads.

Additionally the partner ecosystem will give us more than that in the mid-term – it will be a key step to the move towards being a player in the volume market in both the US and Europe, and also due to the breadth and depth of these potential partner organisations, it will allow us to service geographies where we do not have a presence or local capabilities.



*Find out more  
about our focus  
on partnerships*





## How will we partner

**Customer focus will be critical** – We will retain the customer relationship, to ensure that our high standards of quality will be maintained whilst also meeting the customer's needs.

### A small but carefully selected partner ecosystem

– We are looking to partner with like-minded organisations, comprising both niche specialists and renowned management consultancies, with geographical spread but also bandwidth of deep asset finance expertise and strong delivery capabilities to complement our own. As with all relationships, it is important to us that we share the same values and are driving in the same direction – therefore developing these partnerships will demand care and attention.

**Engaging, training and setting up the team** – We have advanced discussions with three potential partners and agreements with three existing partners. We have found that agreeing terms

and setting up teams is only efficient when there is a joint sales opportunity or live projects. In the short term, implementation team make-up is expected to be one third partner team members.

**Alfa Start methodology** – To create an efficient and low friction implementation process, we have laid the groundwork with Alfa Start, which is our tried and tested, off-the-shelf, pre-configured solution and implementation process methodology. We have completed this for the US automotive sector and will continue to roll this out for all relevant software implementations, both internally delivered and also partner assisted. Moving forward, we will adapt this for other sectors to allow us to have an Alfa Start methodology for all verticals and geographies.

**Developing Alfa Systems** – Any required development or customisation will remain with the Alfa team to ensure we retain control and security over the platform.

# A focus on: Establishing our partner ecosystems

*The success of our partner model lies in setting up partnerships with consultancy companies who share the same values as us and who we can work with in weaving the customer's existing technology solutions and processes with Alfa Systems to create an integrated, elegant and efficient asset finance solution.*

## Moving into 2019

We will continue our successful partnership with Teamwill Consulting with whom we have been working with for more than two years, across Europe.

Following the signing of engagement terms with Genpact in late 2017, we have a further three other partners where we are looking to agree terms in the event of a joint sales opportunity.

We will continue to roll out and develop Alfa Start methodology to assist with training and facilitate partner assisted implementations.

To support partners on implementations, we will set up a partner support line and also provide the latest information about Alfa Systems and our delivery methodology via a partner portal.

We will continue to assess and evaluate other potential partners for our expanding ecosystem.

### The volume market

Currently our customer base is comprised primarily of enterprise customers who are often operating across multi jurisdictional areas and dealing with a web of legislation and regulation. We pride ourselves on the fact that Alfa Systems can seamlessly deal with any regulation, any accounting and tax regime or any loan product – and that the Alfa platform can operate globally.

Our aspirations are to extend into the volume market, increasing our customer base and taking Alfa Systems to customers who are more medium-sized. In this market, simplification is key as often these customers are not looking for multi-jurisdictional implementation and do not have portfolios which comprise hundreds of thousands of lease contracts. Instead these players value a quality off-the-shelf solution, with simple, tried and tested automated procedures relevant to companies of a smaller size, with the opportunity to add modules or processes as their business grows.

# A focus on: Accessing the Volume market

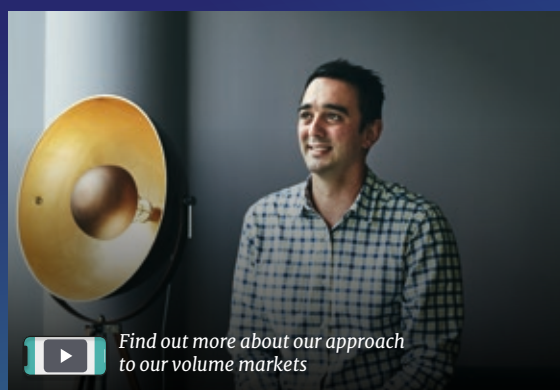
## Accessing this market

Alfa Systems is already cloud-ready, with 50% of our current Software Implementations being public cloud hosted and not on premises. This provides us with an excellent basis for accessing the volume market. Yet there remain a number of areas which require further preparation before we can truly start the journey to gaining market share in this area:

### 1 Simplification of implementation processes –

The Alfa Start methodology is the starting point of creating off-the-shelf processes and implementation procedures which would ultimately cover all relevant jurisdictions and geographies. The methodology would allow partners or resellers to implement with limited to nil Alfa input.

**2 Simplification of our product** – To facilitate the simplified implementation, Alfa Systems needs to be flexible, nimble and efficient. Our modularisation project, which kicked off in 2018, is designed to refine the platform into smaller modules which will increase efficiencies on smaller implementations and also has the goal of decreasing complexity in the code base.



**3 Channel to market** – There are hundreds of players in the medium-sized market, very much dispersed geographically and vertically. Ways of accessing this market could be through partners, through resellers or through our own sales force.

**4 Pricing structures** – Many of the volume players will want to avoid long term financial commitments and the cash requirements of both large upfront license and extended implementation costs required by on-prem software. Subscription or SaaS style pricing will allow customers to scale their costs to the needs of the business quickly as business conditions change – and such pricing will be dependent on the modularization of Alfa Systems and the modules chosen.

**5 Support and ongoing development** – Support efforts are being reviewed to assess the impact of increased requirements for a higher volume of customers but also the expected need for 24/7 helplines. While we provide some of our maintenance and support services while on site during the implementation, this would not be possible with a more typical reseller model and therefore our support provision will have to evolve as we access new markets.

## Moving forward

2019 is a year of investment in simplification, both in product and processes, to lay the bedrock of the strategic aim of accessing these customers of the future. These simplification projects will not only serve the volume market but will also be fundamental to us in continuing to deliver the highest quality product and services to all our markets and in moving forward our partner agenda.

# A focus on: Creating a high performance organisation

*Our success as an organisation hinges on being able to recruit, retain and develop our Alfa team, allowing our people to innovate and grow throughout their career. In 2018 we introduced and focused on the following areas.*

## **Career paths and development opportunities**

In 2018 we introduced a new career path and development framework to assist in how we structure performance management, development and training and succession planning. Underlying this introduction was the separation of goals and objectives for developers in comparison to those proceeding along an implementation career path as we recognise that the skills required for each of these is very different.

Moving into 2019 we are focused on defining the 2019 objectives for relevant grades and career paths to establish a framework whereby our Alfa team can continue to contribute to the group strategy and be valued for that contribution.

## **Innovation at the core of how we develop**

Innovation is key to how we develop at Alfa and one of the means by which we stay at the leading edge of the industry. The Alfa innovation team has developed a three stage process that allows for the systematic gathering, evaluation and adoption of new ideas, whether they are improvements to our existing products and processes or something completely new. Importantly, the process uses lean principles to allow people to take action while simultaneously applying only the minimum amount of investment to evaluate each idea. Innovation and engagement are encouraged across all levels of the organisation and this actively engages all our employees with the process. Alfa regularly holds events such as our Alfa Hackathons and Innovation Afternoons, which provide the Alfa team with the opportunity to experiment and try new ways of doing things. Often, ideas that come up during these activities feed directly into the process itself. Typically, tens or even hundreds of ideas are generated from these innovation exercises which are then narrowed down as we go through the process.

Currently, there are more than ten different ideas progressing through the different stages of the process, with a number of them adopted as part of the final stage of the process.

## Our purpose and values project

In January 2018, as a reaction to our Alfa team continuing to evolve and grow geographically, we initiated a project to define the Alfa purpose and values we hold in doing business. In particular, we wanted to respect what had made Alfa so valued by our team members but also our customers and also to look to define a consistency of character across the entire business which would stand the test of time. We asked ourselves the questions of Why does Alfa exist? and how do we achieve this?

We held 15 face to face interviews with senior management, held five internal focus groups globally, arranged external interviews with our customers and advisors and reviewed trends and results from our employee survey results over the last three years.

All this together made sure our purpose and values come from a place of authenticity, and truly reflect Alfa and its collective character.



## Our purpose

**To deliver our leading-edge technology with smart, diverse people, making our customers future-ready.**

## Our values

### Make it better together

We believe everything can be improved through critical questioning. Whatever it is, ask yourself “how can it be better”?

### Challenge without being challenging

We do the right thing in service of the bigger picture. Use your knowledge and expertise to benefit others.

### Let great ideas grow

We believe that great ideas can come from anywhere. Have the confidence to share your ideas – they will always be well received.

### Create a positive impact

We want to make a difference for each other, our customers, and the communities we work within. – Give something back.



# A complex and highly regulated market with many challenges and opportunities

## Our differentiators

**This is why our customers choose Alfa Systems**



### Innovate and challenge in multiple markets

Multi-entity, multi-regulatory, multi-currency and multilingual. React quickly in a complex and changing market. Adapt to match business requirements and customer needs as they evolve.



### Perform through leading-edge tech

Count on a comprehensive service-oriented architecture, and design your own API into the system. Exploit a 100% web and app UI alongside reliable, scalable performance, proven for a 10 million-contract portfolio.



### We unify your systems

Avoid systems spaghetti – consolidate disparate legacy systems, integrations and workarounds. Remove inefficiency and complexity by using a single platform with a single database.



### Create an omnichannel experience

Empower customers, dealers and vendors through enhanced self-service and omnichannel technology. Operate a clear and complete picture of the customer journey, from onboarding, throughout in-life management to end of term and retention.



### Achieve operational agility

Streamline operations through process automation, across different functions and geographies. Achieve greater control, connected processes and a seamless flow of information.

## Global trends

### Global asset finance market

We believe the global asset finance market to be in good health, with continued demand in both the equipment and automotive verticals across a number of asset finance suppliers.

We have seen the US asset finance market remain buoyant, benefiting from fiscal support and attractive tax regimes, albeit the automotive market has continued being negatively impacted by new car sales and contagion from Chinese trade disputes. Europe continues its resurgence with new business volumes in the key European markets hitting double digits, albeit against a backdrop of emissions regulations and Brexit.

Globally, the outlook for the equipment finance sector looks more stable than for the automotive finance sector, which is being buffeted by a number of headwinds. These include environmental trends, with emissions regulations becoming a stronger and stronger trend across many countries and regimes, declining new car sales, as well as the spectre of consumption-based financing, the increased transparency which e-commerce brings with it and the changing priorities of the millennial generation.

We continue to see a focus on innovation of lending solutions, development of digital solutions with a focus on the customer and also a clearer drive from operational efficiencies and reporting powers.

### Alfa's approach

Our pipeline is diversified both geographically and by vertical, although we have seen a clearer European presence in recent months. We are well placed to react to cyclical global market trends.

## Regulation

In 2018 we saw European customers understand, react and comply with the increased regulation in the form of the General Data Protection Regulation ("GDPR"), effective May 2018, bringing enhanced consumer rights and tougher penalties. This follows on from the Open Banking legislation and the recent Payment Services Directive. Additionally, European OEMs in the automotive space had to evolve to meet the recent emissions targets, which slowed production and reduced margins in the fourth quarter of 2018. In the US, there were a lower number of new regulations being introduced following the new administration's budgetary cuts in relation to the Consumer Financial Protection Bureau, and the tax incentives in relation to equipment started to bear fruit.

As new regulation is implemented, compliance and systems costs are expected to increase and therefore pressure is placed on profit margins at the lender level. This may put further focus on efficiency and operational gearing in the near term in order to maintain margins at an acceptable level.

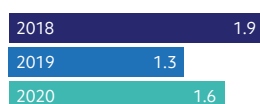
### Alfa's approach

We are ready to take advantage of an expected increase in systems expenditure.

Security of data has always been at the forefront of our development and we are currently working with a number of customers to ensure they are GDPR ready and assisting with their change management programmes.

### GDP growth %

Euro area <sup>(2)</sup>



USA <sup>(3)</sup>



UK <sup>(4)</sup>



## Credit conditions

Overall the global economy is in better shape than in recent years.

The Euro area is gaining confidence and the further growth in the US economy has been supported by what is considered a business-friendly new administration – after December 2017 tax reforms have been approved.

With interest rate hikes and increased inflation, there is a focus on operational efficiency to support ongoing economic growth.

### Alfa's approach

Ensuring our pipeline, and therefore future revenue generation, is diversified across geographical regions, industry verticals and types of customers. With a more competitive environment, we see lenders continue to focus on reducing costs and digitalising operations, which are accelerating the adoption of new systems and increased IT investment. We are well-positioned to benefit from this trend.

# \$5.4tn

asset finance receivables, globally<sup>(1)</sup>

# 200

applications for each graduate position

## Talent pool

It has always been a challenge to hire graduate and experienced professionals at the rate that we need, whilst maintaining the supervisory ratio needed to operate effectively.

We continue to receive a high number of applicants for each post although competition for experienced candidates remains high, with relatively expensive recruitment costs.

Our partner relationships will also supplement our talent pool.

### Alfa's approach

We combine agency recruitment with a successful employee referral scheme, with many of our new Alfa team members applying through their connections to Alfa.



**Focus on creating a high performance organisation**  
Page 8

- (1) PwC Market Study on the Asset Finance Software Market, 2017.
- (2) European Commission Winter 2019 Interim Economic Forecast.
- (3) Federal Open market Committee 19 December 2018.
- (4) HM Treasury forecast for UK Economy No. 379.

# Technology trends

## Cloud

We are continuing to see increased demand for cloud-based finance solutions – with a lower level of customer investment in hardware required to support such solutions and decreasing internal personnel time required.

### Alfa's approach

Alfa Systems is cloud-ready and we are currently operating in the public cloud environment. Our experience is that significant operational gearing can be obtained by a cloud hosted solution which complements the efficiencies provided by Alfa Systems. Our sales approach has been Cloud First for more than a year.

## Digitalisation

Generally the asset finance industry has been slower than expected at implementing wholesale digital change, although it has been on the agenda of most lenders for a number of years. Digitalisation is not just the embracing of app-based customer service solutions, but instead is the connectivity of the lender's systems with the asset, with other service providers' systems, and with end-customers' information – leading to a myriad of data which will ultimately change the way that finance is provided and end-customers are communicated with.

On a legacy system or an internally developed solution, which accounts for c. 60% of the asset finance market, this connectivity and transfer of data across technology solutions is difficult.

### Alfa's approach

Alfa Systems is developed using open API technologies which supports our customers' digitalisation. We continue to develop and partner with other technology providers to ensure that our systems remain relevant in an ever-changing world.

## Usership and autonomous vehicles

The desire to own a car has declined globally as many consumers look towards other mobility solutions such as ride hailing or ride sharing. This is a reaction in part to congestion or an emissions target but is also representative of changing consumer tastes and evolving technology. In recent times we have seen a number of OEM and hire car companies launch car share services or invest in ride hailing or sharing players – all recognition that the world is adapting to the concept that car sharers may outweigh car owners in the near future.

Ultimately OEM and other lending institutions have recognised that the landscape is changing and that the lending to end-customers may decline over time, to be replaced by those providing the sharing or hailing solutions. This will disrupt not only the automotive industry but the entire transportation network and therefore may have a direct impact on rail, truck and other transportation.

The market for shared on-demand vehicles (Mobility as a Service/MaaS) – in the US, the EU and China will be worth

**\$1.4tn** <sup>(2)</sup>

by 2030 (vs. \$87bn in 2017)

Ultimately autonomous vehicles are expected to drive up operating margin as the salary costs are removed and technology increases fleet utilisation rates, although when this will become a realistic alternative is unknown.

### Alfa's approach

As we see our customers prepare to adapt and evolve to this revolution, we believe that Alfa's flexible configuration will support this fundamental change to the way products are financed.



Focus on digital  
Page 2

- (1) PwC Report January 2018 "Electric and self-driving cars will accelerate the change on our roads".  
(2) PwC Report "The 2018 Strategy & Digital Auto Report".



# Europe

## Overall

Overall the European market has continued its recovery and there is a positive outlook as we move into 2019. In Europe the market players are relatively consolidated, with the top 25 asset finance companies accounting for around two thirds of funding provided. 73% of funds are managed by bank owned lessors, with nearly 20% managed by OEMs.

More than half of the investment in the EU is for replacement assets rather than growth investment – which reflects the more modest economic growth in certain European countries.

### Alfa's approach

Europe remains an important market for us, with UK revenues of £22.8 million in 2018. Our pipeline remains diversified between Europe and the UK and our opportunities in Europe are all in the equipment vertical.



Find out more about our European market

## Brexit

Lenders continue to monitor the progress of Brexit negotiations closely, especially in the UK. With 29 March 2019 looming, the main impact on the asset finance industry is expected to be on volumes, as investment decisions on business expansion may be delayed as companies look for clarity on where negotiations will conclude. With the UK and Germany accounting for more than 50% of the European asset finance market, this may lead to lower growth than expected as the March 2019 deadline approaches.

### Alfa's approach

We have incorporated a German subsidiary in 2018 as part of our wider Brexit mitigation plan. This also demonstrates our commitment to the European marketplace.

➔ **For more information on Brexit considerations see Risk management overview on page 32**

**Record levels reached in UK asset finance market with new business increasing 3% to almost**

**£33bn**

in 2018 <sup>(1)</sup>

**Lease receivables for the bottom 25 AFE50 companies have increased more than**

**€3bn <sup>(2)</sup>**

(1) FLA Industry Statistics – February 2019 Finance and Leasing Association

(2) Asset Finance Europe 50 2018 report – Asset Financial International

## Europe continued

### Automotive

Over the first nine months of 2018, EU demand for passenger cars remained positive (+2.5%), in line with growth expectations for this year. Looking at the five biggest markets, demand went up in Spain (+11.7%), France (+6.5%) and Germany (+2.4%), while car sales contracted in Italy (-2.8%) and in the United Kingdom (-7.5%).<sup>(1)</sup>

UK car registrations fell almost 7% year-on-year to 2.37m units in 2018, with a near 30% drop in diesel registrations accounting for the most marked decline in the market.<sup>(2)</sup>

#### Alfa's approach

Alfa Systems can comprehensively support the pay-per-mile model which is becoming prevalent.

### Equipment

The European construction equipment sector delivered another positive surprise in the third quarter of 2018. Contrary to the expectations of a market that is edging closer to saturation, further growth was experienced. Equipment sales in Europe grew by 9.4% in the third quarter, and year-to-date growth is at 9.2% after nine months. In Western European markets, many of which are already at, or close to peak levels, sales expectations were surpassed, and they made a significant contribution to growth. In contrast, the Turkish market fell by two thirds in Q3, and continues to be in freefall. Interestingly, both earthmoving and road equipment picked up in the third quarter, while recovery in the building construction equipment sector slowed down. As of today, total growth in sales at between 5% and 10% is the most realistic forecast for the European equipment sector in 2019.<sup>(3)</sup>

#### Alfa's approach

Our digitalisation initiative makes us well placed to serve European OEMs and independents, serving customers through new lending products. Our market share of the European equipment market continues to increase as many of the top 50 lenders use Alfa Systems.

# 2.4%

expected decline in UK new car registrations in 2019<sup>(4)</sup>

Lease receivables for European auto captives have increased

# €30.5bn (+6%)<sup>(5)</sup>

# €271bn

European new leasing business in 2017 (+4%)<sup>(6)</sup>



- (1) UK new car and LCV registrations outlook to 2020 – January 2019 SMMT
- (2) Source: <https://www.acea.be/press-releases/article/passenger-car-registrations-2.5-nine-months-into-2018-23.5-in-september>
- (3) <https://www.autocar.co.uk/car-news/industry/uk-car-registrations-fall-68-2018-plus-2018s-best-sellers-revealed>
- (4) Asset Finance Europe 50 2018 report – Asset Financial International
- (5) <https://www.agoria.be/en/European-construction-machinery-markets-almost-double-digit-growth-in-2018-and-projections-for-2019>
- (6) Asset Finance Europe 50 2018 report – Asset Financial International

# USA

## Overall

A steadily growing economy and a business-friendly administration are paving the way for future growth. Although the US car market may have reached the peak of the current cycle, we are seeing an increase in demand in the equipment finance market. We have seen lending products evolve, moving away from the relatively simplistic loan products of the past to more bundled contracts. Lenders are grappling with changes to lease, revenue and credit loss accounting as recent regulations are enforced which will lead to increased system reliance due to the complexity of the real time calculations required.

### Alfa's approach

The US remains one of our key markets. In 2018 we will focus on further expanding and diversifying our customer base, including expansion into US equipment finance providers.

## 4.1%

forecasted growth in 2019 equipment and software investment <sup>(1)</sup>

## 9.1%

Investment in Software increased at a 9.1% annual rate in Q3 2018 and is up 9.1% year-over-year <sup>(2)</sup>

## 16.8m

new cars and light trucks projected to be sold in 2019<sup>(4)</sup>

## Automotive

Sales of new vehicles in the US rose slightly in 2018, defying predictions and highlighting a strong economy.

Automakers reported an increase of 0.3 per cent over a year ago to 17.27 million vehicles. <sup>(3)</sup>

There remains an oversupply of used vehicles which impacts the residual values of both new and used cars. This will challenge the profitability of live lease contracts in the short term. We have seen automotive lenders, both OEMs and banks, being more cautious around lending criteria amid sub-prime lending concerns. Having said that, the American Financial Services Association, after convening an expert panel to investigate sub-prime lending in the automotive market, has given the sector a clean bill of health. Although there had been some growth in sub-prime loans in recent years, there had been growth over all risk tiers and it was not considered concentrated.

### Alfa's approach

As new sales volumes decrease, Alfa has been assisting customers with change management processes in order to improve and protect margins.

Although new car sales are forecast to generating demand for modern systems and we are well placed for personal contract hire or other consumer consumption focused lending products.

Additionally we are also seeing lenders previously focused on automotive expand into equipment financing, therefore diversifying their asset portfolio, or start-ups entering the market – both of which are key parts of our growing pipeline.

## Equipment

Equipment finance industry size grew from \$1.012 trillion in 2017 to an estimated \$1.033 trillion in 2018. <sup>(5)</sup>

Business volume in the equipment finance sector picked up in the final month of 2018, and the year ended with cumulative new business volume 4 per cent higher than in 2017 <sup>(6)</sup>

### Alfa's approach

We are well placed to adapt to changes in financing structures, with consumption-based financing already a component of Alfa Systems.



**Focus on partners**  
Page 4

- (1) "2019 Equipment Leasing & Finance US Economic Outlook" – December 2018 Equipment Leasing & Finance Foundation.
- (2) "U.S. Equipment & Software Investment Momentum Monitor" – January 2019 Equipment Leasing & Finance Foundation.
- (3) <https://www.apnews.com/ff3a9ade67be4be5b6181a016eb6f6d2>
- (4) New Vehicle Sales in 2019 – December 2018 NADA
- (5) [https://www.elfaonline.org/docs/default-source/data/2018industrysizechart.pdf?sfvrsn=e999810d\\_2](https://www.elfaonline.org/docs/default-source/data/2018industrysizechart.pdf?sfvrsn=e999810d_2)
- (6) <https://www.elfaonline.org/data/mlfi-25-monthly-leasing-and-finance-index/view-mlfi/monthly-leasing-finance-index-december-2018>

We create value by delivering and supporting Alfa Systems which provides an end-to-end, smart and sophisticated solution for players spanning the breadth of the asset finance industry

### Our resources

#### Technology

Alfa's continued product development and innovation creates opportunity. We provide a unique software platform that combines modern, disruptive technology with industry-leading functionality and reliability.

#### People

Our team works collaboratively with our customers' teams to meet their business needs and strategic aspirations. Expanding our partner network will accelerate the evolution of our implementation capabilities and complement our continued focus on delivery.

#### Culture

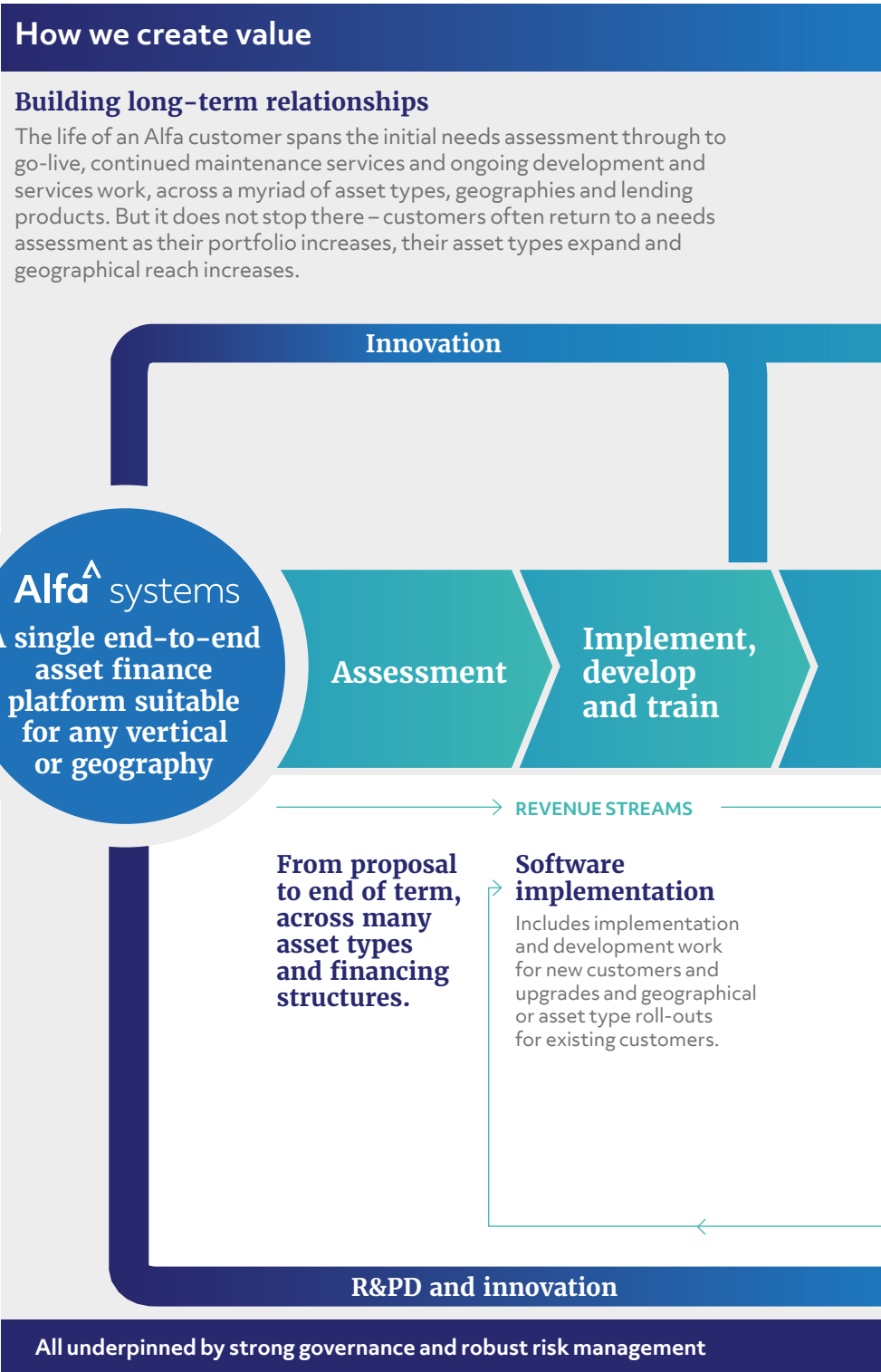
Our focus on excellence, agility and innovation ensures we are always at the forefront of the industry, providing solutions to regulatory and business challenges, digital needs and hosting solutions.

#### Experience

Our software is built specifically for the asset finance industry and this, coupled with nearly 30 years of proven delivery capabilities, has given us deep experience and know-how. We work with a wide variety of customers, across geographies, cultures and verticals – delivering excellence in everything we do.

#### Financial stability

We aim to create stable commercial relationships which do not put our funding and liquidity at risk.



## International Integrated Reporting Council's capitals

This key provides a mapping to the "capitals" of the IIRC's Integrated Reporting (IR) Framework. You can find out more at: [theiirc.org](http://theiirc.org)

**F** Financial

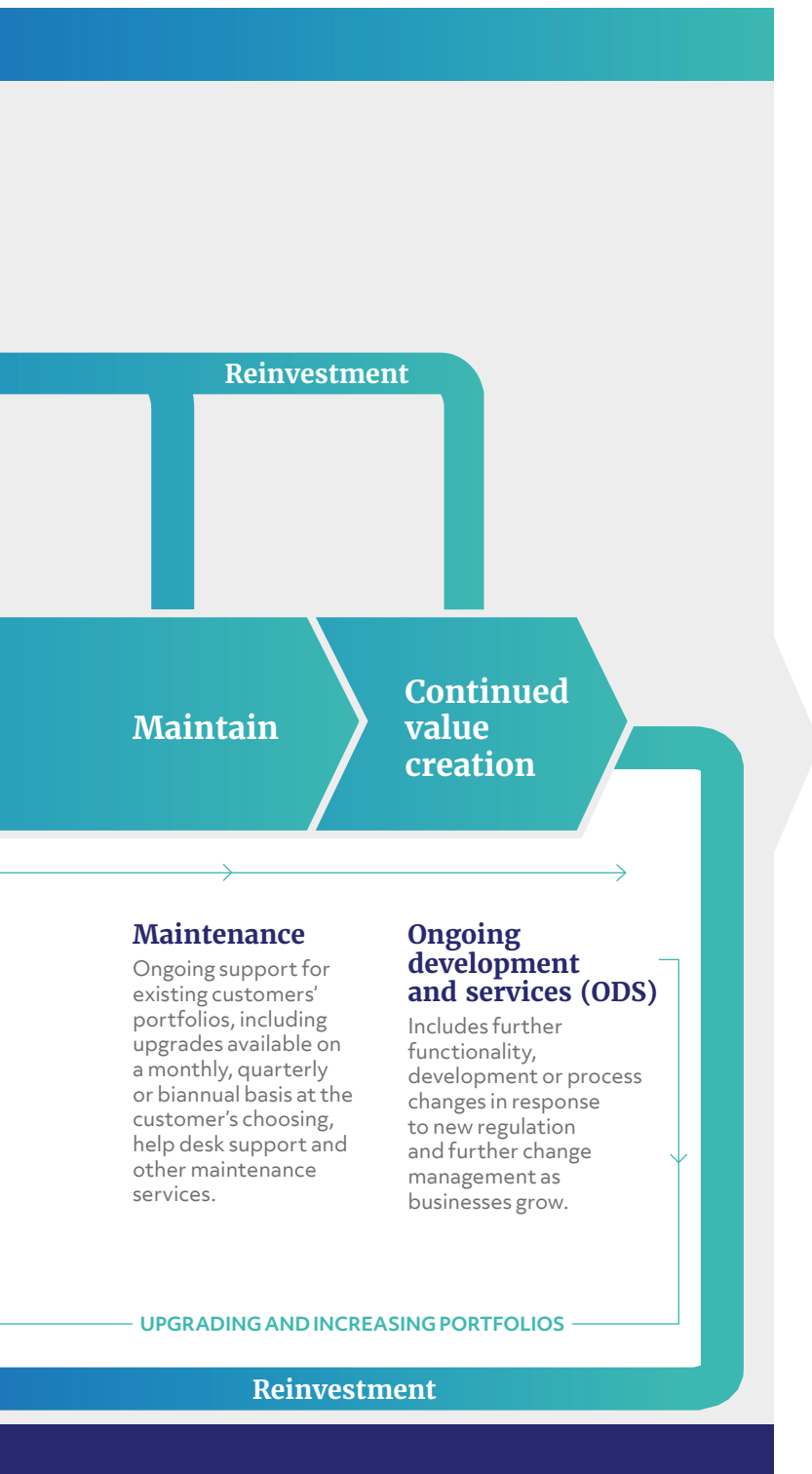
**H** Human

**M** Manufactured

**I** Intellectual

**S** Social

**N** Natural



## The value we create for stakeholders

### Shareholder

EPS (basic)

**6.3p**

(2017: 9.1p)

### Customers

Customer loyalty:  
Average customer relationship

**C. 12 years**

Delivery over last 3 years

**6 software implementations**

### Alfa team

Retention

**88%**

Rating on Glass door

**3.8**

Employee engagement

**61.2%**

### Product

Investment in product

**£16.3 million**

(2017: £14.0 million)

### Brand coverage

Countries

**26**

Assets under finance

**£20+ million**

### Communities and society

Money raised

**£47,000**

Carbon emissions

**890 tCO<sub>2</sub>e**

➔ For more information see key performance indicators on pages 26-29


Let great ideas grow

Create a positive impact



# We have re-organised and re-prioritised to create a better platform for growth



 Andrew reflects on 2018 and outlines the focuses for 2019

2018 has been a challenging year for Alfa following both the pause of one of our significant software implementations and the slower than expected conversion of the sales pipeline.

In June 2018 we announced that one of our major customers had taken the decision to delay their implementation project. This decision related to the customer's existing internal systems and we are currently actively involved in discussions regarding the planning of the restart of this implementation, which is expected to be in the second half of 2019. This resulted in a decrease in 2018 revenue of £5.3 million in comparison to the prior year.

We also saw a potential new customer significantly increase the geographical and functional scope of its proposed project. While this delayed the date at which the project may have started, it also materially increased the scale and size of the possible opportunity. We remain in positive discussions with this potential new customer, and it remains a prospect in our pipeline.

We highlighted that one of our larger existing customers looked likely to extend its decision point regarding the expansion of its multi-country implementation. As of today, the first

phase of this customer's implementation is going well, with completion expected in the first half of 2019 and we are now engaged to design the second phase of the roll out which will start this year.

We continue to assess whether our sales processes are relevant in the current market, whether our product offering is aligned with the needs of prospective customers and whether we have the right people in the right place to serve the business we have now and for the coming year. Moving into 2019, certain operational and management changes have been made which we believe will ensure that we are best placed to win new customers.

## Sales execution

We have combined the sales and commercial teams to simplify reporting lines and to increase communication speed, with the objective of improving contract execution and increasing the pace and rate of our sales conversion. We have also assessed whether there were common themes or factors that were slowing the customer decision-making process which we could impact by adapting our go-to-market strategy. Following this review, we found no reason to make significant changes to pricing and proposition, although we

continue to see more focus on hosted solutions, a requirement for systems to be digital ready and customers looking for global solutions.

We have seen a number of single country implementations expand into potential multi-country implementations over the last 24 months. In the long-term, this expansion leads to operational benefits for the customer. For Alfa, while this multi-country expansion increases the value and size of the opportunity, it often also impacts and complicates the decision making process.

We believe these changes have contributed to positive momentum, evidenced by the start of delivering implementation services to a new European customer in the fourth quarter of 2018, whilst continuing to agree concurrently the license and maintenance agreements. This new project will represent a significant opportunity and strengthens our European footprint.

There are always improvements which can be made in sales execution and this remains a key focus for myself, the rest of the executive and the Board going forward.

## Product offering and strategy

During 2018, we progressed a number of key projects which will continue to position Alfa Systems as a platform solution. We are continuing to see demand for multi-country and highly integrated implementations and therefore we have further developed our Digital Gateway technology and API strategy. We are encouraged by the early-stage, anecdotal customer feedback to date. This work will continue into 2019, when we will test the relevance and priorities of our product roadmap with our customers at the user group forums we run in Europe and North America.

To complement our sales efforts in relation to enterprise customers, Alfa has been developing its volume market

strategy (previously “Business-in-a-Box”). This part of our growth strategy is focused on winning business from companies in the asset finance market which are smaller than our current enterprise customers. To be successful in this, we need to offer a product that is ready to go, pre-built and pre-configured with best practice processes. During 2018 and into 2019, we have introduced our Alfa Start methodology at one of our implementation projects with significant success to a leading US automotive retailer. This is an important first step in simplifying implementations which will extend our market opportunity, and results in a methodology which has been developed using our years of experience working with such companies. The second step is our Modularisation project, the aim of which is to separate key components of Alfa Systems which will decrease the cost of future development and facilitate faster implementations. This remains a key priority on our product roadmap for 2019 and into 2020.

A key trend in 2018 was an increase in our customers using digital initiatives and artificial intelligence methods to help them deliver efficiencies and improve their customers’ satisfaction levels. In 2018 we contributed to this by enabling a number of our customers’ digitalisation strategies, primarily through our Point of Sale and customer self-service offering. Moving forward into 2019, the priority will be on building on this to demonstrate the business possibilities that Alfa Systems’ broad and flexible open API gives. We seek to leverage our API and establish technology partnerships and build a platform ecosystem around Alfa Systems which will be available to all customers.

## Partners and people

Historically our people have delivered 100% of our software implementations and ongoing support efforts to our customer base. As of now, we have

three agreed partnership framework agreements in place which provides us with the ability to decouple our future growth from headcount. It will also provide us with a more flexible cost base and extend our geographic reach in areas where we do not have a presence. We are negotiating framework agreements with two additional partners, have submitted two co-bids for prospective customers and hope to extend the partner network further during 2019.

In addition to aligning our sales and commercial teams, we have set up an Investment Committee to review and monitor product strategy and investment going forward. We also welcome a new Global Director of People, Campbell Fitch, who brings with him a wealth of experience in relation to talent and succession planning and remuneration.

## 2018 results

Following the announcement of a paused software implementation and slower than expected conversion of our sales pipeline, our revenue decreased by 19% to £71.0 million (2017: £87.8 million), with operating profit margin decreasing to 32% (2017: 39%). The impact of our paused software implementation contract was sizeable and completing implementation work on five customers in 2017 led to a greater dependence on ODS revenue in the year.

During 2018 we upgraded six of our customers around the world which contributed to growth in ODS revenue and we launched a new web point of sale system to support one of our Asia Pacific customers with their broker-introduced business. In the US, our Alfa Start implementation methodology is being successfully utilised on the implementation of one of the largest used car retailers, assisting with acceleration of implementation times. This provides solid evidence that our progress on our volume market strategy is producing benefits both for us and our customers.

## Revenue

**£71m**

## Operating profit margin

**32%**

## Headcount

**312**

## Looking forward

Moving into 2019, our focus remains on converting sales opportunities to contracted customers. We are currently progressing contractual discussions with a new European customer and planning a second phase implementation for an existing multi-national customer. We have also seen an increase in the overall size of the pipeline across geographies and verticals since we last reported at our half year results. Following an assessment of a number of different areas across the business – including our sales and commercial processes – we have made a number of organisational changes which we believe will strengthen the business going forward.

We remain confident in the long-term opportunities for Alfa, and expect the company to perform in line with the Board’s expectations in the year ahead.

## Andrew Denton

CEO

7 March 2019

# Our strategy for creating long-term sustainable business value

## Our strategic priorities

1

**Growing our market share by maintaining leading edge technology, increasing customer loyalty and winning new business**

We will retain our market-leading position and grow our share of the enterprise asset finance sector

2

**Establish our partner ecosystem to build operational capacity and sales channel opportunity**

We will work with a select group of partners to increase our delivery capabilities whilst maintaining quality

3

**Establish our digital agenda as leading edge and best in class**

We will be a market leader for digital solutions in the asset finance sector

## Our strategic pillars



**Delivery – Focusing on the customer**



**Product – Leading with the best technology**

## Risks

- |   |   |
|---|---|
| <b>A</b> Failure to increase market share in relation to large multi-national customers or to retain our existing customer base | <b>C</b> Socio, geo-political risk                                |
| <b>B</b> High customer concentration  | <b>D</b> Risk to people, skills, location and working environment |



➔ See principal risks  
Pages 33-35

➔ See key performance metrics  
Pages 26-29

4

### Reposition Alfa Systems and our delivery model for expansion into the volume market

We will become a market leader in the volume market of the asset finance industry

5

### Create a high performance organisation

We will continue to offer a supportive, diverse and collaborative working environment

6

### Promote and grow value

We will continue to have market-leading margins



**People – Delivering with smart diverse people**



**Innovation and future proofing – Planning for the future**

**E** Failure to deliver on our existing implementation or ODS business





**F** Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development

**G** IT security and cyber risks

**H** Business interruption or continuity


























## Our strategy

### Strategic pillars

-  Delivery – Focusing on the customer
-  Product – Leading with the best technology
-  People – Delivering with smart, diverse people
-  Innovation and future proofing – Planning for the future










## 1 Growing our market share by maintaining leading-edge technology, increasing customer loyalty and winning new business

### Objectives

-     Driving innovation in our existing solutions
-    Lead with our Cloud First offering
-    Winning in our existing market by demonstrating capability of product and first in class delivery
-    Maintain our leading position as partner to the US automotive asset finance sector
-    Grow our European market share, across all verticals
-    Develop our US equipment asset finance expertise
-    Demonstrate value and innovation through thought leadership to support our customers and potential customers in responding to market change
-    Develop road map for new tools, services and modules, using new technologies such as AI and IoT, to anticipate and address shifting priorities and support change in our customers' businesses










## 2 Establish our partner ecosystem to build operational capacity and sales channel opportunity

### Objectives

-    Select a small number of preferred partners and establish engagement terms
-    Further develop training and learning programmes to promote delivery the "Alfa way"
-    Embed partners into our sales and customer relationship processes

## 3 Establish our digital agenda as leading edge and best in class

### Objectives

-    Focus on Alfa as a Platform Solution
-    Develop compelling tools and value-adds to the platform
-    Thought leadership to demonstrate leading partner to the asset finance industry

## Risks

- |   |  |
|---|--|
| <p><b>A</b> Failure to increase market share in relation to large multi-national customers or to retain our existing customer base</p> <p><b>B</b> High customer concentration</p> <p><b>C</b> Socio, geo-political risk</p> <p><b>D</b> Risk to people, skills, location and working environment</p> | <p><b>E</b> Failure to deliver on our existing implementation or ODS business</p> <p><b>F</b> Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development</p> <p><b>G</b> IT security and cyber risks</p> <p><b>H</b> Business interruption or continuity</p> |
|---|--|

### Progress in 2018 – Key highlights

Commitment to Europe through GmbH

March 2018 – win of a new customer allows us to access the US equipment market

Upgrades for 6 existing customers

Cloud first offering

Creation of a product roadmap and Investment Committee

### Focus for 2019

User groups

Maintain position as key thought leader through planned pieces

Continue on with research and development in relation to application of AI, machine learning and IoT

Assessment of nearshoring opportunities

Continuation of the roadmap

### Related KPIs

Customer numbers

Revenue growth – existing customers

Revenue growth – new customers

Countries we operate in

Market share

Customer satisfaction

### Risks

A	B	C	D
E	F	G	H

### Progress in 2018 – Key highlights

Currently 3 partnership agreements in place

Continued strengthening of our European partner relationship

2 ongoing joint sales proposals

### Focus for 2019

Master service agreements with key 3-4 partners

Set up partner portal

### Related KPIs

No. of partners

Available resources

No. of joint bids

Customer satisfaction

### Risks

A	B	C	D
E	F	G	H

### Progress in 2018 – Key highlights

Early stage origination of a long term product and digital roadmap

Self-serve app

### Focus for 2019

Innovation committee established to drive digitisation and platform strategy and reinvestment.

Continue digital agenda





### Related KPIs

Revenue growth – new customers

### Risks



















A	B	C	D
E	F	G	H

### Strategic pillars

-  Delivery – Focusing on the customer
-  Product – Leading with the best technology
-  People – Delivering with smart, diverse people
-  Innovation and future proofing – Planning for the future



















## 4 Reposition Alfa Systems and our delivery model for expansion into the volume market

### Objectives

-    Promote simplification of delivery through our Alfa Start methodology
-    Promote product simplification, initially by progressing modularisation programme
-    Pricing proposition to support winning in the volume market
-    Develop a sales channel for volume market
-    Develop a support and investment model for volume market
-    Demonstrate agility through thought leadership to support our customers and potential customers in responding to market change







## 5 Create a high performance organisation

### Objectives

-    Embed purpose and values proposition throughout organisation, to be the foundation of everything we do
-    Attract and retain the best people via a compelling value proposition
-    Align reward and recognition with high performance and contribution
-    Embed our career paths and learning and development programmes
-    Succession planning to promote and develop key talent
-    Foster innovation throughout the company

## 6 Promote and grow value

### Objectives

-    Deliver best in class delivery and support services
-    Align our global locations with our growth potential
-    Enhance our consultancy capability
-    Reinvestment in the product to promote simplification, increase customer satisfaction and promote a modern, agile and collaborative working environment

## Risks

- A** Failure to increase market share in relation to large multi-national customers or to retain our existing customer base
- B** High customer concentration
- C** Socio, geo-political risk
- D** Risk to people, skills, location and working environment

- E** Failure to deliver on our existing implementation or ODS business
- F** Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development
- G** IT security and cyber risks
- H** Business interruption or continuity

### Progress in 2018 – Key highlights

Initiate modularisation  
Roadmap for volume market

### Focus for 2019

Continue modularisation programme  
Extend Alfa Start methodology across verticals and geographies  
Develop detailed plan for pricing, sales and support and investment model for entering volume market and optimising value proposition

### Related KPIs

Reduce implementation days

### Risks

A	B	C	D
E	F	G	H

### Progress in 2018 – Key highlights

Purpose and values project  
Updating policies to embed and also sales proposition  
Career paths  
Succession planning  
Talent development  
Innovation days  
CSR teams set up globally

### Focus for 2019

Reinvigorate reward and recognition  
Implement new learning and development framework  
Continue to plan for succession throughout the team  
Actively support innovation and collaboration

### Related KPIs

Retention  
Glassdoor  
Pulse Survey

### Risks

A	B	C	D
E	F	G	H

### Progress in 2018 – Key highlights

Alfa Start  
GmbH set up

### Focus for 2019

Continued focus on operating cost efficiencies to ensure that we have the capacity to invest in new skills to drive future growth

### Related KPIs

Operating margin  
EPS  
Free Cash Flow  
Conversion

### Risks

A	B	C	D
E	F	G	H

# Measuring our performance

*Alfa measures a range of financial and non-financial metrics to help manage the long-term performance of Alfa.*

➔ For definitions and method of calculation on page 29

## Our strategic priorities

- 1 Growing our market share by maintaining leading-edge technology, increasing customer loyalty and winning new business
- 2 Establish our digital agenda as leading-edge and best in class
- 3 Establish our partner ecosystem to build operational capacity and sales channel opportunity
- 4 Reposition Alfa Systems and our delivery model for expansion into the volume market
- 5 Create a high performance organisation
- 6 Promote and grow value

## Risks

- A Failure to increase market share in relation to large multi-national customers or to retain our existing customer base
- B High customer concentration
- C Socio, geo-political risk
- D Risk to people, skills, location and working environment
- E Failure to deliver on our existing implementation or ODS business
- F Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development
- G IT security and cyber risks
- H Business interruption or continuity

## Financial

### Grow group revenue £71.0m



#### 2018 performance

Rebasing of revenue as significant implementation customer paused and slower than anticipated sales pipeline conversion.

#### Focus in 2019

- Convert sales pipeline
- Upgrade opportunities at existing customers
- Hosting and cloud opportunities

#### Why do we measure this?

Revenue and customer base growth – Growing revenue is a measure of customer success and reflects the culture and success of Alfa. It is central to our vision of being the number one supplier of the asset finance industry.

#### Linked to remuneration:

Yes

#### Links to strategic priorities:

1 2 3 4 5 6

#### Link to risk:

A B C D E F G H

### Grow new customer revenue 1



#### 2018 performance

One new implementation customer signed in 2018.

#### Focus in 2019

- Convert sales pipeline

#### Why do we measure this?

Revenue and customer base growth – Growing revenue is a measure of customer success and new sales. Growing new revenue generally is an indication of new sales and future growth. New customers defined as license agreements signed in year.

#### Linked to remuneration:

No

#### Links to strategic priorities:

1 2 3 4 5 6

#### Link to risk:

A B C D E F G H

### Grow revenue on a constant currency basis (16%)



#### 2018 performance

Constant currency decline is marginally lower than actual following decreased implementation revenues being predominantly in USD.

#### Focus in 2019

n/a

#### Why do we measure this?

Revenue and customer base growth – Demonstrates underlying organic growth or decline excluding the impacts of currency.

#### Linked to remuneration:

No

#### Links to strategic priorities:

1 2 3 4 5 6

#### Link to risk:

A B C D E F G H

## Operating profit margin

# 32%

2018	32
2017	39
2016	23

### 2018 performance

Operating profit margin impacted by revenue decreases and increased personnel costs.

### Focus in 2019

- Maintain market-leading margins

### Why do we measure this?

Promote and grow value – Operating profit is a measure of how effectively we do business and how we monitor our cost basis for the business now but also to facilitate our growth model.

**Linked to remuneration:**  
No

**Links to strategic priorities:**

1 2 3 4 5 6

**Link to risk:**

A B C D E F G H

## Adjusted EBIT margin

# 32%

2018	32
2017	47
2016	45

### 2018 performance

Operating profit margin impacted by revenue decreases and increased personnel costs.

### Focus in 2019

- Maintain market-leading margins

### Why do we measure this?

Promote and grow value – Adjusted EBIT margin removes the impact of non-recurring income or expenses to assess how effectively we are delivering Alfa Systems and related services to customers.

**Linked to remuneration:**  
Yes

**Links to strategic priorities:**

1 2 3 4 5 6

**Link to risk:**

A B C D E F G H

## Billings

# £66.5m

2018	66.5
2017	76.8
2016	74.0

### 2018 performance

Billings lower than revenue due to release of deferred license recognition and certain settlement amounts to be billed in 2019.

### Focus in 2019

- Maintain billings of 95% of revenue

### Why do we measure this?

Strong balance sheet position – demonstrates cash flow and growth in the underlying business.

**Linked to remuneration:**  
No

**Links to strategic priorities:**

1 2 3 4 5 6

**Link to risk:**

A B C D E F G H

## Operating free cash flow conversion

# 86%

2018	86
2017	69
2016	113

### 2018 performance

Sustained momentum in increasing the cash conversion ratio.

### Focus in 2019

- Cash flow conversion of 95%

### Why do we measure this?

Strong balance sheet position – Our business has always been cash-generative and this KPI allows us to monitor cash flows throughout the year before investment in capital projects.

**Linked to remuneration:**  
Yes

**Links to strategic priorities:**

1 2 3 4 5 6

**Link to risk:**

A B C D E F G H

## R&D expense

# £16.3m

2018	16.3
2017	14.0
2016	13.6

### 2018 performance

Alfa capitalised £0.4 million in 2018 in relation to digital innovations

### Focus in 2019

- Continue to deliver on modularisation and digital agenda

### Why do we measure this?

Product investment – Quantification of the cost spent investing in research and development of Alfa Systems, demonstrating continued evolution and focus on change.

**Linked to remuneration:**  
No

**Links to strategic priorities:**

1 2 3 4 5 6

**Link to risk:**

A B C D E F G H

## Operational

## Number of customers

27

2018	27
2017	32
2016	31

## 2018 performance

One new customer signed in 2018, representing our expansion into the US equipment vertical.

Number of customers at 2018 removes customers who have terminated in year or who have given notice to terminate in 2019.

## Focus in 2019

- Grow customer numbers and maintain diversification across geographies and verticals

## Why do we measure this?

Revenue and customer base growth – Our ultimate aim is to grow our share of the total addressable market and therefore increasing numbers of customers helps us achieve this but also it protects us against customer concentration risk in the medium term.

Linked to remuneration: No

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H

## Headcount

312

2018	312
2017	329
2016	269

## 2018 performance

Headcount decreased due to natural attrition and lower recruitment, particularly in relation to experienced hires.

## Focus in 2019

- Maintain headcount and leverage partner relationships

## Why do we measure this?

Revenue and customer base growth – Our growth and ability to win new business is partially dependent on the deep expertise of our people and therefore growing our team for the future is key to this.

Linked to remuneration: No

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H

## Partner relationships

3

2018	3
2017	3
2016	1

## 2018 performance

Discussions with a further three ongoing, in anticipation of joint working relationships from sales pipeline.

## Focus in 2019

- Grow and utilise partner ecosystem

## Why do we measure this?

**New KPI for 2018**  
Revenue and customer base growth – the growth of our business is also linked to our relationships with partner organisations who can facilitate introductions to potential customers and also provide resource augmentation capabilities.

Linked to remuneration: No

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H

## Retention rate

88%

2018	88
2017	95
2016	95

## 2018 performance

Retention rate fell due to natural attrition as market became more competitive and lower recruitment due to lower activity levels. Metric excludes any managed attrition.

## Focus in 2019

- Retention of c. 90%

## Why do we measure this?

Engagement of people – Our deep expertise in the industry and our ability to service our ongoing customer relationships is driven by the quality of our people; therefore a higher retention rate demonstrates sustained engagement and retention of key skills and knowledge.

Linked to remuneration: Yes

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H

## Employee engagement

61.2

2018	61.2
------	------

## 2018 performance

New KPI in 2018 to recognise that increased employee engagement is a positive indicator of culture and has a positive impact on business performance. Questions asked are "Would I recommend Alfa to a friend as an employer", "I am happy with Alfa's strategy and business goals" and "Alfa has an excellent atmosphere and culture."

## Focus in 2019

- Increased engagement from ongoing people agenda

## Why do we measure this?

**New KPI for 2018**  
It is important to measure levels of employee engagement as these have been proven to have a positive impact on business performance.

Linked to remuneration: No

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H

Greenhouse gas emissions per 1,000 square feet (tCO<sub>2</sub>E)

890

2018	890
2017	690

## 2018 performance

New KPI in 2018 to set targets for decreasing impact on the environment in which we work.

## Focus in 2019

- Neutral environmental impact

➔ See our CSR section for more info on page 44

## Why do we measure this?

**New KPI for 2018**  
Responsible operations – we are committed to a position of carbon neutrality by reducing our travel emissions as much as possible.

Linked to remuneration: No

Links to strategic priorities:

1 2 3 4 5 6

Link to risk:

A B C D E F G H



## Definition and method of calculation of KPIs

In considering the financial performance of the business, the Directors and management use key performance indicators which are defined by IFRS and those which are not specifically defined by IFRS.

We believe that Billings, Adjusted EBIT margin and Operating Free Cash Flow Conversion are key measures to assess our financial performance. They are used by management to measure liquidity, in the case of Billings and Operating Free Cash Flow Conversion, and profitability in relation to Adjusted EBIT margin as they provide a more meaningful comparison of operating fundamentals between companies within our industry.

These measures are not defined by IFRS. The most directly comparable IFRS measure for Adjusted EBIT is our profit from continuing operations and for Operating Free Cash Flow Conversion it is cash flows from operations. These measures are not necessarily comparable to similarly referenced measures used by other companies. As a result, investors should not consider these performance measures in isolation from, or as a substitute analysis for, our results of operations as determined in accordance with IFRS.

The method of calculation for each metric is detailed to the right.

### (1) Headcount

Represents the number of Alfa team members under contracts of employment as at 31 December of each year.

### (2) Retention rate

Represents the retention of Alfa team members over the previous 12 month period.

### (3) Billings

These are amounts invoiced in year. This differs from revenue as defined by IFRS due to the release of deferred income in relation to license payments and maintenance agreements and accrued income in relation to work in progress.

### (4) Adjusted EBIT margin

Adjusted EBIT margin is defined as profit from continuing operations before income taxes, finance income, pre-IPO share based compensation and IPO related expenses, as a proportion of revenue. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of Alfa. The following table reconciles Adjusted EBIT to profit for the year.

£'000s	2018	2017
Profit for the year	18,150	25,866
Adjusted for:		
Taxation	4,306	7,996
Finance income	(74)	(33)
Pre-IPO employee share schemes <sup>(1)</sup>	–	4,400
IPO-related expenses <sup>(2)</sup>	–	3,000
Adjusted EBIT	22,382	41,229

(1) Relates to pre-IPO employee share scheme expense.

(2) Relates to IPO-related expenses which are determined to be non-recurring.

### (5) Operating Free Cash Flow Conversion

Operating Free Cash Flow represents net cash generated from operations less settlement of derivative instruments and margin calls, after the purchase of property, plant and equipment and adding back IPO-related expenses. Operating Free Cash Flow Conversion represents Operating Free Cash Flow generated as a proportion of Adjusted EBIT. Management uses Operating Free Cash Flow Conversion for monitoring and managing cash flows. The table below presents a reconciliation of Operating Free Cash Flow to cash generated by operations, which is the nearest measure prescribed by IFRS.

£'000s	2018	2017
Cash generated by operations	20,954	28,853
Adjusted for:		
Settlement of derivative financial instruments and margin calls	(108)	(2,683)
Capital expenditure	(1,638)	(663)
IPO-related expenses excluded from Adjusted EBIT	–	3,000
Operating Free Cash Flow	19,208	28,507
Adjusted EBIT	22,382	41,229
Operating Free Cash Flow Conversion	86%	69%

# Ensuring effective risk identification and management

## Introduction

We recognise that effectively managing risk is integral to allowing us to achieve our strategy. Therefore we have implemented a five step process for monitoring and managing risk throughout our business and to allow the Directors to conduct a robust assessment of the principal risks facing our business.

We believe that risk is not something that should be eliminated but instead identified, assessed and managed in a timely manner. Our aim is to foster a culture of effective risk management by encouraging appropriate and monitored risk-taking in order to achieve the Group's strategic objectives.

## Risks and delivering on our strategic objectives

In order to deliver our strategy and achieve excellence under our business model, both operationally and financially, we must ensure that we maintain the right balance between safeguarding against potential risks and taking advantage of potential opportunities.

Our key business objectives are:

Focusing on the customer

Enabling business agility

Delivering with the right people

Leading with the best technology

We operate within various different geographical markets which may have different and diverse risks attaching to them. Therefore it is important that we assess and manage our risk across each of these markets to ensure we have assessed all risks appropriately.

Our customers are at the centre of everything we do and depending on the customer profile, they may be impacted by different regulatory, legislative and business requirements and challenges. Therefore we have also taken into account, where applicable, the relevant risks where they attach to our business.

## How we monitor

1

### Identify risks

While overall responsibility for risk lies at the Board level, the Directors have delegated authority for risk identification to the Executive Committee.

A bottom-up approach has primarily been undertaken to provide a detailed review of risks by relevant business owners and this is led by the Risk Officer quarterly. The output is then reassessed by the Executive Committee to provide assurance over completeness of the risk register.

2

### Define risk appetite

Our systems and processes are designed to manage our exposure to risk rather than eliminate the risk completely. Therefore the Board, with the Executive Committee, will reassess the Group's risks appetite each year with this in mind. The Board will consider the risks associated with the conduct of our business and the delivery of our strategy, assessing the risks we are exposed to and evaluating whether this exposure is acceptable given the likelihood and severity of the risk.

4

### Respond, manage and mitigate

Each risk is reviewed quarterly. At each review date, the existing controls are reviewed for adequacy and effectiveness. Due to the ever-changing business landscape and the industry we work in, it is quite possible for the control requirements to change and for processes and policies to require updating. If this is the case, then a business owner is identified and they are responsible for implementing changes.

3

### Assess and quantify

Risks are assessed to understand the likelihood and the financial impact of the risk crystallising. We assess these looking at the following areas:

- Financial
- Operational
- Reputational
- Legal/compliance

5

### Monitor and review

Management monitors progress against the principal risks. This has been shared with our internal auditors, KPMG LLP, to assist with forming the internal audit plan for 2019. The Board reviews the summary risk register and assesses the adequacy of the principal risks identified, as well as the mitigating controls and procedures which are in place and are operational.

## The processes and systems which support the risk management review

Quarterly risk meetings allow us to discuss our detailed risk register with each of the risk owners. Senior management within the business then assess where updates are required and track progress on mitigating actions.

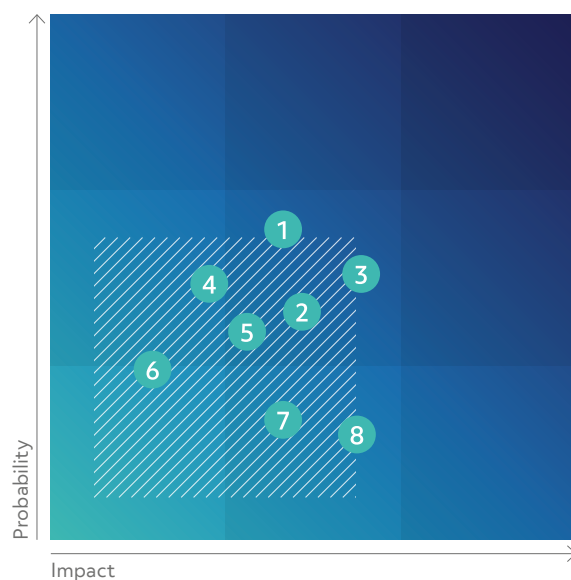
The Alfa risk register is documented in our project and issue-tracking software tool that is used for all of our development work. The senior management assess and monitor risks during these quarterly risk meetings using dashboards within the software which highlight key risks and relevant action points. The risk tool also provides a history of our decision making and discussion points.

The principal risks and uncertainties and actions being taken to mitigate those risks are presented to the Board at least every six months, including as part of the financial year end process. As part of the long range business plan and risk management processes, the Board considers the level of risk carried and the extent of mitigation required to deliver an acceptable level of risk.

The complete risk register is reviewed at least quarterly as part of our Audit and Risk Committee meetings and ownership of the risk register sits with the Risk Officer. The impact of each risk is determined by assessing the financial, legal, regulatory and operational impact, in conjunction with the likelihood of the risk crystallising.

### Principal risk analysis

- 1) Failure to increase market share in relation to large multi-national customers or to retain our existing customer base
  - 2) High customer concentration
  - 3) Socio, geo-political risk,
  - 4) Risk to people, skills, location and working environment
  - 5) Failure to deliver on our existing implementation or ODS business
  - 6) Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development
  - 7) IT security and cyber risks
  - 8) Business interruption or continuity
- /// Acceptable risk appetite



### Responsibilities

#### Board

- Defines the risk governance framework, risk culture and principles
- Sets overall risk strategy and policy
- Approves risk levels
- Responsible for an effective system of internal controls
- Approves risk decisions that are beyond delegated authorities

#### Audit and Risk Committee

- Reviews the risk management framework and the effectiveness of internal controls, risk management systems and major risk initiatives
- Reviews the internal audit programme and reports

#### CEO and executive management

- Review the risk management framework and the effectiveness of internal controls, risk management systems and major risk initiatives across the Group
- Review the risk profile against risk appetite and make recommendations to management in relation to risk profile, strategy and key controls
- Review the sustainability of risk methodologies, metrics and policies
- Assess major risk-related projects

#### Risk Officer

- Responsible for collating updates, managing the risk register and presenting principal risks and uncertainties to the Executive Committee and Audit and Risk Committee

#### Operational management

- Assess for new risks, update on current risks assessment and implement mitigation strategies

In order to deliver our strategy and achieve excellence under our business model, both operationally and financially, we must ensure that we maintain the right balance between safeguarding

against potential risks and taking advantage of potential opportunities. We operate within various different geographical markets which may have diverse risks attaching to them.

Therefore it is important that we assess and manage our risk across each of these markets to ensure we have assessed all risks appropriately.

Operational	Financial	Reputational	Legal/compliance
Risks arising from people, processes, and systems impacting upon efficient and effective operations or our ability to deliver on strategic priorities	Risks which might impact upon our ability to meet our financial expectations and obligations	Risks which may impact how our Alfa team members or stakeholders perceive us or how they interact with us	Risks related to non-compliance with government and regulatory requirements in the jurisdictions in which we operate
<ul style="list-style-type: none"> <li>• Recruitment</li> <li>• Training and development</li> <li>• Service delivery</li> <li>• Product development</li> <li>• Contractual and commercial terms</li> <li>• Information technology</li> <li>• Information security</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity and funding</li> <li>• Foreign exchange volatility</li> <li>• Credit or customer concentration</li> <li>• Tax</li> <li>• Financial management and control</li> </ul>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Environment</li> <li>• Ethics</li> </ul>	<ul style="list-style-type: none"> <li>• Ethics</li> <li>• Corporate governance</li> <li>• Laws and regulations</li> </ul>

### Risk appetite

The Board, assisted by the Audit and Risk Committee and senior leadership, assessed the Group's risks appetite in November 2018 for the categories above. This is then used to determine the appropriateness or effectiveness of the mitigating actions and controls in place or to be put in place.

### Brexit

Following the recent decision by the UK population to exit, in due course, from the European Union ("Brexit"), the Directors have considered whether or not this will manifest itself as an additional risk to the Group. While it is difficult to predict the impact of an exit, there may be an impact on the way Alfa does business. Therefore, while this does not constitute a principal risk to the business over and above the risks set out within the Principal risks and uncertainties section on pages 33-35, the Directors will continue to monitor and assess it.

### Focus for 2019

We have continued to focus on our risk management activities and have set a plan for the coming year as follows:

- Ad hoc audits and reviews – we plan to assess our commercial contracting process during the year, with a focus on standardised contractual terms and delegation of authority. We will also update on our business and travel expenses audit, following the implementation of our new expenses policy in December 2018 and continue with our financial controls work in the UK and US following the implementation of our new HR and finance system.

- Cyber security and data protection – We have successfully achieved our SOC II certification in 2018 and will continue to ensure we continue to comply in 2019.
- Business continuity and disaster recovery planning – we have had a number of scenario-testing processes underway and will ask internal auditors to assess the strength of our procedures and responses.
- Brexit – Our Board and Audit and Risk Committee continue to assess the potential impact of exiting the European Union on our business. Although this is not seen as a stand-alone risk, it is one which we will continue to monitor in the coming months.

## Principal risks and uncertainties

The Group faces a number of risks that may adversely affect our strategic and business objectives, operations, liquidity, financial position, reputation or future performance, not all of which are wholly within our control or known to us. Some such risks may currently be regarded as immaterial and could turn out to be material. We accept risk is an inherent part of doing business.

The Directors consider the following matters to be the principal risks and uncertainties (in no specific order) affecting our business at this time.

### Risk A – Failure to increase market share in relation to large multi-national customers or to retain our existing customer base

#### Link to strategic priorities

1 2 3 4 5 6

#### Risk movement:

New

#### Impact:

Severe

#### Probability:

Likely

#### How it impacts us

We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategies, including launching disruptive technologies, and therefore not target market opportunities or fail to win new contracts.

We may fail to effectively address the significant changes going on in the industry, e.g. price, flexibility of product or meeting increased requirements in relation to digital enablement.

Our product may not develop sufficiently to meet these market opportunities or may fail to meet customer requirements or needs, or these developments could have delays or cost overruns impacting on our market position, revenue or returns on investment.

#### What are we doing about it?

We continue to expand our focused sales and marketing capability to effectively deliver new sales and expand our customer base. We have continued to focus on digital offerings as an additional value-add to both new and existing customers to increase our sales potential.

We seek to identify new customers and to upgrade existing customers who would benefit from our new services.

We have professional, experienced project teams who focus on large-scale implementations and develop close relationships within the industries we serve. We are continuing to focus on expanding our partner network which will open up new sales channels and relationships. We critically review the commercial proposals made to new customers before we proceed and regularly assess our progress against the original sales proposal.

We assess all product investment projects through a thorough review of business cases before we approve major development programmes to ensure they meet our internal commercial targets and the requirements of the market.

### Risk B – High customer concentration

#### Link to strategic priorities

1 2 3 4 5 6

#### Risk movement:

New

#### Impact:

Severe

#### Probability:

Likely

#### How it impacts us

We have significant customer-concentration risk due to the size of our software implementation projects, the duration of them and the relatively low percentage of recurring revenues from maintenance contracts. Three customers each account for more than 10% of revenues, contributing 44% of our 2018 revenue, and ten customers account for 77% of our revenues in 2018.

#### What are we doing about it?

We continue to aim for alignment of key contractual terms across all new contracts which are designed to provide protection where possible against paused or terminated contracts.

We ensure that the Group is financially robust and resilient to economic downturns or project pauses by retaining cash reserves and collecting maintenance and license revenues in advance.

### Risk C – Socio, geo-political risk

#### Link to strategic priorities

1 2 3 4 5 6

#### Risk movement:

Slower sales conversion and lower revenues increases customer concentration

#### Impact:

Severe

#### Probability:

Likely

#### How it impacts us

Alfa derives all of its revenues from providers of asset finance.

The finance industry is sensitive to changes in economic conditions and unforeseen external events, such as political instability, inflation and other unforeseen events which may put pressure on profitability of the players in this market.

This in turn may decrease the amount they have to spend on improving their internal systems and processes or may extend the decision-making when contemplating a new asset finance system.

#### What are we doing about it?

We continue to focus on diversifying our customer base, both geographically and by asset type (i.e. automotive, equipment) but also by type of customer (i.e. banking, OEM or independent) which therefore have different and often contrasting risk characteristics. This mitigates some of this risk as there is often a degree of geographical cyclicalities in trends affecting the asset finance industry.

We aim to maintain our pipeline with the same mix to allow for a diverse portfolio in future years.

In times of uncertainty, regulation and focus on operational efficiency may increase and Alfa revisits the product roadmap and strategy to ensure that such changes become business opportunities in times of economic, political and social uncertainty.

We ensure that the Group is financially robust and resilient to economic downturns or project pauses by retaining cash reserves and collecting maintenance and license revenues in advance.

## Risk D – Risk to people, skills, location and working environment

### Link to strategic priorities

1 2 3 4 5 6

### Risk movement: ✓

The risk has decreased during 2018 due to the implementation of the People strategy.

### Impact:

High

### Probability:

Unlikely

### How it impacts us

Our business is very much dependent on our people as they are integral to the development and delivery of Alfa Systems.

There continues to be intense competition for engineers, both at the graduate level as well as highly experienced individuals.

Failure to attract, train and retain high quality individuals in our key operating regions may impact our ability to deliver implementations, maintain product quality and leading-edge functionality, manage customer relations and deliver on our strategic plan.

### What are we doing about it?

We continue to recruit graduates and experienced hires from a diverse number of sources, from varied backgrounds and ethnicity and with varied core skills.

We benchmark our remuneration levels against the relevant roles in the industry and aim to be competitive, either through base pay and, going forward, through share ownership in our business.

We have recently hired a Head of Human Resources, who will report to the COO and has responsibility for remuneration, development and succession planning with the Group.

We are implementing performance-related bonus structures to ensure that contribution is adequately compensated and to align personal objectives with those of shareholders.

Quarterly employee engagement surveys allow areas of improvement to be identified.

Annual career and succession planning is carried out to provide for continuity of operations.

We continue to focus on developing partnership programmes with large international service organisations to decouple our future growth from employee numbers.

## Risk E – Failure to deliver on our existing implementation or ODS business

### Link to strategic priorities

1 2 3 4 5 6

### Risk movement: < >

Same

### Impact:

Severe

### Probability:

Unlikely

### How it impacts us

Our business is dependent on continued delivery success – our customers depend on Alfa Systems to be the heart and lungs of their business and therefore failure to deliver timely and effective implementations and maintain sufficient levels of post-implementation support could harm our reputation and cause loss of customers.

Our implementations projects often involve a high degree of complexity and require a significant time investment from both Alfa and the client. Lack of appropriately skilled resource from the customer side can lead to failure to deliver timely and effective implementations.

### What are we doing about it?

Our implementations and ongoing development and support services are delivered side by side with the customer, which allows continuous interaction and real-time feedback.

We have implemented our faster implementation processes, focused on the automotive market, which is currently reaping significant rewards at one of our medium-sized implementations. We will develop similar processes to address the equipment market going forward.

We have set up user groups in the US and Europe to allow knowledge sharing and a forum to gather customer feedback on existing projects as well as future requirements.

Our development methodology is using 4-weekly time boxes – which serves to minimise surprises, development is undertaken on a continuous basis of 4-week sprints and therefore increases the efficacy of quality reviews and testing cycles.

We have project teams who are experienced in supporting our clients through last scale and complex implementations. We have developed flexibility within our workforce such that we are able to deploy team members to supplement the client's resources when required. We are also continuing to focus on expanding our partner network which will again provide opportunities to supplement the effort required by our clients during the implementation phase.



## Risk F – Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower cost of development in the future and to allow competitive technological and product development

### Link to strategic priorities

1 2 3 4 5 6

### Risk movement: < >

Same

### Impact:

High

### Probability:

Unlikely

### How it impacts us

As Alfa Systems is central to how an asset finance company operates, it is imperative that it continues to evolve to meet our customers', and prospective customers', ever-changing needs.

Such changes could come from increased regulation, adopting a new or more modern operating model or a desire for increased efficiency.

Failure to manage our product road map in light of customer demand could result in an inappropriate investment focus which does not meet our customers' business needs. This in turn could increase the risk that customers could look for alternative solutions, resulting in the loss of new or existing revenue streams, and could stall long-term growth prospects.

### What are we doing about it?

We have historically developed Alfa Systems based on requirements from our customers, and this continues to be our focus.

In 2018 our customer user-group forums have assisted in prioritising our product road map for the coming 12-24 months.

We have recently updated our development and performance testing procedures with the aim of increasing customer satisfaction and we will continue to innovate in this area in 2019.

Our one-product approach, which provides a common upgrade path for all our customers, allows all customers to take advantage of new functionality.

## Risk G – IT security and cyber risks

### Link to strategic priorities

1 2 3 4 5 6

### Risk movement: < >

Same

### Impact:

Severe

### Probability:

Unlikely

### How it impacts us

In recent times, IT security risk and cyber risk have increased and we are cognisant that no system, network or product is immune to the risk that outside elements may target Alfa with attacks, specifically designed to disrupt our business or harm our reputation.

Although we do not store our customers' data, a targeted attack on Alfa could adversely affect our customers' or future customers' perception of Alfa Systems. In addition, a security breach could impact our ability to operate our business, including our ability to continue to provide support to our customers.

### What are we doing about it?

Our internal IT and cyber security team continues to monitor key security and cyber risks, assess and monitor the control framework of our key technology suppliers (tier 3 and above) and undertake day-to-day monitoring of IT security incidents.

We implement continual improvements in our IT security environment and maintain an annual education and training programme for all staff.

We have completed our SOC2 (type I and II) audit and maintained our ISO 27001 compliance in 2018.

Where we provide pass-through hosting services, in third party environments, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.

## Risk H – Business interruption or continuity

### Link to strategic priorities

1 2 3 4 5 6

### Risk movement: ✓

Improvement in 2018 due to external reporting providing clean bill of health

### Impact:

High

### Probability:

Unlikely

### How it impacts us

We are at risk of disruption to our day-to-day operations if there is a disaster incident which causes our internal IT systems to fail or we do not have access to our office space.

A failure to be able to use key IT systems or access our infrastructure could lead to a failure to deliver maintenance services to our customers and therefore have a negative reputational impact.

### What are we doing about it?

We have an established, detailed and tested incident management procedure and escalation process. This has been supplemented by our Business Impact Analysis in 2018 which has been rolled out to all teams and operations globally.

We have a disaster recovery and business continuity plan which is reviewed and tested annually.

Our SOC2 reporting and complete failover testing has identified no significant required remedial actions.

# In accordance with the Code, the Board has addressed the prospects and viability of Alfa

### Assessment of prospects

Alfa is one of the leading providers of software to the asset finance industry and it is the Group's clear focus to continue with this competitive advantage and increase its relatively small market share in this space by:

- Building on its existing customer base, to ensure a diverse portfolio of customers while increasing recurring revenues;
- Continuing its excellent delivery track record;
- Continuously improving the functionality and performance of Alfa Systems; and
- Attracting and retaining the best people, whilst preserving the culture of Alfa.

During the year ended 31 December 2018, the Group generated profit before tax of £22.5 million and was cash-generative with net cash from operating activities amounting to £14.9 million. Taking into account the Group's current position and its principal risks and uncertainties as described on pages 33-35 of this Annual Report, the Directors have assessed the Group's prospects and viability.

### Assessment period and process

The strategy and business model as set out on pages 16 and 20 are central to an understanding of its prospects. These inputs provide a framework for the rolling three-year plan which is developed as part of the annual budget process and reviewed by the Board to assess the Group's prospects and viability.

The three-year timeframe for assessing both prospects and viability is considered to be appropriate due to the following:

- It is consistent with the Group's rolling three-year strategic planning process;
- Projections looking out further than three years become significantly less meaningful in the context of the fast-moving nature of the asset finance industry and the software and technology landscape; and
- It reflects reasonable expectations in terms of the reliability and accuracy of operational forecasting models.

The Group's prospects are assessed primarily through its strategic planning process. This process includes an annual review of the ongoing plan, led by the CEO through the Executive Committee, and all relevant functions are involved, including finance, sales, recruitment and resourcing and commercial.

The Board participates fully in the annual process and has the task of considering whether the plan takes into account appropriately the external environment, including technological, social and macroeconomic changes, as well as the risks and uncertainties of the business.

The output of the annual review process is a set of operational priorities, an analysis of the risks which could prevent the plan being delivered and the annual financial budget. Detailed financial forecasts which include profit, cash flow and key financial ratios have been prepared for the three-year period to December 2021.

The first year of the financial forecasts forms the Group's 2019 budget and is subject to a reforecast process each quarter. The second and third years are prepared in detail and are flexed based on the actual results in the first year.

### Assessment of viability

The Board's assessment of the Group's prospects, as described on this page, has been made with reference to current market conditions and known risk factors.

In addition to this, the Board also considered the events which were disclosed in the trading update made on 1 June 2018 (the "Trading Update") which announced a downgrade in expected revenues and profitability for 2018 and future years due to a significant software implementation project which had been paused, a slower than expected conversion of the sales pipeline and a postponement in geographical expansion of an existing customer's implementation project.

Given the Group's financial performance in 2018, and taking into account the impact of the events in the Trading Update, the Board considers that the key factors which could impact the delivery of the Group's financial objectives are as follows:

- Failure to deliver a significant implementation either in whole or on time;
- Failure to win new customers or upsell to existing customers;
- Failure to retain existing customers;
- Failure to retain key personnel; and
- A weakening of the Group's leading market position.



## Conclusion

It was determined that none of the individual risks would in isolation compromise the Group's viability. The Directors therefore reviewed the outputs of the alternative forecasts which were produced to model the effect on the Group's liquidity and solvency of very severe combinations of the principal risks and uncertainties affecting the business.

Scenario 3 is hypothetical and extremely severe for the purpose of creating outcomes that have the ability to threaten the ability of the Group. In the case of such a scenario crystallising the Company has many different levers it can pull to minimise the financial impact and maintain liquidity to continue in operation. When quantifying the expected financial impact and remediation time period for each of the risks on the viability of the Group, management assessed historical evidence of being able to take such actions and contractual terms of the relevant actions.

Revenue and profitability are clearly affected in this alternative scenario but the business remains cash-generative. The lowest cash balance envisaged was £4.9 million before mitigating items which would conserve a further £10-15 million cash, approximately, on an annualised basis.

Based on the assessment of prospects and viability opposite, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2021.

### 1

#### Scenario 1 – No conversion of sales pipeline

Includes a rapid deterioration in pipeline and therefore no new customer wins in a 12 month period and pressure on existing customers in the face of an impending financial crisis impacting rate increases. All recruitment plans remain in place.

### 2

#### Scenario 2 – Loss of significant customers across all business segments

Includes the termination of all significant maintenance customers, the termination of a significant ongoing implementation project and no ODS pipeline.

### 3

#### Scenario 3 – No conversion of sales pipeline and loss of significant customers across all business segments

Includes both a rapid deterioration in pipeline and therefore no new customer wins in a 12 month period and the termination of all significant maintenance customers, the termination of a significant ongoing implementation project and no ODS pipeline.

While the level of recruitment has been downgraded in the alternative model, expenditure in the areas of research and development, marketing and payroll has been held constant in the first 12 months.

# Revenue decreases led to an operating margin decrease to 32% in 2018, although costs overall decreased by £2 million



**Vivienne MacLachlan**  
Chief Financial Officer

Revenue

## £71.0m

(2017: £87.8m)

Adjusted EBIT margin<sup>(1)</sup>

## 32%

(2017: 47%)

Group results	2018 £'000s	2017 £'000s	Movement %
Revenue	71,038	87,777	(19%)
Implementation and support expenses	(18,924)	(20,971)	(10%)
Research and product development expenses	(16,341)	(13,963)	17%
Sales, general and administrative expenses	(13,457)	(19,076)	(29%)
Other operating income	66	62	6%
<b>Operating profit</b>	<b>22,382</b>	<b>33,829</b>	<b>(34%)</b>
Finance income	74	33	124%
<b>Profit before taxation</b>	<b>22,456</b>	<b>33,862</b>	<b>(34%)</b>
Taxation	(4,306)	(7,996)	(46%)
<b>Profit for the financial year</b>	<b>18,150</b>	<b>25,866</b>	<b>(30%)</b>

Revenue	2018 £'000s	2017 £'000s	Movement %
Software implementation	30,391	43,654	(30%)
ODS	23,919	20,831	15%
Maintenance	16,846	21,616	(22%)
<b>Revenue</b>	<b>71,157</b>	<b>86,102</b>	<b>(17%)</b>
(Loss)/gains on financial instruments	(119)	1,675	(107%)
<b>Group revenue</b>	<b>71,038</b>	<b>87,777</b>	<b>(19%)</b>

### Revenue

2018 was a challenging year, where revenue decreased by £16.7 million year on year, although we saw an increase in activity in the second half of the year, where revenue increased by 16% on the first half of 2018.

Excluding the impacts of gains and losses on derivative financial instruments, this represented an annual decrease of £14.9 million in revenue from customers, which was directly related to the pausing of a significant software implementation contract which contributed £5.3 million to the decrease, £9.2 million of decreases in other software implementation revenues and a £4.8 million decrease in maintenance revenue. This was offset by increases in ODS revenue of £3.1 million as we delivered a number of upgrades to existing customers.

The decline in revenue ultimately led to operating profit margin decreasing to 32% in 2018 from 39% in 2017.

Excluding the impact of these gains or losses on financial instruments and restating our 2017 revenue using 2018 exchange rates, our 2018 constant currency revenue decline was 16%, in comparison to an actual decline of 19%. Excluding the impact of gains and losses on financial instruments and using 2018 exchange rates, our 2017 revenue would have been £84.4 million.

### Software implementation

Software implementation revenue decreased by £13.3 million, or by 30%, to £30.4 million for the year ended 31 December 2018 (2017: £43.7 million). This was primarily due to £16.2 million of revenue in 2017 from completed implementations and the pausing of an ongoing software implementation by the midpoint of 2018.

This decline was offset partly by £3.3 million of new implementation customer revenue from our win of a multi-national customer in March 2018 and ongoing implementation revenue increasing by £3.9 million. With an average

(1) See "Key Financial Metrics" on page 42 for a reconciliation of Adjusted EBIT.

**“2017 was a challenging year where revenues decreased by £15m due to existing customer demand decreasing by £9 million following a historic year of deliver in 2017 and the pausing of a significant software implementation contract.”**

number of implementation customers of four during 2018 (2017: six), revenue per customer increased by 4% reflecting the maturity of our implementation portfolio. Average number of customers is calculated based on the number of months of implementation activities in each year.

During 2018 we recorded a £1.7 million reversal of deferred license revenue recognised in previous periods due to an increase in the expected days to complete the relevant implementation project. Although this decreased software implementation revenue in 2018, it is expected that the overall project value will increase due to the increased work effort in future periods.

In 2018, 88% of implementation revenue is denominated in US dollars (2017: 62%) and as such, were impacted by the strong USD in the first half of the year.

Moving into 2019 we have one software implementation customer due to complete its initial phase in mid-2019, two implementations which are due to complete in 2020 and one implementation customer which is expected to have a second portfolio go-live in 2019 with the final portfolio go-live scheduled for 2021.

	2018 £'000s	2017 £'000s
<b>Software implementation revenue</b>		
New	3,301	198
Ongoing	25,986	22,097
Paused	1,104	5,194
Completed	–	16,165
<b>Software implementation revenue from customers<sup>(1)</sup></b>	<b>30,391</b>	<b>43,654</b>
	2018 £'000s	2017 £'000s
<b>ODS revenue</b>		
New	9,069	2,163
Ongoing	11,661	12,833
Completed or non-recurring	3,190	5,835
<b>ODS revenue from customers<sup>(1)</sup></b>	<b>23,920</b>	<b>20,831</b>

(1) Revenue from customers is presented net of any losses or gains on derivative financial instruments. During 2018 we settled the final portion of our USD forward programme, with £0.1 million of losses recorded against revenue in the period (2017: £1.7 million gain).

#### ODS revenue

For a third year in a row, ODS increased with 2018 growth of 15% to £23.9 million in 2018, with the number of ODS customers increasing. This increase in customer numbers was due to one implementation customer which went live in late 2017 moving into ODS and a new customer where we are engaged to carry out implementation work pre agreement on contracts for license and maintenance.

New ODS customers contributed £9.1 million of revenue in 2018, an increase of £6.9 million. Our ongoing customer services included five upgrades at existing ODS customers.

Non-recurring revenue in 2018 included £2.5 million of settlement amounts on termination of right-of-use and maintenance contracts. As of the fourth quarter of 2018, one of our significant maintenance customers confirmed that they were terminating their agreement for maintenance and the right to use Alfa Systems. This timing was in line with expectations and resulted in a £2.5 million recognition of non-recurring revenue as there is no right of clawback within the contractual amounts payable until termination of the agreement in October 2019.

In 2017 non-recurring revenue reflected increased license amounts following increases in portfolio sizes of £3.2 million. 2017 completed revenue of £2.7 million related to upgrade work at two customers who exited the asset finance market or stopped their system upgrade work due to other business priorities.

#### Maintenance

Maintenance revenue decreased by £4.8 million, or 22%, to £16.8 million (2017: £21.6 million), primarily due to non-recurring catch up maintenance of £3.3 million paid in 2017 and a reduction of £2.6 million in maintenance due to contracts which will not renew in 2019. These movements were offset by an increase in ongoing maintenance contracts of £1.1 million. Annual rate rises on the underlying existing customer base were offset by the weakening of the US dollar on US dollar denominated maintenance contracts.

## Geographical overview

On a regional basis, 47% of the Group's revenue is generated from US-based customers (2017: 47%), 32% from UK customers (2017: 36%), and 21% from the Rest of World (2017: 17%).

### UK

UK revenue decreased by £7.8 million, or by 26%, to £22.8 million for the year ended 31 December 2018 (2017: £30.7 million) primarily due to the anticipated slowing in activity as recently upgraded or implemented customers move more than 12 months from go-live date. This contributed £3.4 million to the decrease.

There was a further decrease of £0.7 million due to a decline in non-recurring revenue from customers' year on year.

Non-recurring revenue in 2018 included £2.5 million of settlement amounts on termination of right-of-use and maintenance contracts. As of the fourth quarter of 2018, one of our significant maintenance customers confirmed that they were terminating their agreement for maintenance and the right to use Alfa Systems. This timing was in line with expectations and resulted in a £2.5 million recognition of non-recurring revenue as there is no right of clawback within the contractual amounts payable until termination of the agreement in October 2019. This customer contributed £2.5 million of maintenance revenue annually and £0.4 million of ODS revenue in 2018. No revenue is expected to be recognised from this customer in 2019. Offsetting this was non-recurring revenue in 2017 of £3.3 million which related to catch up amounts due to increases due to portfolio sizes or termination or settlement payments.

The remaining decreases of approximately £3.7 million were primarily due to decreased activity at a number of customers who continue to pay maintenance but are in mid-upgrade cycle.

### US

US revenue decreased by £7.4 million, or by 18%, to £33.0 million for the year ended 31 December 2018 (2017: £40.5 million) reflecting a pausing at one of our most significant implementation customers, coupled with the termination in late 2017 of a smaller portfolio customer who had chosen to exit the market. The paused contract contributed £5.3 million to the decline with the termination contributing £3.0 million in the year. Other implementation revenue, excluding the paused project, increased by £1.8 million was offset by ODS decreases of £0.9 million.

US revenues are derived from automotive customers (2017: 100%) with banking customers contributing 45% of segment revenue (2017: 38%), OEMs contributing 27% (2017: 38%) and independent customers 28% (2017: 14%) following the win of Carmax in 2017.

### Rest of World

Rest of World ("RoW") revenue is generated principally from Europe accounting for £12.4 million or 82% of revenue in 2018 (2017: £12.5 million) with the remainder generated in Australia and New Zealand. RoW revenue grew marginally to £15.2 million (2017: £14.9 million) as new implementation projects offset declines in projects completed in 2017. In 2018, RoW revenue is derived wholly from the equipment vertical, (2017: 89%).

Geographical split of revenue	2018 £'000s	2017 £'000s
UK	22,847	30,686
US	33,124	40,492
Rest of World	15,186	14,924
Revenue	<b>71,157</b>	<b>86,102</b>
(Loss)/gain on derivative financial instruments	(119)	1,675
<b>Group revenue</b>	<b>71,038</b>	<b>87,777</b>

## Operating profit

The Group's operating profit decreased by £11.3 million, or 34%, to £22.4 million in the year ended 31 December 2018, from £33.8 million in 2017, with the margin decreasing to 32% (2017: 39%). This decline predominantly reflecting the decrease in revenue in 2018 coupled with an increase in personnel costs, primarily in the first half of the year. This has been offset by lower IPO related share based payment expense and professional fees of £7.2 million in aggregate.

## Expenses by activity

Implementation and Support ("I&S") expenses decreased by £2.0 million, or by 10%, to £18.9 million (2017: £21.0 million). I&S expenses are predominantly personnel costs, accounting for 66% of total activity costs. In the year, average I&S headcount remained stable with average headcount of 110, with personnel related costs decreasing by £2.1 million. This decrease was as a result of the geographical mix of personnel changing. In addition to the decrease in personnel related costs, travel costs decreased by £0.2 million following the pausing of one of our significant software implementations while there has been a £0.3 million increase in overhead recharges predominantly due to increased property costs.

Research and product development ("R&PD") expenses have increased by £2.4 million to £16.3 million (2017: £14.0 million). 91% of R&PD expenses are personnel related costs and during 2018, our development efforts centred primarily on internal investment projects to assess feasibility of modularisation or progressing our digital gateway programme. In 2018 we capitalised £0.4 million in relation to our digital developments. In 2018, engineers increased to 152 from 142 in 2017 with average costs per engineer increasing by 12% as a result of wage inflation and benchmarking of salaries to the market.

Sales, general and administrative ("SG&A") expenses decreased by £5.6 million, or by 29%, to £13.5 million (2017: £19.1 million) which reflected a decrease in 2017 IPO related share-based payment expense and professional fees of £7.4 million. Excluding these exceptional items, SG&A expense increased by £1.7 million, or by 15%, from £11.7 million in 2017.

This increase reflects an increase in personnel costs of £2.4 million as average personnel numbers increased to 65 from 49 in 2017 as we bolstered our back office capability and grew our sales and marketing team, offset by a decrease in foreign exchange losses of £1.6 million. Additionally we incurred £0.3 million of increased depreciation and amortisation charges and £0.3 million of additional share-based payment expense in relation to our 2018 LTIP awards to 90 employees.

### Adjusted operating expenses, excluding 2017 non-recurring items

Although costs decreased year on year, excluding 2017 non-recurring pre-IPO share-based compensation and IPO related expenses, operating expenses increased by £1.8 million. This increase was partly due to £2.7 million increase in personnel related expenses as our average headcount increased in the second and third quarters, with average headcount of 327 for the year in comparison to 301 in 2017. In addition to this property expenses increased by £0.9 million due to an expansion of our London base from January 2018. These increases were offset by foreign exchange differences of £1.6 million.

Expenses by activity	2018 £'000s	2017 £'000s	Movement %
Implementation and support expenses	18,924	20,971	(10%)
Research and product development expenses	16,341	13,963	17%
Sales, general and administrative expenses	13,457	19,076	(29%)
Other operating income	(66)	(62)	7%
<b>Total operating expenses</b>	<b>48,656</b>	<b>53,948</b>	<b>(10%)</b>
<b>Operating expenses excluding 2017 Pre-IPO share-based compensation and IPO related expenses</b>	<b>48,656</b>	<b>46,548</b>	<b>5%</b>

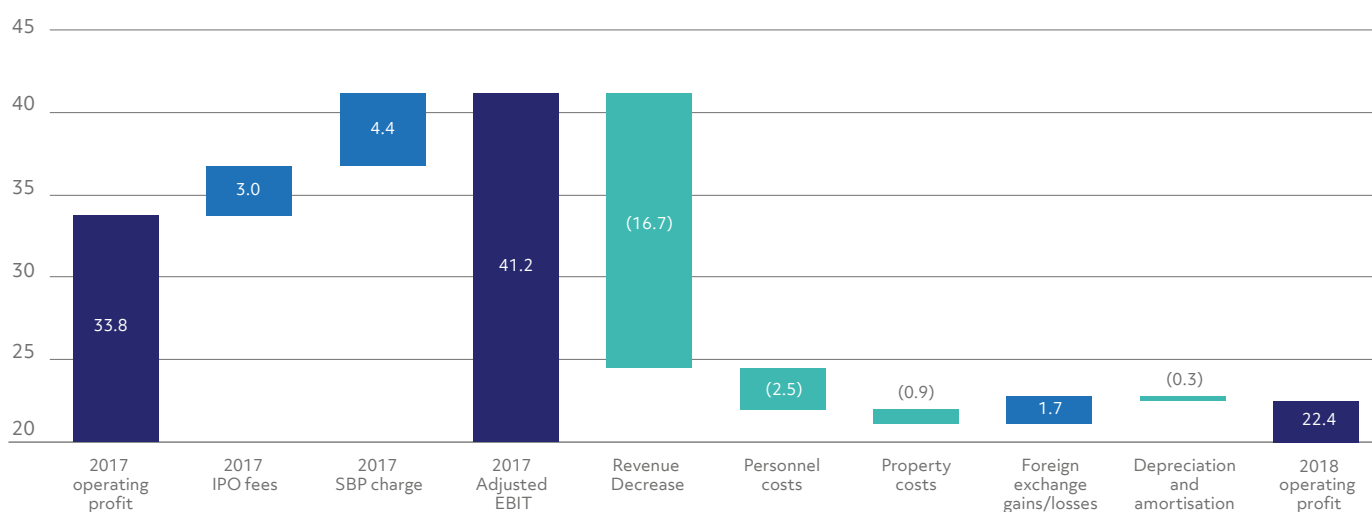
### Profit after taxation

Profit after taxation decreased by £7.7 million, or by 30%, to £18.2 million (2017: £25.9 million). The effective rate of taxation in 2018 decreased to 19%, (2017: 24%) due to non-deductible expenses such as share-based payment expenses decreasing in 2018. Excluding exceptional items, the adjusted effective rate of taxation in 2018 was 19% (2018: 19%).

### Tax policy

The Group accounts for tax matters in accordance with the Group's code of conduct and ethical guidelines. It is the Group's obligation to pay the amount of tax legally due and to observe all relevant and applicable rules and regulations in the jurisdictions in which it operates. While meeting this obligation, the Group also has an obligation to its shareholders to plan, manage and control tax costs. The Group seeks to achieve this by conducting business affairs in the way that is efficient from a tax perspective, such as implementing a robust transfer pricing policy and claiming available tax credits and incentives. The Group is committed to building a constructive working relationship with the tax authorities of the countries in which it operates.

### Operating Profit Bridge – 2017 to 2018 (£m)





## Key financial metrics

The Group uses a number of key financial metrics which are not specifically defined by IFRS but which management use as key measures to assess financial performance. Adjusted EBIT and Adjusted Earnings are utilised by management to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of the business. Adjusted Earnings also includes income tax and interest received, which affect shareholder value and in-year return.

The most directly comparable measure of Adjusted EBIT and Adjusted Earnings is our profit from continuing operations. Billings and Operating Cash Flow Conversion are monitored by management as liquidity measures. The most directly comparable measure of Operating Cash Flow Conversion is cash generated from operations as a percentage of operating profit.

These measures are not directly comparable to similarly referenced measures used by other companies and, as a result, investors should not consider these performance measures in isolation from, or as a substitute analysis for, our results of operations as determined in accordance with IFRS.

### New customer revenue

New customer revenue comprises revenue generated by customers who have not previously generated revenues in the applicable segment in the prior period.

### Adjusted EBIT

Adjusted EBIT, defined as operating profit excluding pre-IPO share-based payments and IPO-related costs, decreased by £18.8 million, or 46%, to £22.4 million in 2018 (2017: £41.2 million). Adjusted EBIT margin in 2018 decreased to 32% (2017: 47%), reflecting a decline in revenue of £16.7 million and an increase in personnel related costs of £2.2 million. Excluding the impacts of currency, Adjusted EBIT on a constant currency basis decreased 27%.

### Constant currency

We provide percentage increases or decreases in revenue or Adjusted EBIT to eliminate the effect of changes in currency values as we believe it is helpful to the understanding of underlying trends in the business. When trend information is expressed herein "in constant currencies", the comparative results are derived by re-calculating non British pounds denominated revenue and/or expenses using the average monthly exchange

rates of this year and applying them to the comparative period's results, excluding gains or losses on derivative financial instruments. The average rates are as follows:

	2018	2017
USD	1.3355	1.2887
Euro	1.1303	1.1414
Swedish Krona	11.5953	11.0001
New Zealand dollar	1.9311	1.8140
Australian dollar	1.7862	1.6811

	2018 £'000s	2017 £'000s	Movement %
Revenue – as reported	71,038	87,777	(19%)
Revenue – constant currency	71,157	84,436	(16%)
Adjusted EBIT – as reported	22,382	41,229	(46%)
Adjusted EBIT – constant currency	22,501	38,333	(41%)

	2018 £'000s	2017 £'000s
<b>Adjusted EBIT</b>		
Profit for the period	18,150	25,866
Adjusted for:		
Taxation	4,306	7,996
Finance income	(74)	(33)
Share-based compensation	–	4,400
IPO-related expenses	–	3,000
<b>Adjusted EBIT</b>	<b>22,382</b>	<b>41,229</b>

	2018 £'000s	2017 £'000s
<b>Operating Cash Flow generation</b>		
Cash generated from operations	20,954	28,853
Adjusted for:		
Settlement of derivative financial instruments and margin calls	(108)	(2,683)
Capital expenditure	(1,638)	(663)
IPO-related expenses excluded from Adjusted EBIT	–	3,000
Operating Free Cash Flow	19,208	28,507
Adjusted EBIT, including pre-IPO expenses	22,382	41,229
Operating Free Cash Flow Conversion	86%	69%

### Billings

These are amounts invoiced in year. This differs from revenue as defined by IFRS due to the release of deferred income in relation to license payments and maintenance agreements and accrued income in relation to work in progress. Billings decreased by £10.3 million, or 13%, to £66.5 million (2017: £76.8 million), which was £4.5 million less than revenue recognised. Deferred license recognised in 2018 was £4.3 million.

### Operating Free Cash Flow Conversion

Operating Free Cash Flow conversion increased to 86% (2017: 69%) due to collection of a license payment offset by increases to accrued income for amounts not invoiced until 2019 as per contractual agreements.

## Funding and liquidity

At 31 December 2018 the Group had cash reserves of £44.9 million (2017: £31.3 million). Cash balances were denominated predominantly in GBP and US dollars, being 46% and 38% of the total cash and cash equivalents balance respectively. The increase in cash reserves reflected cash from operations offset by investment in internal systems and other capital expenditures.

### Net cash generated from operating activities

Net cash generated from operating activities decreased by £4.3 million to £15.0 million during year ended 31 December 2018 (2017: £19.3 million) primarily due to the decrease in cash generated from operations of £7.9 million to £21.0 million, offset by a reduction in settlement of derivative financial instruments of £2.6 million and a decrease in tax paid of £1.0 million.

The decrease of £7.9 million in cash generated from operations was primarily due to the decrease of £13.4 million in operating profit, after non-cash items of share-based payment expense, depreciation and unrealised gains and losses on derivative instruments, offset by a positive movement in working capital of £5.5 million. Movements in working capital decreased during 2018 to a cash outflow of £2.7 million (2017: £8.2 million outflow).

Trade and other receivables in 2018 represented an outflow of £1.2 million. This movement is made up of a £2.2 million decrease due to earlier invoicing of fourth quarter fees for some customers, while accrued income increased by £3.7 million. Accrued income represents unbilled work in progress in relation to our ODS customers and certain settlement amounts where there is contractual agreement to invoice in 2019. In relation to customers which had accrued income balances at the year end, £10.8 million had been invoiced and £3.8 million collected at 28 February 2019.

Movement in contract liabilities relates to deferred license fees and maintenance amounts. The outflow in 2018 decreased to £1.4 million due to a decrease in deferred maintenance amounts due to our paused contract and a change in maintenance year of one of our ongoing implementation customers. Liabilities in relation to software implementations

	2018 £'000s	2017 £'000s
<b>Cash flow</b>		
Cash generated from operations	20,954	28,853
Settlement of derivative financial instruments and margin calls	(108)	(2,683)
Income taxes paid	(5,846)	(6,888)
Net cash generated from operating activities	15,000	19,282
Net cash (used in)/generated by investing activities	(1,564)	26,413
Cash used in financing activities	–	(60,743)
Effect of exchange rate changes	219	49
<b>Movement in year</b>	13,655	(14,999)
Cash and cash equivalents at the beginning of the year	31,267	46,266
Cash and cash equivalents at the end of the year	44,922	31,267
	2018 £'000s	2017 £'000s
<b>Movements in working capital</b>		
Movement in trade and other receivables	(1,237)	252
Movement in trade and other payables and provisions (excluding derivative financial instruments and contract liabilities)	(114)	(1,148)
Movement in contract liabilities	(1,379)	(7,300)
<b>Movement in working capital</b>	<b>(2,730)</b>	<b>(8,196)</b>

remained at £1.6 million due to license revenue recognised in the year being offset by license fees collected in the year of £4.1 million.

Net cash flows used in investing activities of £1.6 million in year ended 31 December 2018 related to investment in internal systems and other computer equipment. We capitalised £0.4 million of internally generated intangible assets in relation to the development of our digital offering. Net cash flows generated from investing activities of £26.4 million in year ended 31 December 2017 related to the receipt of a related party loan receivable from the ultimate parent company of £27.0 million, offset by £0.7 million of capital expenditure.

Net cash flows used in financing activities were nil in the year ended 31 December 2018. In the year ended 31 December 2017, net cash flows used in financing activities of £60.7 million related to pre-IPO dividends paid to the ultimate parent company.

### Currency hedging

The Group had entered into US dollar forwards in 2016 which have been fully settled by 31 December 2018. In 2018, overall currency movements were such that the impact of these arrangements was a loss of £0.1 million (2017: gain to revenue of £1.7 million).

### Capital expenditure and contractual obligations

The Group's capital expenditure is primarily invested in the UK and invested £0.6 million in equipment

(2017: £0.7 million) and £0.6 million on a new HR and finance system and capitalised £0.4 million of internally generated digital capability assets.

At 31 December 2018, the Group had £19.6 million of operating leases contractually agreed, of which £2.5 million is payable within 12 months of the year end, £9.3 million in 1-5 years and £7.9 million after 5 years.

### Distributions to shareholders

In 2018 there were no distributions to shareholders. In February and May 2017, dividends of £60.7 million were declared and paid to the ultimate parent company prior to the IPO. No final dividend has been declared.

### Related party transactions

The ultimate parent undertaking is CHP Software and Consulting Limited (the "Parent"), which is the parent undertaking. There was no trading between the Group and the Parent. There are no balances outstanding from the Parent at 31 December 2018 and 31 December 2017.

### Subsequent events

There have been no reportable subsequent events since the balance sheet date.

### Vivienne Maclachlan

Chief Financial Officer  
7 March 2019



# Our CSR

**In 2018 in order to optimise our positive impact on how we do business and operate, we base our approach on two pillars: Our team and Our communities.**

Our team includes the more than 300 employees we have globally but also includes the partners and contractors we work with. We are committed to having a diverse and open team environment where our values underpin everything we do.

Within our communities we have focused on the impact we have with the people we interact with on a day-to-day basis – being our customers and our suppliers – but it also includes the communities, economy and environments in which we live and operate as well as our shareholders and other stakeholders.

## **Deciding what we focus on**

We have a group of Alfa team members who have volunteered to sit as our CSR leadership team. They meet regularly to understand the issues that matter to them and to survey and respond to the wider Alfa team's thoughts and views – so that the decisions we make as a Group are informed by the things that really matter to our customers, suppliers, investors, team and national and local government. That understanding helps us to operate sustainably and responsibly.

In early 2018, in readiness for the next phase of our CSR strategy, we reviewed our process to identify the five core issues that we wanted to focus on. These were defining our purpose and values, making a difference in our communities, decreasing our impact on the environment and investing in innovation and succession planning.



## Summary of what we have achieved in 2018

	Area	Commitment	2018 performance
Our team	Diversity	To support and promote diversity across the whole company and to hold four internal events on these issues.	<ul style="list-style-type: none"> <li>The Alfa Inclusion Community hosted events to address:               <ul style="list-style-type: none"> <li>Diversity issues including ageism;</li> <li>Introversion and Extraversion;</li> <li>Religion and culture; and</li> <li>Disability awareness.</li> </ul> </li> </ul>
	Training	To provide opportunities to expand technical knowledge as well as soft skills and personal development.	<ul style="list-style-type: none"> <li>Wide range of internal and external training available.</li> <li>Offering of tailored training experiences and development.</li> </ul>
	Culture	To create a great place to work, collaborating and sharing ideas, knowledge, expertise and networks.	<ul style="list-style-type: none"> <li>Alfa has continued to foster a collaborative and innovative environment via monthly innovation afternoons, Hackathon event and social responsibility events.</li> </ul>
	Internal communications	To continue to provide transparent and clear communications.	<ul style="list-style-type: none"> <li>Quarterly company meetings at which company news delivered to and discussed by all employees globally.</li> <li>Town Hall meetings.</li> <li>Directors' Questions and Executive blogs.</li> <li>Employee engagement surveys.</li> <li>Daily communications on our company intranet space.</li> </ul>
	Our charities	To offer our time and expertise as well as financial donations.	<ul style="list-style-type: none"> <li>Our fundraising and volunteering initiatives supported charities representing a variety of causes.</li> <li>Events included sponsored runs, cycles, and a gardening space clean-up for people with disabilities, as well as individual fundraising efforts which Alfa has matched.</li> </ul>
Our communities	Our next generation	To offer support, advice and connections to young people who are just starting out in the business world.	<ul style="list-style-type: none"> <li>Alfa employees engaged in a number of initiatives in 2018 to help inspire the next generation:               <ul style="list-style-type: none"> <li>Bi-monthly mentoring programme at a local school.</li> <li>Volunteering with a charity which helps young people discover and realise their creative potential.</li> <li>Our internal graduate programme.</li> </ul> </li> </ul>
	Our customers	To actively listen to feedback, react and respond to it and always follow through on our promises.	<ul style="list-style-type: none"> <li>The Alfa User Group was re-launched in 2018 – in Europe and North America.</li> </ul>
	Our suppliers	To work with suppliers who source ethically and whom we can trust to continue to do so.	<ul style="list-style-type: none"> <li>Focus on ensuring our suppliers practice sustainability.</li> </ul>

# Our team

## Our diversity

In return for their commitment, we strive to be a great employer, promoting diversity and inclusion, treating our Alfa team members equally and fairly and enabling them to grow professionally and personally. We have 300+ team members across the UK, Europe, US and in Australasia.

**Recruitment** – We have strong recruitment processes that ensure we employ the best potential talent so that we can fill roles from within the business. This year we recruited 31 staff members. We have filled most of our senior management vacancies via internal promotion during the year.

We welcome and fully consider all suitable applications for employment, irrespective of gender, race, ethnicity, religion, age, sexual orientation or disability. All employees are eligible to participate in career development and promotion opportunities. Support also exists for employees who become disabled to continue in their employment or to be retrained for other suitable roles.

As in previous years, we successfully retained and developed our talent during 2018 whilst strengthening our teams with the appointment of experienced and talented individuals.

**Disability** – As part of our awareness of disability and highlighting others' needs, we took part in the Divers Matters' wheelchair challenge in November 2018 where a number of our team spent the day in wheelchairs to highlight the daily obstacles that wheelchair users experience. Divers Matters is a specialist training consultancy which was set up to train organisations and people to approach diversity and disability with confidence and strength.

## Staff retention

# 88%



**Diversity** – Following the adoption of our diversity policy in early 2018, diversity of team continues to be fundamentally important to us – as a people business with many of our Alfa team working as part of a customer team, we want our workforce to reflect the customers and communities we work with. In 2019, we have more than 50 nationalities speaking more than 30 languages.

**Gender** – While we have 25 per cent female representation across the Alfa team, we have 29 per cent of female staff at a level which directly reports into the Executive Committee, which also has female representation of 29 per cent. We continue to look to broaden the diversity of staff at other levels and in all characteristics.

***Our focus is on creating an environment where each and every member of the team can be themselves and can achieve their best at work.***



## Gender pay gap – April 2018

The Alfa gender mean pay gap for 2018 fell to 13.1% (2017: 15.7%) with the mean bonus gap dropping to 19.9% from 22.3% in the prior period.

While it is positive that the Alfa gender pay gap is lower than the UK average and the tech industry generally, the issues at play are complicated and we believe it is much more important to focus on the actions we can take to continue to drive equality and inclusivity across our entire team rather than focus just on the results of the gender pay calculations.

We want to increase the diversity of our entire population, including more equal representation of women, as we believe this leads to a better-engaged, more effective team which will assist us in delivering on our strategy. Our aim is to create a supportive, inclusive environment where all team members are able to discuss challenges and achieve our goals in a respectful manner.

By embracing our differences, we will be able to attract, retain and ultimately inspire an engaged workforce and provide a better service to our customers.

***“While the overall gap has decreased and it remains under the industry average, we are excited that there is more that we can do to support the creation of diverse and balanced teams throughout the Alfa organisation.”***

Gillian Bray, Head of HR

Gender Pay Gap	2018	2017	2018	2017
Statutory	Median Pay Gap	Median Pay Gap	Mean Pay Gap	Mean Pay Gap
Alfa	14.6%	15.0%	13.1%	19.3%
UK	11.8%	9.1%	14.3%	14.1%
Tech sector	14.8%	18.4%	18.5%	17.4%

Alfa team – Female representation	28 February 2019	5 March 2018	5 March 2017
PLC Board	33%	33%	33%
Senior leadership	24%	28%	29%
UK Alfa team	24%	23%	25%
Alfa team worldwide	26%	25%	26%

## What we did this year to address the Gender Pay Gap

- Continue to encourage more women into the tech industry through the organisation and sponsorship of women-specific events, support of STEM students at university level and also women looking for a career change;
- Further develop and promote family-friendly policies such as flexible working and shared parental leave;
- Encourage more staff to take part in our inclusion and diversity initiative and communicate events and topics;
- Hold unconscious bias training for senior management and those in the recruitment process;
- Benchmarking of pay by grade against sector or industry
- Setting out documented career paths for engineers and implementers
- Maternity leave extension and increase to maternity package
- Continued our formal mentoring scheme and employee network for high-performing women in the middle of the company in order to develop and hone their leadership skills, enabling them to move more quickly into senior roles.

**There are a number of specific steps which could improve our gender balance which we expect will positively impact the gender pay gap over time, including**

- |   |  |
|---|--|
| <b>1</b> Driving better gender balance and diversity at all levels in the organisation                | <b>5</b> Increasing diversity and inclusion content in induction training                                |
| <b>2</b> Developing female talent to strengthen the leadership pipeline                               | <b>6</b> Weaving unconscious bias and inclusive leadership through our development at all levels         |
| <b>3</b> Supporting families, flexibility and retaining female talent                                 | <b>7</b> Extending support for people taking family leave through mentoring                              |
| <b>4</b> Continuing to support women entering the tech industry through our participation in STEM etc | <b>8</b> Encouraging an environment where everyone has the opportunity to work flexibly (not just women) |



Our culture

We consider our culture at Alfa to be one of our greatest strengths, and something which results in high employee retention. Pivotal to this culture is our commitment to promoting innovation across all levels and roles within the company.

With numerous events throughout the calendar year focused on development and invention – such as our innovation afternoons and annual Hackathon –

we take every opportunity to encourage collaboration and new thinking both inside and outside of employees’ day to day jobs.

Our culture is of course also underpinned by our dedication to diversity and inclusion. Employees from across the board at Alfa work hard to facilitate a safe and enjoyable work environment for all colleagues, globally, enhancing output and morale.

*Our people bring our values to life. Their talent, commitment to our customers and pride in Alfa are key to our long-term growth.*

Our training

We have long recognised the benefit of a great coach or mentor, especially in relation to an individual’s progression. We have fostered a culture whereby our senior leadership openly share their experiences and advice with any of our team who approaches them.

Our new approach to senior management succession planning has involved setting out career paths and roles and responsibilities throughout the Alfa team. This is the first step in assisting the leadership team with the identification of possible career paths for high potential employees and engaging with them about their own aspirations and development needs. These discussions took place in the second half of 2018 and is the base for a wider high-performance development initiative.

Following the development of the career paths, we have started the process of mapping out structured development frameworks for the wider Alfa team but this is a project which will continue into 2019 as it underpins how we operate, how we assess and develop and also how we will remunerate. This project has the sponsorship of the Executive Committee and the Board and will revolutionise the way we support the careers of the Alfa team.

Our internal communication

Listening to our people continues to be key in understanding our team engagement. We have a quarterly internal survey which allows formal feedback to be gathered and shared with our Executive Committee and Board. The dedicated team who review and assess the results are tasked with responding formally to the results and delivering actions against the feedback received.

We use our intranet to publish leadership blogs and to canvas views and comments on new strategic objectives and aims, which forms a very valuable real-time communication channel.

In 2018, communications have been further enhanced by the greater use of audio-visual technology. Briefings were held regularly throughout the year in order to keep employees updated on key business issues and results.

From a reward perspective, we will look to offer employees the opportunity to share in the growth and profitability of the Company as we believe this further engages our people. This is evidenced by the availability of a number of employee share plan schemes.

	2018	Last 3 years
Would recommend Alfa to a friend as a place to work	66%	80%
I am happy with Alfa’s strategy and business goals	45%	64%
Alfa has an excellent atmosphere and culture	73%	80%
Response rate	62%	53%



A group of Alfa volunteers took part in the Wheelchair Challenge to raise awareness about what it’s like to work in an office as a wheelchair user.

**Wheelchair Challenge**

Championed by Diverse Matters, the Wheelchair Challenge is an exciting movement, which is now in its third year, involving volunteers in UK organisations in the legal, banking, financial and insurance world, who wish to give visibility to disability in the workplace.

## Our community

2018 was a year where the Alfa team continued to give time and energy to supporting initiatives in our local communities, providing resources and raising funds for organisations across the globe.

- The Diana awards where we carried out 12 sessions in local schools;
- BigYGroup Founding partner – we supported BigYGroup which aims to improve working opportunities for young people;
- Partnership with Ministry of Stories: new volunteers trained by MoS at Alfa's offices and volunteering carried out at the Ministry
- Mind – Alfa employees spent a day building accessible flower beds in Edmonton for the charity Mind;
- Took part in City Giving Day (riders in Tour de City challenge);
- Give as you Earn scheme – this was implemented across Alfa's UK team and we received a Gold Award from Payroll Giving;
- Held a number of food bank drives throughout the year in both the UK and the US with a campaign for Christmas gift giving and reverse Advent Calendar in December;
- Macmillan Coffee mornings;
- Hygiene Kit Build – in the US we provided 400 kits to support the Hygiene Kit Build;
- National AIDS Trust – held a book sale to raise funds;
- Matching contributions – we held various activities throughout the year to raise money for Cancer Research UK including participating in the British 10K, Cycle from Land's End to John O'Groats, Royal Parks Half-Marathon; and
- Supported other charities such as Unicef, For Jimmy, 28 Too Many, Woodland Trust.
- During 2018 Alfa team members raised around £25,000 for charitable causes. Our 2019 crowd-sourced charity partner will be Alzheimer's Society and we continue our partnership with United Way in the US.

## Our customers

During 2018 we reinvigorated our user-group forums, in both Europe and the US, inviting customers to lead the discussion around what they felt were the challenges in the industry, how they were reacting to change and what they felt were the key priorities for the coming year.

## Our suppliers

**Modern slavery 2018** – In 2019 we have continued to train our team members involved with procurement, are a Living Wage employer and have strengthened controls around selection and assessment of new suppliers.

## Our next generation

It is very important to us to continue encouraging and supporting the next generation and we have continued our long-standing relationship with Women in Tech, an organisation which provides guidance and support to women either seeking to enter or operating in the technology sector.



An Alfa employee gave a talk to colleagues about HIV for World Aids Day.

## Energy and carbon

We all have a role to play in reducing our impact on the environment and while we believe our carbon footprint is relatively small as a company in the technology sector, we know that it is small things which will protect the health of the environment in which we live. We are committed to reducing, reusing and recycling as much as possible in our offices across the world.

The Greenhouse Gas Emissions ("GHG") disclosures for the Group have been shown for the year ended 31 December 2017 and 2018, which is the first year they are presented. The calculation of the disclosures has been performed in accordance with the Greenhouse Gas Protocol Corporate Standard and using

the UK Government's DEFRA conversion factor guidance in relation to 2018. The Alfa operations that primarily release GHG include the usage of electricity at our leased offices and business travel. The data presented covers our leased headquarters in London, assuming an average consumption for the property type and area leased. We do not select or control the provision of electricity. We have chosen to show the intensity ratio measured as tonnes of CO<sub>2</sub> equivalent per £ million of revenue as it reflects the impact of the growth of the business on the immediate surroundings.

We have kick-started our Cycle to Work scheme in early 2019 and look forward to welcoming new participants in the coming months.

	2018 tCO <sub>2</sub> E	2017 tCO <sub>2</sub> E
Usage of fuel and operation of buildings	153	140
Electricity purchased for own use	–	–
Air travel	737	550
Total	890	690
Revenue (£ million)	71.0	87.8
Intensity ratio – tCO <sub>2</sub> E per million of revenue	12.5	7.9



***“Good corporate governance is a key element of how we do business and the clear definition of our purpose and values in 2018 will only serve to strengthen the effective governance foundations currently in place.”***

**Andrew Page**  
Chair of the Board and Founder

During 2018 and following the trading update in June 2018, the Board has undertaken a comprehensive assessment of certain aspects of the business, specifically the sales pipeline, commercial terms with customers and related risk assessments. This has resulted in some changes to management committees and a strengthening of focus on product investment to support the strategic agenda.

The Board's Committees, focus and assessments are contained on pages 67-73, 74-75 and 63-66 of this Governance Report and the strategy is laid out in more detail on pages 22-25 of the Strategic Report.

### **Board activities and shareholder consideration**

We have spent a considerable amount of time in 2018 considering the strategic direction of the company and the key investments we need to make to remain in a leading position in an ever-changing market. We have focused on ensuring we have the right people in the right place operationally to ensure we remain strong and relevant to the markets in which we operate and to provide the foundations for growth as we look to return to the margins we have enjoyed in the past.

### **Risk and controls**

The progress made on our risk identification, management and risk appetite understanding in prior years has helped the Board in its decision-making and in having focused discussions and debate.

In 2018, following the appointment of KPMG as our internal auditors, we have reviewed their reports in relation to company expense claims, which resulted in the introduction of a new expense policy and we expect to receive a report in relation to the review of financial controls carried out recently.

Our implementation of a new HR and finance system in 2018 has greatly assisted with the automation of controls and review processes, increasing the amount of real time data available in the business whilst providing a strong foundation for GDPR compliance. We look forward to overseeing the increase in automation of controls in 2019 and extending the remit of this system to more key processes and controls.

The Board has spent time assessing the market and the potential impact of Brexit on the business and market in general. It continues to assess the implications of leaving the European Union and the impact of currency movements on the business and customer base.

We have also undertaken reviews of our cyber environment to ensure that we have appropriate data and information governance processes and controls, proactive security and incident management processes across the business.

### **Purpose and values**

During the year, the company has undertaken a purpose and values project to clearly define the ultimate purpose of the business and to enunciate the values it holds at the core of everything Alfa does. The purpose and values defined by the project are stated on page 9 of this report, and moving into 2019 there is a process underway to embed these within the business, the sales process and all policies and procedures. Additionally, these will underpin performance evaluations and career promotion assessments going forward.

### **Talent, development and succession**

In addition to the strategic debate, the Board and Nomination Committee also focused on ensuring we are identifying the right talent in our business to support future growth. We have initiated a top talent support programme and look to establish a training and development plan to support our team members as they continue on their Alfa career path trajectory. Moving into 2019, as part of our work to prepare for the updated Corporate Governance Code, we will be looking to strengthen the communication channels from the team to the Board, whilst maintaining the existing good communication channels across the team.

As announced on 23 January 2019, Richard Longdon, our Senior Independent Director, has notified the Board that he will be retiring following the annual general meeting (“AGM”) in April 2019 after nearly two years as a Non-Executive Director. In accordance with the process established by the Board, Karen Slatford, will become the new Nomination Committee Chair and she and the other members of the Nomination Committee (excluding Richard) will oversee the process and search for a new Non-Executive Director.

### **Board oversight and monitoring**

The Audit and Risk Committee has played a key role during 2018 in ensuring that there was appropriate challenge and governance around the accounting treatment for the application of the new revenue standard and ensuring robust risk management, controls and assurance processes are in place. The Committee continues to closely monitor the management of our cyber processes and business continuity plans for our global operations. The Committee's activities, considerations and judgements are set out on pages 69-71.

In line with the requirements of the Corporate Governance Code, the Board has conducted an internal evaluation of the Board's activities, the results of which are laid out on page 65 of this Governance Report.



## The Governance Report's Key Features

The following pages set out a summary of the Board's role, performance and oversight, alongside the key activities and discussions. There is a summary of Directors' independence, effectiveness and our progress made and plans for the future.

We have used the following key areas to lay out the activities of 2018:

- A. Board leadership and company purpose
- B. Divisions of responsibility
- C. Composition, succession and evaluation
- D. Audit, risk and internal controls
- E. Remuneration

The code – the UK Corporate Governance Code 2016 (the "Code") is the standard against which we are required to measure ourselves. A copy of the Code is available on the Financial Reporting Council's website. Additionally, we have read and are planning for the application of the amendments to the code, contained within the UK Corporate Governance Code 2018 (the "Amended Code") and where appropriate we make reference to changes or updates planned in respect of this.

### Statement of Corporate Governance

The Directors consider that the Company has been compliant with the Code provisions as applied during the period since listing, other than the exception laid out below:

Code provision A.3.1: Our Chairman was not independent on appointment as he had previously been the Chief Executive Officer and is the controlling shareholder. On listing, the Board had unanimously supported the appointment of the Chairman with the purpose of ensuring continuity with customers and commercial partners. This appointment also allows the Company to retain his experience and expertise, all skills required in the role of an Executive Chairman, and ensures continuity with customers and commercial partners.

Governance area	Summary
<b>Independence</b>	More than half of our Board, excluding the Chairman, is independent. The composition of all Committees complies with the Code and Amended Code. Our Senior Independent Director is Richard Longdon. Following his retirement at the 2019 AGM, Karen Slatford will take up the position of Senior Independent Director.
<b>Accountability</b>	Clear separation of duties between the Chairman and CEO exists and all Directors stand for re-election annually.
<b>Evaluation</b>	An internal evaluation of the performance of the Board and its Committees has been carried out during the year.
<b>Attendance</b>	The Directors have all attended an acceptable level of Board and Committee meetings.
<b>Experience</b>	The Directors have the requisite experience for sector, financial and governance.
<b>Auditor independence</b>	Our external auditor has been in role for three years and there were no non-audit services provided in the year, other than interim review services.
<b>Internal audit</b>	We appointed an internal audit provider in 2017 and details of the function and services received are set out in this report.
<b>Remuneration</b>	Our Directors' Remuneration Policy was approved at the AGM in April 2018 and will apply until 2021 unless changes are proposed before then.

## An initial assessment of the impact of the Amended Code

Due to the non-compliance with Code Provision A.3.1 of the Code, we do not expect to be able to comply with principle F of Section 2, or provision 9 of Section 2 of the Amended Code, issued in July 2018, which will be applicable from 1 January 2019, for the reasons set out above in the Statement of Corporate Governance.

In relation to other principles or provisions set out in the updated code, the Board or relevant committee will undertake the following actions or reviews:

Body	Focus or ongoing activity to ensure compliance or application of updated code
<b>Board</b>	<ul style="list-style-type: none"> <li>• Ongoing review of purpose and culture to ensure alignment with strategic goals</li> <li>• Review of workforce practices and procedures to ensure alignment with purpose and values</li> <li>• Set up processes for regular employee updates to and from the Board by an Alfa team member or panel of team members</li> <li>• Review and formalise Chair's engagement with shareholders</li> <li>• External evaluation of the Board's and individual Directors' performance by an independent evaluator</li> </ul>
<b>Nomination</b>	<ul style="list-style-type: none"> <li>• Continue to assess succession planning with a focus on diversity</li> </ul>
<b>Remuneration</b>	<ul style="list-style-type: none"> <li>• Detail the clear linkage between remuneration packages and longer term strategy</li> <li>• Assessment of wider workforce remuneration with culture and values</li> </ul>

## A. Board Leadership and Company purpose

The Board is ultimately responsible to our various stakeholders for all our activities including delivering our strategy and financial performance, having oversight of our talent and succession pipeline and ensuring that stakeholders are communicated with on an open, regular and transparent basis. Setting the right cultural tone from the top, through the actions and guidance of the Board and the Executive Committee, and supported by the Investment Committee, will remain a key priority over the coming year.

The Board has an open and collaborative leadership style which allows for robust and honest discussion during its meetings. During the year there have been no changes to the membership of the Board or its committees and no situations where 20 per cent or more of votes have been cast against the Board recommendation for a resolution.

This section considers the following areas:

### Defining purpose and creating value

### Establishment and review of effectiveness of internal controls

### Engagement with shareholders

### Shareholder agreement

### Engagement with other stakeholders

- Our workforce policies and practices
- Investing in the Alfa team
- Suppliers and modern slavery

### Defining purpose and creating value

**Purpose** (our purpose states what we do and why we do it):  
To deliver our leading-edge technology with smart, diverse people, making our customers future-ready.

**Strategy** (our strategy is our plan of action designed to build on our competitive advantages and achieve our purpose):

1. Growing our market share by maintaining leading-edge technology, increasing customer loyalty and winning new business – We will retain our market-leading position and grow our share of the enterprise asset finance sector
2. Establish our partner ecosystem to build operational capacity and sales channel opportunities – We will work with a select group of partners to increase our delivery capabilities whilst maintaining quality
3. Establish our digital agenda as leading-edge and best in class we will be a market leader for digital solutions in the asset finance sector
4. Reposition Alfa Systems and our delivery model for expansion into the volume market – We will become a market leader in the volume market of the asset finance industry
5. Create a high-performance organisation – We will continue to offer a supportive, diverse and collaborative working environment
6. Promote and grow value – We will continue to have market-leading margins

The strategy and business model are set out pages 20-25 and 16-17.

To underpin its strategy, the company undertook a project during the year to refine its purpose and to articulate its culture through a clear purpose and set of values. Both the purpose and values have been rolled out internally and have also been communicated externally to potential customers. In order to ensure this project was as authentic as possible, we enlisted the help of external consultants who interviewed a number of people from across the Group, as well as a number of our customer base. The feedback from these interviews assisted in the formulation of the new purpose and values as set out on page 9 to this report.

The focus for the coming year, from both senior management and the Board, is to fully embed these values across the business and to ensure they remain aligned with the current culture.

In order to assess whether culture is and remains aligned with our values, the company will seek feedback from customers and potential customers on how the values have been received and how they have been lived during the sales process or through the various stages of software implementations and provision of ODS services. The Board will also assess engagement with the wider Alfa team using a variety of methods including quarterly employee pulse surveys which provide an opportunity for employees across the Group to share their thoughts, concerns, questions and ideas on an anonymous basis.

## Establishment and review of effectiveness of internal controls

The Board is responsible for the establishment of an overall system of internal control and for reviewing its effectiveness on an annual basis. Therefore the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity as detailed on pages 33-35 of the Strategic Report. The Board has delegated the responsibility for designing and operating the internal control and risk management framework and systems to the Executive Committee, with oversight and monitoring by the Audit & Risk Committee. The internal control and risk management framework and systems have continued to evolve during the year through the additional focus on the identification, evaluation and assessment of both new and existing key risks, taking into account events that have occurred and the Group's appetite to risk. The Executive Committee reports changes, developments or results of this risk-testing to the Board, through the CEO and CFO, on a bi-annual basis. The Executive Committee will continue to look for opportunities to further embed and enhance internal controls and risk management into the operations of the Group.

We have laid out an overview of the Group's framework for identifying and managing risk, both at an operating and strategic level on pages 30-32 of the Strategic Report. There have been some significant developments in internal controls during the year, primarily due to the implementation of a new HR and finance system, a change in the leadership structure of the Group and the establishment of an Investment Committee. Further details of these developments are including on page 71 of the Audit & Risk Committee Report.

There have been no changes to the risk management framework during the period and up to the date of approval of the Annual Report. It should be noted that the systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore they can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of law and regulations. We have a number of internal controls which operate across the Alfa business, which as noted above have continued to be strengthened during the year.

The key controls which were relied upon during the year are set out on page 30 of the Strategic Report. This should be read in conjunction with the principal risks and uncertainties facing Alfa, which are detailed on pages 33-35 of the Strategic Report.

## Engagement with shareholders

The Board is committed to ensuring that we maintain open and transparent communications with both existing and potential shareholders which are based on the mutual understanding of the Company's objectives. This communication is underpinned by a comprehensive investor relations programme which includes formal announcements and publications in respect of the interim and annual results, as well as ad hoc regulatory announcements made by the Company.

The Chairman, the Chief Executive Officer and the Chief Financial Officer regularly engage with institutional shareholders in order to develop an understanding of their views, which are communicated back to, and discussed with, the Board. During the year the Company held 100+ meetings with shareholders, taking the form of group meetings, one-to-one meetings, conference calls, site visits, the AGM and at the announcement of the interim and annual results.

The key themes discussed at these meetings included:

- Current trading and market conditions and customer demand;
- Sales pipeline opportunities and conversion;
- The short to medium term strategy and business model;
- Current product investment and development; and
- Recruitment pipeline.

The Group's website provides copies of the annual and interim reports, presentations given to analysts and investors, trading updates and other regulatory announcements, and up-to-date information on the Group's activities. Additional shareholder information is also set out inside the back cover. Shareholders are able to contact the Company through the Company Secretary or investor relations email at the Company's registered office, listed at the end of this report.

Our current Senior Independent Director, Richard Longdon, has served as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through the normal channels. He can be contacted through the Company Secretary. After Richard's retirement following the 2019 AGM, Karen Slatford will take the position of Senior Independent Director.

The Board encourages all shareholders to attend, vote and take the opportunity to ask questions at the AGM, which is attended by all Directors. The Directors will be available at the AGM to answer questions and the Chairs of the Audit and Risk, Nomination and Remuneration Committees will also be present to answer any questions relating to the responsibilities of those committees.

The notice convening the 2019 AGM, to be held on 26 April 2019, will be issued along with this Annual Report to the shareholders at least 20 working days in advance of the meeting. This will provide shareholders with the appropriate time, as set out in the Code, to consider matters. Separate resolutions will be proposed on each substantially separate matter. The results of the proxy votes on each resolution will be collated independently by the Company's registrar and will be published on the Company's website after the meeting.

### Shareholder agreement

The relationship between the Board and Controlling Shareholder, CHP Software and Consulting Limited, is governed by the Relationship Agreement (which was executed on 26 May 2017). This agreement is a framework under which the controlling shareholder, CHP Software and Consulting Limited, and the shareholders of the controlling shareholder will operate to protect the rights of the non-controlling shareholders. There have been no changes to the Relationship Agreement during 2018.

Under this agreement, two Non-Executive Directors can be appointed to the Board for as long as the Controlling Shareholder holds 20 per cent or more of the voting rights over the Company's shares, one Non-Executive Director can be appointed to the Board for so long as the Controlling Shareholder holds 10 per cent or more but less than 20 per cent of the voting rights in respect of the Company's shares

and if none of the Controlling Shareholders are members of the Nomination Committee, the Controlling Shareholder can appoint an observer to the Nomination Committee.

Andrew Page is designated as the first appointed Director of the Controlling Shareholder. Andrew Denton has not been appointed as a designated Director by the Controlling Shareholder. It has been agreed that for as long as the Controlling Shareholder has the right to appoint two Directors to the Board, and while Andrew Denton is a Director, the Controlling Shareholder will not exercise its right to appoint a second Director to the Board. There have been no Board observers appointed either under the Relationship Agreement or otherwise.

For further details of the Relationship Agreement, see the Directors' Report.

### Engagement with other stakeholders

The Board is also actively committed to encouraging its other key stakeholders, which have been identified as being its customers, employees and the communities in which we operate. Engagement with these key stakeholder groups took place during the year as described below. This includes details of how we have engaged with these groups, how we address the issues that affect them and how each contributes to us delivering value to the Group.

Stakeholder	Why it is important to engage	How we engage	Stakeholders' key interests
<b>Customers</b> – Our focus is always on delivering the highest value product and customer service experience to our customers.	<p>Engaging with our customers and working closely alongside them to understand their business needs allows us to combine high standards of customer service with a respectful delivery approach. This combination allows us to provide highly functional software that is configured for the needs of each individual customer.</p> <p>Identifying our customers' needs, alongside the changing market dynamics and regulations, allows us to identify opportunities for growth and to focus our product research and development such that it will produce innovative and functional solutions for the asset finance industry.</p> <p>Delivering high levels of customer satisfaction and innovative product solutions will also serve to enhance the reputation of Alfa in our marketplace and grow our existing customer base.</p>	<p>The implementation phase of our projects can span from months to years and during this time we work in close partnership with our customers and actively seek to understand their needs and expectations.</p> <p>We actively listen and react to feedback received from our customers. In particular, during the year we have run customer user group events with a number of our European and US customers. These events have facilitated insightful discussions between our customers and provided us with valuable feedback in relation to what our customers would like to see us focus on, what new features they would like to see developed and what our customers see as the key issues facing their industries.</p> <p>Members of our senior management team have regular conversations with each of our key customers.</p>	<p>Timely and efficient delivery and implementation.</p> <p>High quality, resilient and functioning software.</p> <p>Availability of post-implementation development, upgrade and maintenance services.</p> <p>Ability of Alfa to adapt to and advise on changing market dynamics and regulations.</p> <p>Access to highly skilled and experienced project teams.</p> <p>Access to technical innovation and functional development.</p>

Stakeholder	Why it is important to engage	How we engage	Stakeholders' key interests
<b>Employees</b> – Our people are the bedrock of our business and we are focused on providing them with extensive experience to develop their skill set.	<p>Our project teams work closely alongside our customers and are key to the experience of the Alfa brand and product, as well as to the timely and efficient delivery our customers expect.</p> <p>Leading product research and development are essential for the growth of Alfa in the future. Our employees' experience, market knowledge and technical skills are at the heart of the innovative thinking we need to achieve this goal.</p> <p>The development of our future Alfa leadership team is key to our success both in the medium and longer term.</p>	<p>Recognition and reward including promotions, bonuses and Long Term Incentive plans / share saving plans open to employees across the Group, not just at the senior executive level.</p> <p>We promote inclusion and diversity when recruiting and promoting people.</p> <p>Regular company meetings which provide the opportunity for transparent and clear communications from senior management, as well as an opportunity for all team members to share views, learnings and innovative ideas.</p> <p>Investment in training and education starting from our graduate induction programme through to identification of the potential leaders of the future.</p> <p>Quarterly internal employee pulse surveys which provide formal feedback to senior management and the Board. Responses are reviewed and assessed to ensure senior management is able to respond and take appropriate action.</p> <p>Informal communication across all grades of staff via our internal intranet site.</p> <p>In order to comply with the Amended Code (which is applicable from 1 January 2019), the Board is in the process of considering how it can improve employee engagement.</p>	<p>Career development and opportunities.</p> <p>Wellbeing.</p> <p>Training and development both in the technical aspects of their role, but also in respect of soft skills.</p> <p>Ability to be engaged with senior management, to be able to share ideas and help contribute to the success and future of the company.</p> <p>Fair remuneration and working conditions.</p>
<b>Community</b> – We aim to contribute positively to the communities and environments in which we operate.	<p>Supporting local charities provides important help and resource to the local communities within which we operate. This also provides our team with the opportunity to engage with, and have an impact on, issues they feel are important to them.</p> <p>We believe Alfa has an important role to play in reducing our impact on the health of the environment in which we live and operate.</p>	<p>We have an established global corporate social responsibility (CSR) team and have a programme of activities to give to the community in which we work.</p> <p>Our CSR teams have links with many organisations that support the communities in which we work.</p> <p>We encourage our employees to give back to the community through the provision of their time and expertise. This includes supporting local schools and charities, through Company-led activities and Company-matched monetary and time donation funding.</p> <p>Relationships with organisations such as Women in Tech, which is focused on supporting women either seeking to enter or operating in the technology sector.</p> <p>We are committed to reducing the impact the Group has on the environment and actively encourage the reduction, recycling and reusing of waste across our offices.</p>	<p>Impact of the Group's activities on the wider community and environment.</p> <p>The Group's CSR agenda.</p>

### Our workforce policies and practices

Alfa is fully committed to maintaining high standards of ethical and professional conduct for the company and its employees. We have a number of policies in effect which are designed to create an environment and culture where:

- Employees' health, safety, rights and wellbeing are placed at the heart of the way the Group does business;
- Employee diversity and inclusion is celebrated;
- Employees must act ethically, honestly and stand up for what is right;
- Communication across the business should be open, honest and responsible; and
- Customers must be delivered with excellent customer service and innovative, yet reliable and proven, technology.

One central policy in creating this environment and culture is Alfa's Ethics and Code of Conduct which clearly sets out a zero tolerance policy for dishonest and corrupt behaviour among our employees and seeks to educate team members on unlawful and unethical conduct. This is vital to maintaining Alfa's reputation in the marketplace as well as to our relationship with our colleagues, investors, customers and other stakeholders.

Our Ethics and Code of Conduct provides clear guidance to employees in respect of addressing legal and ethical issues that they may come across while conducting Alfa business, and what Alfa expects in respect of its employees' behaviour including:

- To act ethically and with integrity in all business dealings;
- To comply with the law, the Ethics and Code of Conduct, Alfa policies, and Alfa business practices;
- To report known or potential violations using available reporting channels;
- To cooperate with compliance investigations; and
- To complete all mandatory compliance education courses and requirements in a timely manner.

Further, the Ethics and Code of Conduct (the "Code") outlines the additional expectations that Alfa has of its leaders which are as follows:

- To promote and support ethical behaviour and business practices;
- To act as a leadership model in terms of demonstrating the attributes outlined in the Code;

- To ensure those employees who report to them directly or indirectly understand where and how to report violations under the Code;
- To ensure that employees who report to them directly or indirectly complete all mandatory compliance education courses and other requirements in a timely manner;
- To maintain an "open door" policy with regard to employee questions, including those of business conduct and ethics, and ensure availability of compliance and ethics resources and support, such as printed materials and relevant contact information;
- To encourage employees to challenge and report questionable conduct; and
- To encourage open, honest, and confidential dialogue without retaliation.

The Code also provides employees with clear guidance and communication in relation to:

- Seeking help and reporting violations of the Alfa Ethics and Code of Conduct;
- Certain business practices to be followed (including complying with applicable laws and regulations in the countries in which Alfa operates, compliance with anti-bribery and immigration laws, protecting Alfa's intellectual property, and applicable insider trading and security laws);
- Certain business conduct to be maintained (including financial integrity, unauthorised public disclosures, compliance with other Alfa policies and procedures, avoiding / managing conflicts of interest, protecting confidential information etc); and
- Alfa's relationship with its employees (including diversity, harassment, health and safety and taxation).

To support the Code and our values, Alfa has a number of other workforce policies and practices covering:

- Business expenses;
- Confidentiality;
- Health and Safety;
- Diversity and inclusion;
- Harassment;
- Share dealing;
- Whistleblowing.

We seek to embed our Ethics and Code of Conduct through ongoing communications, training and appropriate controls. The Code and all other workforce policies and procedures can be found and easily accessed by our employees through our internal intranet site.



## Whistleblowing

We recognise that our people are the best way to detect and to avoid legal and ethical failure within our business. Our whistleblowing policy and team provides a safe environment to report concerns regarding illegal, unethical or improper behaviour and we encourage employees to do so in good faith. The Group's whistleblowing policy clearly details to employees how they are able to raise such concerns directly to the Group's Whistleblowing Officer. All whistleblowing cases are formally reported to and investigated by the Whistleblowing Officer and the Board, and the Board is responsible for reviewing the effectiveness of actions taken in response to concerns raised. Where necessary, external specialist third parties or other members of staff with the appropriate experience may be appointed to help investigate the concerns.

## Share dealing code

Alfa has adopted a share-dealing code which applies to the Company's Directors, its other PDMRs and certain persons deemed insiders. In accordance with the Market Abuse Regulation, the Directors and PDMRs are responsible for procuring the compliance of their respective connected persons with the Alfa share-dealing code. The share-dealing code has been published on the Alfa intranet and guidance and communication is provided to the Alfa team on an ad hoc basis.

## Investing in the Alfa team

**Our approach** – We want to attract and retain the best people and to invest in developing their skills as they progress through their career. We aim to create a collaborative and supportive environment, where our people are supported and encouraged to share innovative ideas and forward-looking thinking. The Alfa team are remunerated well and enjoy an excellent benefit package, including access to Long Term Incentive plans and share-saving plans.

**Our training** – We have a strong learning and development program which is aimed at growing the skills of our workforce. This spans from our intensive and structured graduate induction training programme through to customised training programmes as our employees progress through their careers with us. Our training consists of a variety of different mediums in order to give our employees flexibility in addressing their individual training and development needs. Examples of the training and development opportunities available to our employees include external classroom training sessions, internally run classroom sessions and presentations, technical conferences, inspirational talks and various online training modules. These sessions are aimed at not only expanding technical knowledge but also on soft skills and wider personal development. We are proud to hold a Silver Accreditation with the Investors In People Awards, demonstrating our commitment to developing our people, treating them well and providing strong leadership to the Group.

**Talent management** – As the Alfa workforce continues to expand, and we look to the future, senior management have invested time and resources into improving the career and talent management within the Group. The aim of the project has been focused on developing and retaining our staff by providing more consistency across the internal grading system and transparency as to the expected career paths various roles within the Company will follow. This has involved working with external consultants to review, benchmark and refresh the career grades applied throughout the company. It has also involved a complete refresh of the performance appraisal criteria to align them with the new grading system.

Alfa also supports its employees through its career management programme that is open to all grades across the company. The aim of this programme is to provide opportunities for our people to be mentored and supported as they progress through their career in order to help them reach their full potential and become our future leaders.

**Encouraging innovation** – In line with our values ("Let great ideas grow" and "Make it better together"), encouraging our team to work together collaboratively to develop innovative ideas is key to our future success. We hold numerous team and company events throughout the year where the Alfa team are given the opportunity to share their views and ideas. In particular, our Hackathons provide a great example of the inspiration events that we run to encourage innovation and collaboration. More details on this are contained in the CSR section of the Strategic Report on pages 44-49.

## Suppliers and Modern slavery

We do not support any form of slavery, human trafficking or child labour and we only work with suppliers that have been assessed through our internal processes to be ethical providers. We have an ethical procurement policy and our key procurement team have been trained in relation to the relevant requirements and regulations.



## B. Divisions of responsibility

Alfa is led and controlled by the Board which is collectively responsible for the long-term and sustainable performance of the Group.

The skills and experience of each of our Directors are detailed on pages 60-61 of this Governance Report. We consider that the Directors, both individually and collectively, have the range of skills, knowledge, diversity of experience and dedication necessary to lead the Group and have the requisite strategic and commercial experience to contribute to the leadership of Alfa.

### The Board – responsibilities

We have clear and documented roles and separation of duties between the Chairman and the CEO. The Alfa CEO, Andrew Denton, is responsible for determining the Alfa strategy and day-to-day operations, leading the Executive Committee, which assists in the day-to-day delivery of this strategy and general operations. Andrew Page, as Chairman, provides oversight and guidance to Andrew Denton on the strategic direction, key commercial or contracting decisions.

The division of responsibility between our Board members is set out below:

Role	Principal responsibilities	
<b>Chairman</b> Andrew Page	<p>Manages and provides leadership to the Board.</p> <p>Acts as a direct liaison between the Board and management, working with the CEO to assist the flow of information.</p> <p>Ensures that the Directors have sufficient information to enable them to form appropriate judgements.</p>	<p>The Chairman develops and sets the agendas for Board meetings, working with the CEO and Company Secretary.</p> <p>Recommends an annual schedule of Board and Committee meetings.</p> <p>Ensures effective communications with shareholders and other stakeholders.</p>
<b>Chief Executive Officer</b> Andrew Denton	<p>Responsible for the day-to-day management of Alfa.</p> <p>Responsible for defining the strategy and guiding the Executive Committee on its execution, once it has been agreed by the Board.</p> <p>Creates a framework that optimises resource allocation to deliver strategic objectives over varying timeframes.</p>	<p>Ensures the successful delivery against plan and other key business objectives, allocating decision-making and responsibilities accordingly.</p> <p>Identifies and executes new business opportunities and assesses potential acquisitions or disposals.</p> <p>Manages the Group with reference to its risk profile in the context of the Board's risk appetite.</p>
<b>Senior Independent Director<sup>(1)</sup></b> Richard Longdon	<p>An Independent Non-Executive Director.</p> <p>Provides a sounding board for the Chairman and CEO.</p>	<p>Serves as an intermediary for the other Directors when necessary.</p> <p>Is available to shareholders if they have concerns.</p>
<b>Non- Executive Directors</b> Robin Taylor Karen Slatford	<p>Provide constructive challenge to the Executive Directors.</p> <p>Help develop proposals on strategy.</p> <p>Scrutinise management's performance in meeting agreed goals and objectives.</p> <p>Monitor performance reports.</p>	<p>Satisfy themselves on the integrity of financial information and that controls and risk-management systems are robust and defensible.</p> <p>Determine appropriate levels of remuneration for Executive Directors.</p> <p>Appoint and remove Executive Directors as required and review succession planning.</p>
<b>Chief Financial Officer</b> Vivienne Maclachlan	<p>Overall management of the financial risks of the Group.</p> <p>Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders.</p>	<p>Ensures effective financial compliance and control, while responding to regulatory developments, including financial reporting, capital requirements, and corporate responsibility.</p>

(1) Following Richard's retirement at the 2019 AGM, Karen Slatford will take the position of Senior Independent Director and Nomination Committee Chair.

## Board Committees

The Board has established three committees, being the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee. The membership, responsibilities and focus of each of these committees is documented in the report of each committee respectively.

### Nomination Committee



#### Key objectives

Monitoring the structure, size and composition of the Board, advising on succession planning and making recommendations on appointments to the Board.

#### Principal responsibilities

- Reviewing structure, size and composition of the Board;
- Board succession planning;
- Evaluation of Board appointments – with consideration to matters such as skill, experience, knowledge, diversity;
- Review of Non-Executive Directors' time required;
- Review results of the Board performance evaluation process; and
- Review all conflicts of interest.

#### Membership

Richard Longdon (Chair)  
Andrew Page  
Karen Slatford  
Robin Taylor

➔ **Nomination Committee**  
Report page 63

### Audit and Risk Committee



#### Key objectives

Oversight of Alfa's financial reporting process, internal control system, risk management system and internal and external audit functions.

#### Principal responsibilities

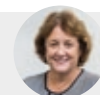
- Monitor the integrity of financial statements;
- Review and challenge accounting policies and the application of these policies to unusual transactions;
- Review and approve assumptions in relation to viability;
- Assess compliance with accounting standards;
- Review clarity, transparency and completeness of financial statements;
- Oversee material information presented with financial statements;
- Review content of Annual Report to advise if fair, balanced and understandable for shareholders;
- Review and advise on adequacy and effectiveness of the Company's internal financial and operational controls, including the risk management framework;
- Monitor and review of internal and external audit; and
- Review of whistleblowing, fraud and compliance.

#### Membership

Robin Taylor (Chair)  
Richard Longdon  
Karen Slatford

➔ **Audit and Risk Committee**  
Report page 67

### Remuneration Committee



#### Key objectives

Determining, and advising the Board on, the framework and policy for the remuneration of the Executive Directors and senior management.

#### Principal responsibilities

- Responsibility for setting, monitoring and reviewing the Remuneration Policy;
- Consultation on major changes to employee benefit structure;
- Approval and determination of performance-related pay schemes (with regard to the Code and LRs);
- Responsible for selection and appointment of remuneration consultants;
- Review, design and assessment of share incentive plans;
- Review of Director pension arrangements; and
- Approval of Director service contracts and severance.

#### Membership

Karen Slatford (Chair)  
Richard Longdon  
Robin Taylor

➔ **Remuneration Committee**  
Report page 74

## Board and committee meetings and attendance

	Board	Audit and Risk	Remuneration	Nomination
<b>No. of meetings <sup>(1)</sup></b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>2</b>
Andrew Page (Chairman)	7			2
Andrew Denton	7			
Vivienne Maclachlan	7			
Richard Longdon	7	4	3	2
Karen Slatford	7	4	3	2
Robin Taylor	7	4	3	2

(1) Includes scheduled meetings and excludes any strategy days or ad hoc meetings. Only refers to member attendees.

A comprehensive  
and balanced mix of  
experience and expertise

1.



3.



2.



5.



6.



4.

## 1. Andrew Page

Executive Chairman

**Appointment to the Board**  
2017

### Committees

- Nomination Committee

**Meeting attendance<sup>(1)</sup>**  
7/7

**Other appointments**  
N/A

**Past roles**  
CEO of Alfa

### Relevant experience

Considerable senior management experience and deep understanding of the asset finance industry.

## 2. Andrew Denton

Chief Executive Officer

**Appointment to the Board**  
2017

### Committees

N/A

**Meeting attendance<sup>(1)</sup>**  
7/7

**Other appointments**  
N/A

### Past roles

- Director of Sales and Marketing of Alfa

### Relevant experience

Computer scientist by training, considerable senior management experience and significant experience in the asset finance industry.

## 3. Vivienne Maclachlan

Chief Financial Officer

**Appointment to the Board**  
2017

### Committees

N/A

**Meeting attendance<sup>(1)</sup>**  
7/7

**Other appointments**  
Non-Executive Director of Tungsten Corporation PLC (February 2019 – current)

### Past roles

N/A

### Relevant experience

Wide ranging financial and capital-raising expertise. Vivienne is also a member of the Institute of Chartered Accountants of Scotland.

## 4. Richard Longdon (retired at 2019 AGM)

Senior Independent Director

**Appointment to the Board**  
2017

### Committees

- Chair of Nomination Committee
- Remuneration Committee
- Audit and Risk Committee

**Meeting attendance<sup>(1)</sup>**  
7/7

### Other appointments

- Non-Executive Director of Prometheus Group LLC
- Chairman of Process Systems Enterprise
- Senior Independent Non-Executive Director of Fidessa

### Past roles

Chief Executive Officer and President of AVEVA.

### Relevant experience

Deep knowledge of the technology sector and considerable experience in senior management and executive positions.

## 5. Karen Slatford

Independent  
Non-Executive Director

**Appointment to the Board**  
2017

### Committees

- Chair of Remuneration Committee
- Nomination Committee
- Audit and Risk Committee

**Meeting attendance<sup>(1)</sup>**  
7/7

### Other appointments

- Chair of Draper Esprit PLC and The Foundry
- Senior Independent Non-Executive Director at Micro Focus International PLC
- Non-Executive Director of Accesso Technology Group PLC

### Past roles

Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organisation at Hewlett-Packard Company.

### Relevant experience

Considerable technology sector experience coupled with senior management, M&A and listed company experience.

## 6. Robin Taylor

Independent  
Non-Executive Director

**Appointment to the Board**  
2017

### Committees

- Chair of Audit and Risk Committee
- Nomination Committee
- Remuneration Committee

**Meeting attendance<sup>(1)</sup>**  
7/7

### Other appointments

- Non-Executive Director of FDM Group PLC
- Senior Independent Non-Executive Director of Emis Group.

### Past roles

Chief Financial Officer of publicly listed companies Intec Telecom Systems PLC, ITNET PLC and JBA Holdings PLC

### Relevant experience

Significant financial, technology and consulting sector experience and considerable senior management and listed company expertise.

## Board overview

### Gender diversity



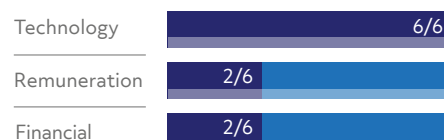
● Female 2  
● Male 4

### Age profile



● 35-50 2  
● 50-60 1  
● 60-70 3

### Experience



(1) Meeting attendance represents attendance at the scheduled Board of Director meetings.

It should also be noted that the Independent Non-Executive Directors meet from time to time without the presence of the Chair and the Executive Directors.

## Company secretary

Prism Cosac, the outsourced Company Secretary, acts as Secretary to the Board and each of the Audit and Risk, Nomination and Remuneration Committees. The Company Secretary provides a conduit for Board and Committee communication and ensures that the Board members have access to the information they need to perform their roles, particularly in connection to matters of share dealing, regulatory announcements, major shareholder changes and compliance with relevant corporate governance regulation.

## Summary of matters reserved for the Board

Area	Matter
<b>Corporate strategy</b>	Review and approve overall strategy and business objectives
	Review and approve all take-over offers
<b>Capital structure</b>	Approve any share issues (excluding employee share plans) and any major changes to the share structure
	Approve any changes to the articles of association of the Company
	Approve any changes to the Company's listing
<b>Finance</b>	Review and approve half-year and year-end consolidated financial statements, including accompanying reports
	Review and approve budget and three-year plan
	Review and approve dividend policy
	Approve any material changes to accounting policies and practices, including hedging policy
<b>Risk management</b>	Review and set risk appetite
	Review procedures for detection of fraud and prevention of bribery
	Approve annual assessment of effectiveness of risk and control processes
	Approve levels of insurance coverage for Alfa and the Directors and officers
<b>Corporate governance</b>	Approve statement that Non-Executive Directors are independent
	Undertake a formal review of performance of Alfa in relation to corporate governance framework, collective effectiveness of Board and committees and effectiveness of individual Directors
<b>Expenditure</b>	>£1 million of capital or operating expenditure outside budget
	All class 1 or 2 transactions or any acquisitions or disposals >£25 million
	New material borrowing facilities
	All related party transactions
<b>Shareholder communication</b>	Receive and consider views of shareholders
	Approve all circulars, annual reports, regulatory announcements and press releases with significant matters included
	Approve all resolutions and related documentation for general meetings
<b>Succession planning</b>	Succession plans for Board and executive Committee, including selecting a Chairman, CEO and appointing a senior independent Non-Executive Director
	Appointment of a company secretary

## What we focused on in 2018

During the year, the Board assessed, considered and debated a wide range of matters including but not limited to:

### Strategy

Performance of the business and updates on the asset finance industry – both financial and operational

Financial statements, announcements and other financial reporting matters

Budgets and long-term plans

Shareholder feedback and reports from brokers and analysts

Risk management and controls

Succession and talent management

Remuneration

Regulatory updates

Sales pipeline and business development

## Management Committees

### Executive committee

In addition to the Board, the Executive Committee is delegated the responsibility for supporting the CEO in his day-to-day management of the Group and in delivering the Group's strategy. The Executive Committee is chaired by Andrew Denton and meets regularly to discuss the following:

- Current trading;
- Market and industry developments;
- Financial updates – actual and planning;
- Operational issues – such as resourcing, recruitment and training and development;
- Project updates, with focus on the development roadmap, technical developments and strategic direction for the product;
- Sales pipeline and marketing; and
- Execution of strategic plan.

### Investment committee

The CEO also created an Investment Committee. The purpose of this committee is to advise the CEO on the technical and commercial costs and benefits of internal investment projects which are aimed at increasing the long term sustainability of the business. The Investment Committee will also monitor emerging technology risks and opportunities. The Investment Committee membership is chaired by the CEO.

## C. Composition, Succession and Evaluation

**Richard Longdon**  
Senior Independent  
Director and Chair  
of the Nomination  
Committee



**“We have continued to review succession planning for the Board and also senior management to ensure we have the capability to drive long-term growth and development of the business. Following my announcement to retire at the 2019 AGM, Karen Slatford will lead the search for my successor.”**

**Richard Longdon**  
Chair of the Nomination Committee.

### Membership of the Committee

**Richard Longdon**  
Chair of the Nomination Committee, SINED

**Karen Slatford**  
Independent Non-Executive Director

**Robin Taylor**  
Independent Non-Executive Director

**Andrew Page**  
Executive Chairman

### Role of the Committee

The role of the Committee is set out in Committee Terms of Reference which are available at [www.investors.alfasystems.com](http://www.investors.alfasystems.com)

### Committee meetings in 2018

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec  
● ● ● 5 ● 16 ● ● ● ● ● ● ●

### Meetings

The Committee met once during the year. Attendance by the Committee members at these meetings is shown below:

	Scheduled meetings attended	Member since
Richard Longdon (Chair) <sup>(1)</sup>	2/2	2017
Karen Slatford <sup>(1)</sup>	2/2	2017
Robin Taylor <sup>(1)</sup>	2/2	2017
Andrew Page	2/2	2017

(1) Denotes independent member under the Code.

I am pleased to introduce the Nomination Committee (the “Committee”) Report for 2018 which summarises our key activities during the year. Our focus this year has been on ongoing Board succession planning, whilst planning for the introduction of the updated UK Corporate Governance Code which will come into effect on 1 January 2019.

We can confirm that we have complied with the Code recommendations that the Committee is comprised of a majority of Independent Non-Executive Directors.

Prism Cossec, the outsourced Company Secretary, acts as Secretary to the Committee, and by invitation the meetings of the Committee may be attended by the Chief Executive and Chief Financial Officer.

There have been no changes in Committee membership during 2018, although Karen Slatford will step up to Chair the Nomination Committee in 2019 and will lead the search for a replacement Non-Executive Director.

### Role of the Committee

The Committee’s primary responsibility is the consideration and recommendation of Board candidates who are appropriate for appointment as Executive and Non-Executive Directors, so as to maintain an appropriate balance of skills and experience on the Board and to ensure progressive refreshing of the Board.

In addition, it is the responsibility of the Committee to review the structure, size and composition of the Board and its committees and ensure that the procedures for appointing Directors is formal, rigorous, transparent, objective, merit-based and has regard for diversity (including gender, nationality and experience).



Main activities during the year

- The committee has considered and has made recommendations to the Board in respect of;
- A review of the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
  - A review of the structure, size and composition of the Board and the Board Committees to ensure it has an appropriate balance of skills, diversity, experience, knowledge and independence, and reporting and making recommendations to the Board with regard to any proposed changes; and
  - The succession plans for both Board and Senior Management team members.

On the recommendation of the Committee and in line with the Code, all currently appointed Directors will retire at the forthcoming AGM and offer themselves for re-election.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, under which the Committee interviews suitable candidates who are proposed either by existing Board members or by an external search firm. Careful consideration is given to ensure that proposed appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When discussions relate to the appointment of a Chairman, the Senior Independent Director will chair the Committee and lead the recruitment process. When the Committee has found a suitable candidate, the Chair of the Committee would then make a proposal to the whole Board, which retains responsibility for all such appointments.

As I have indicated my intention to step down at the 2019 AGM, Karen Slatford is leading the search for a replacement Non-Executive Director. This search will involve an external search firm.

Diversity

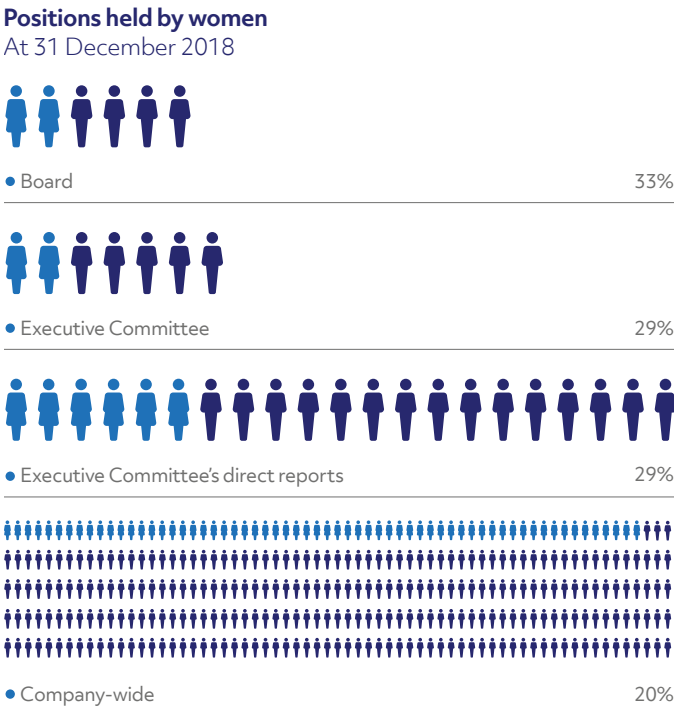
Alfa seeks to have a workforce which reflects the world we and our customers live in, whilst facilitating the delivery of our strategic goals. The Board and the Committee believe that diversity is a wider topic than simply gender and in order to achieve the Group’s future growth aspirations, Alfa should remain committed to building a pipeline of diverse talent and to regularly review the HR processes, including recruitment and performance management frameworks.

The Committee will take into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge and diversity. Alfa endeavours to achieve appropriate diversity, including gender diversity, throughout the Company.

The most important priority of the Committee has been, and will continue to be ensuring, that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group.

Although the Board and Committee is mindful of the targets set by the Hampton-Alexander review of at least 33 per cent female board representatives by 2020 and the Parker review target of at least one Director of colour by 2021, the Committee has not set quotas for either the percentage representation on the Board or in the workforce. Instead we are actively supportive of the need to encourage diversity when employees and Directors (Executive and Non-Executive) are recruited.

We have the following composition of male to female representations as at 31 December 2018:



## Board Evaluation

We carried out an internal evaluation of the Board, facilitated by the Company Secretary. The Board recognised the benefit of a full evaluation of its performance and we believe it provides fresh insight and objectivity to its Committees and Directors, enabling it to improve its leadership, effectiveness and focus.

### Evaluation process

- The Chairman and Company Secretary discussed and agreed the scope of the evaluations, with the input of the Senior Independent Director.
- The Company Secretary prepared a questionnaire which was sent to the Board members for completion.
- The Company Secretary analysed the responses and prepared a report of the findings for the Board. The report identified the strengths, challenges and priorities. A number of recommendations were also included for discussion by the Board.
- The Company Secretary presented the findings and recommendations to the Board. The report was then discussed and relevant actions were agreed for 2019.

The aim of the questionnaire sent to Board members was to obtain views on certain key governance areas as well as to gauge views on its own effectiveness. It gave members an opportunity to view opinions, what was done well and what needed improvement.

The questionnaire included issues such as:

- Effectiveness of Board and Committee meetings, including team dynamics;
- Contributions of the Board and Committees;
- Relationships with Executive Committee members around the direction and values of the organisation and the decision-making process;
- The Board's understanding of the strategy and developing culture;
- Adequacy of agendas and meetings scheduled;
- Training and development; and
- Shareholder and stakeholder communications.

The overall results of this year's evaluation were positive and there was a consensus around the challenges ahead and the areas of focus for the Board. It was noted that the Board members identified that early engagement between the Executive Directors and the Non-Executive Directors was key to maintaining the good progress made so far.

### Outputs from this year's internal evaluation

As a result of this year's evaluation, it was agreed that the following would be focused on by the Board or its Committees during the coming year:

- Increase number of Board meetings and time devoted to strategy discussions;
- Improve reporting and information flows to the Board; and
- Continue to develop and embed values and culture on a top-down basis from the Board across the business as a whole.

### Succession planning

The committee has considered not only succession plans for the Directors but also has had oversight of a deeper review into the company's management structure to identify those with potential to develop in the longer term into future leaders of the business taking into account the challenges and opportunities facing the Company in the medium to long-term. During 2018, the HR team identified a number of high-performing individuals across the organisation who would be mentored by senior management to develop and create a management succession programme. This is very much the first stage in the development of this programme but it was an important first step.

### Induction and ongoing professional development

To ensure that each Director receives appropriate support on joining the Board, there is a comprehensive and tailored induction programme, including the provision of background material on the Company and briefings with relevant Executive Committee members. This on-boarding process was carried out for each new Director in 2017 when the Board was formed. The induction programme will continue to be reviewed and updated prior to a new Director joining the Board.

For professional ongoing development, the Board receives presentations relevant to the Company's business and updates on any changes to markets or regulation which may affect the Company's operations. The Company Secretary supplies all Directors with information on relevant corporate governance and best practice. As part of their annual performance evaluation, Directors are given the opportunity to discuss training and development needs. The Board is confident that its members have the knowledge, ability and experience to perform the functions required of a Director of a listed company.

### External directorships

The Board believes, in principle, in the benefit of Executive Directors accepting non-executive directorships of other companies in order to widen their skills and knowledge for the benefit of the Company. All such appointments require the prior approval of the Board and the number of public company appointments is limited to one. There are no external appointments in relation to the Executive Directors during 2018. The Board approved Vivienne Maclachlan's appointment as a Non-Executive Director of Tungsten Corporation PLC as of 11 February 2019.

### Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage any potential conflicts of interest that Directors may have. It is the role of the Committee to monitor the situation and determine actions to address any potential or actual conflicts that may arise. The Committee reviews all potential conflicts of interest on an annual basis and when new Directors are formally appointed. No conflicts of interest were noted in the year and to the date of this Annual Report.

### Re-appointment of Directors

The re-appointment of Directors is subject to their ongoing commitment to Board activities and satisfactory performance. All Directors will stand for re-election annually in accordance with the provision of the Code. The Committee has confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the 2019 AGM continue to benefit the Board and the Company should support their re-election.

Non-Executive Directors are appointed initially for three years and all Non-Executive Directors may not, unless agreed by the Board, remain in office for a period longer than six years, or two terms in office, whichever is the shorter.

### Annual evaluation

The Non-Executive Directors and the members of the Committee discussed the appropriateness of a review of the Committee's performance and it was not deemed necessary in 2018. This will be undertaken in 2019 following the completion of a search for a replacement Non-Executive Director.

### Focus for 2019

Board succession will be a key part of our activities moving into 2019, with Karen leading the search for a new Non-Executive Director following my retirement at the 2019 AGM. The Committee will continue to focus on succession planning, taking into account the requirements of the Amended Code. The Committee will also take active involvement in the succession planning and talent management process for the wider Alfa Team, and review the Board's diversity policy to ensure that any succession plans incorporate an appropriate balance and diversity of skills and experience.

### Richard Longdon

Chair of the Nomination Committee  
7 March 2019

## D. Audit, Risk and Internal Controls

**Robin Taylor**  
Independent Non-Executive  
Director and Chair of the  
Audit and Risk Committee



**“Our main focus this year was on improving the design and effectiveness of the Group’s operating and financial controls through the introduction of a new HR and finance system, which has improved visibility and automation of the control environment.”**

**Robin Taylor**  
Chair of the Audit and Risk Committee

### Membership of the Committee

**Robin Taylor<sup>(1)</sup>**  
Chair of the Audit and Risk Committee

**Karen Slatford<sup>(1)</sup>**  
Independent Non-Executive Director

**Richard Longdon**  
Senior Independent Director

(1) Denotes independent member under the Code.

### Role of the Committee

Further details on the Committee’s roles and responsibilities can be found in our Terms of Reference on our website, at [www.investors.alfasystems.com](http://www.investors.alfasystems.com).

### Committee meetings in 2018

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

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### Meetings

The table below details the Committee members and their attendance at meetings during 2018:

	Scheduled meetings attended	Member since
Robin Taylor (Chair)	4/4	2017
Karen Slatford	4/4	2017
Richard Longdon	4/4	2017

I am pleased to present this Audit and Risk Committee Report for the year ended 31 December 2018 which summarises our activities in the year, as well as setting out intended key areas of focus for 2019.

In 2018, the Committee’s primary focus has been to ensure the integrity and transparency of external financial reporting, in relation to both our first Annual Report published in March 2018 and the interim consolidated financial statements released in September 2018. Additionally, we have spent a significant amount of time assessing the application of IFRS 15 “Revenue from Contracts with Customers” which was applicable from 1 January 2018, as well as conducting a review of our risk management framework, risk appetite and our system of internal controls. Following the appointment of KPMG as our internal auditors, we have reviewed their reports in relation to company expense claims, the introduction of a new expense policy and the review of financial controls following the introduction of a new HR and finance system in July 2018.

### Membership of the Committee

The Committee’s members are all Independent Non-Executive Directors, and therefore the Committee is compliant with the Code.

Members’ skills and experience are documented on pages 60-61. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience and that as a whole we have sufficient experience of the technology sector.

By invitation, the meetings of the Committee may be attended by the Chairman, CEO, CFO and CIO, in his capacity as Risk Officer. KPMG LLP, our internal auditor provider, and Deloitte LLP, the external auditor, are also present at all of the Committee meetings to ensure full communication of matters as they relate to internal audit or external audit. At the end of each Committee meeting there is a short meeting of just the Committee members and auditors (which includes the internal auditor at certain meetings during the year) for an open discussion about the audit process and relationship with management.

Prism Cosec, our outsourced Company Secretary, acts as Secretary to the Committee.

## Role of the Committee

The Board has delegated to the Committee responsibility for overseeing financial reporting, the review and assessment of the effectiveness of the internal control and risk management systems and maintaining an appropriate relationship with the External Auditor.

In order to fulfil these responsibilities, the Committee's duties include the following:

- Giving due consideration to applicable laws and regulations;
- Monitoring the integrity of the consolidated financial statements;
- Reviewing and challenging the application of accounting policies, including estimates and judgements made by management, and the clarity and completeness of disclosures;
- Reviewing and assessing the internal audit function including approval of any appointments and the scope of their remit, review of internal audit plans and findings and recommendations;
- Overseeing the relationship with the External Auditor, including a review of their independence; and
- Monitoring the effectiveness of the Company's internal financial controls and risk management systems.

## Meetings

The Committee met four times during 2018. There is a forward agenda which is linked to the financial calendar and ensures that the responsibilities and duties of the Committee are discharged under the Terms of Reference and the UK Corporate Governance Code.

Additional agenda items may be added during the financial year to address changes in the business or changes to regulation. During 2018, such items involved additional presentations on cyber security, training on changes to the UK Corporate Governance Code and the implementation of a new financial accounting system which has led to the development and documentation of a new framework of internal controls, most of which are now automated. It is expected that the number of financial controls which are automated will increase during 2019.

I continue to be satisfied that the Committee receives sufficient information on a timely basis and has access to relevant management personnel which allows the Committee members to engage in an informed debate during the meetings.

## Principal activities of the Committee

The Committee receives drafts of the Annual Report and consolidated financial statements on a timely basis, to enable sufficient review, challenge and discussion of key judgements, the narrative and disclosures prior to signature.

During the year, the Committee has undertaken the following activities:

Date	Focus
<b>March</b>	2017 Full year results statement and presentation Going concern and viability statement 2017 Annual Report and financial statements – with a review to ensure the report was fair, balanced and understandable Review of the impact of the application of IFRS 15 “Revenue from Contracts with Customers” Review of the external audit report in relation to the 2017 Annual Report and financial statements Review of the 2018 internal audit plan Review of the internal control requirements under the UK Corporate Governance Code including risk management processes Review of the principal risks and uncertainties Review of IT systems development
<b>May</b>	Review of the initial internal audit findings in relation to expenses policy Review of the accounting policy manual Review of the whistleblowing policy and incident reporting Review of the anti-bribery policy and procedures Assessment of the effectiveness of external audit Review of the principal risks and uncertainties Review of IT systems development
<b>August</b>	Review of the 2018 interim results statement and presentation Going concern review Cyber security update Review of the relevant accounting policy changes, including detailed discussions in relation to IFRS 15 “Revenue from Contracts with Customers” Assessment of development costs and judgements in relation to capitalisation as intangible assets Review and approval of any non-audit services Review of the principal risks and uncertainties Review of IT systems development
<b>November</b>	Presentation of the 2018 external audit plan, including review of non-audit services Approval of the 2019 external audit fee Presentation of the 2019 internal audit plan Cyber security update Review of the delegation of authority matrix Review of shareholder relationships Review of the principal risks and uncertainties Review of the risk management processes Review of the business continuity plan Review of viability assumptions and methodology. Review a draft of the Audit and Risk Committee Report and Corporate Governance Statement Review of IT systems development

Following each meeting the Chair reports to the Board on the activity of the Committee, highlighting the main issues discussed and matters of particular relevance, with the Board having access to copies of the Committee minutes and papers.

## Key matters considered in relation to the consolidated financial statements

Prior to the relevant Committee meeting, management prepares a paper providing details of significant areas of accounting, tax, disclosure and other matters where relevant.

The critical accounting estimates, judgements and disclosure areas are disclosed below. During the year, the Committee invested a significant amount of time in assessing the application of IFRS 15 “Revenue from Contracts with Customers” in relation to the Group’s contracts and ongoing projects, including reviewing the judgements made, which

are described further in the relevant accounting policies and detailed notes to the consolidated financial statements.

The External Auditors reported to the Committee any misstatements that they found in the course of their work and no material adjustments were required.

After reviewing the presentations and reports from management and consulting where necessary the External Auditors, the Committee was satisfied that the consolidated financial statements appropriately addressed the critical judgements and key estimates in respect of both the amounts reported and disclosures.

## Revenue recognition

### Assessment

During the year the Group has applied IFRS 15 “Revenue from Contracts with Customers” (using the retrospective approach) and updated its revenue recognition accounting policies and critical estimates and judgements as a result of this.

In applying IFRS 15, the Group has reviewed the terms and conditions of each contract, in both the Software implementation and ODS segments, as well as all ongoing maintenance contracts.

This review was undertaken to determine the performance obligations under each contract, to assess the transaction price for each performance obligation and, where relevant, allocate the transaction price to each performance obligation. Management paid particular attention to whether individual promises within the contract constituted distinct performance obligations and whether the fair value of the right-to-use performance obligation invoiced during the implementation period related to future periods. During the year management has increased the monthly focus on estimates around the performance obligations.

Following the review of contracts, management has concluded that its contracts contain distinct performance obligations as shown below, along with the relevant management judgements or estimates:

- Implementation services are those that could be delivered by an external third party other than the Group. The transaction price for this service is based on stand-alone selling prices and there are judgements in relation to what these services are and also the stand-alone selling price of the day rate relevant to that particular implementation project and geography.
- Development services are those that relate to granting of a right to use Alfa Systems, which comprise delivery of the related software license but also the efforts to change underlying code. The Group will estimate the total revenue relating to these services at the start of a contract, and this is recognised on a percentage-of-completion basis.
- In the event that customers have to pay periodic maintenance fees in order to keep using Alfa Systems, a component of these future maintenance fees is attributable to the right to use the software. In these circumstances the license granted by Alfa is considered to renew in future periods. There may be a material right in respect of discounts in future periods. In order to ascribe a value to this option management initially determine the value of the development services during the software implementation period and the remaining expected customer life.
- The maintenance and right to use Alfa Systems relates to the ongoing support and right to use the Alfa System over the customer’s life. The transaction price for these two performance obligations are recognised over the period as there is a right of clawback by the customer.

The key judgements are in relation to the assessment of whether there are multiple performance obligations, specifically whether the implementation services can be delivered by a third party and therefore represent a stand-alone performance obligation distinct from the customised licence or right to use. The key estimates are the estimated time to complete the implementation project and the stand-alone selling price of an implementation day rate.

The revenue recognition accounting policy is detailed in note 3 of the consolidated financial statements and the relevant critical accounting estimates and judgements are detailed in note 3.

### Action

The Committee reviewed management’s analysis of IFRS 15 in detail with the External Auditor and is satisfied with the conclusions made in respect of the performance obligations that have been identified, and with the judgements made in determining the transaction prices for the various performance obligations, specifically the determination of what is customisable efforts and the estimation around the estimate to complete and the stand-alone selling price for the implementation day rates.

The Committee is satisfied that management’s assessment is in compliance with IFRS 15, the disclosure in the consolidated financial statements is appropriate and that the Group has applied the relevant standard appropriately.



### Development costs

#### Assessment

The Group continues to invest a substantial effort in the ongoing development of Alfa Systems, specifically in relation to the ongoing enhancement of the Alfa Systems product platform and capabilities. The majority of development effort is undertaken in partnership with customers and therefore very specific to that implementation or customer's process.

Judgement is required in relation to whether the development is substantially new in either design or functionality and whether it is commercially viable in the open market. Therefore management assess the likelihood of capitalisation of such costs prior to initiation of the investment project and also perform quarterly assessments of the development work that has been undertaken to determine if it meets the criteria set out in IAS 38 for capitalisation.

Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionalities, does not satisfy the capitalisation criteria where the product is not substantially new in its design or is customer-specific. Such expenditure is therefore recognised as an expense.

During 2018 the Group has invested in its digital capabilities and has incurred both internally generated costs as well as externally acquired technical assistance. Such capabilities are available for sale to existing and new customers and therefore have been capitalised at 31 December 2018.

#### Action

The Committee reviewed and discussed with management and the External Auditor as to whether development costs met the capitalisation criteria under IAS 38 and is satisfied that such expenditure, with the exception of that relating to the Alfa Digital project, should be expensed.

The Committee has reviewed and is satisfied with judgements applied by management in determining the value of the costs relating to the Alfa Digital project that have been capitalised in the second half of the financial year. These judgements have also been discussed with the External Auditor.

### Alternative performance measures ("APMs") and presentations not specifically defined by IFRS

#### Assessment

Alfa uses certain APMs which are not specifically defined by IFRS, including Adjusted Earnings and Adjusted EPS, to show the impact on earnings after exceptional items such as pre-IPO share-based compensation and IPO related costs in the prior year. Adjusting for exceptional items is judgemental in nature as there is no definition under IFRS. Additionally, Alfa uses constant currency revenue growth to show the underlying growth of the geographical segments excluding the effects of currency, and Operational Cash Flow Conversion, to show the conversion of Adjusted EBIT.

These measures are not specifically defined by IFRS and are used by management as they believe they present a better understanding of the Group's underlying performance. Such APMs are defined and reconciled to the nearest IFRS measure in the Key Financial Metrics section of the Financial Review on page 42 to this Annual Report.

#### Action

The Committee considered the presentations made in light of the guidance provided by the European Securities and Markets authority and is satisfied that the measures presented continue to be appropriately adjusted and disclosed as non-GAAP measures. The Committee is satisfied that the non-GAAP measures were not given undue prominence and that the reconciliations provided were presented in a clear manner.

### Newly applicable accounting standards

#### Assessment

Management has carried out an assessment of newly issued accounting standards applicable from 1 January 2019, with IFRS 16 "Leases" identified as the potentially significant new standard to be applied. Management intends to implement IFRS 16 using the "cumulative catch up approach" and as if IFRS 16 had been applied since the commencement date of the relevant lease.

In assessing the impact of IFRS 16, management has assessed each of the lease contracts the Group has in place as at 31 December 2018 to determine whether or not each contract meets the definition of a lease under IFRS 16. In those instances where management consider the definition has been met, and the Group is the lessee, management have determined both the value of the "Lease Liability" and the "Right of Use" Asset that will need to be recognised in the statement of financial position as at 1 January 2019. In carrying out these calculations, management has made judgements about certain parameters including the discount rate and in certain cases if there is reasonable certainty that a break clause will be exercised or not.

Management have also separately assessed the terms and conditions of any lease contracts it has whereby the Group is the lessor.

As set out in note 21 of the consolidated financial statements, the impact management expects the adoption of IFRS 16 to have on the statement of financial position as at 1 January 2019 is:

- An increase in liabilities of £21.0 million, representing the lease liabilities the Group holds;
- An increase in assets of £19.8 million, representing the right-of-use assets the Group holds; and
- A reduction in opening retained earnings of £1.3 million.

As set out in note 21, the impact management expects the adoption of IFRS 16 would have had on operating profit and the statement of cash flows if IFRS 16 had been applied in the year ended 31 December 2018 is:

- Operating profit would have been £0.2 million higher;
- Profit after tax would have been £0.4 million lower; and
- Operating cash flows would have increased by £1.7 million.

#### Action

The Committee is satisfied with the explanations provided, the judgements and conclusions made and the disclosure in the consolidated financial statements. The Committee has reviewed and discussed these judgements, explanations and conclusions with management and the External Auditor.

## Going concern and viability statement

### Assessment

The Directors must satisfy themselves as to the Group's viability and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due.

The period over which the Directors have determined it is appropriate to assess the prospects of the Group has been defined as three years, which is in line with the assessment in the 2017 Annual Report.

In addition, the Directors must consider if the going-concern assumption is appropriate.

### Action

The Committee reviewed management's summary budget and forecasts, including an overview of the assumptions made in the preparation of the base case supporting the going concern and viability statement. This included the Group's 2019 budget and also the mid-term plan to 2021.

The Committee discussed, and challenged as appropriate, before agreeing with the reasonableness of the three-year period.

The Committee assessed this in light of the principal risks and uncertainties as disclosed on pages 33-35 in the Strategic Report.

The Committee discussed and robustly challenged the downside scenarios modelled as part of the viability statement as disclosed on pages 36-37 in the Strategic Report, the funding available and the feasibility of mitigating actions and the speed of implementation of any cost-saving measures following management decision making.

The Committee notes the Code requirement for the Directors to state whether they consider it appropriate to adopt the going-concern basis of accounting for a period of at least 12 months from the date of approval of the 2018 financial statements.

Following this evaluation and analysis, the Committee is satisfied with the judgements and that the adoption of the going-concern basis is appropriate and the viability statement is appropriate.

### → Viability statement Page 36-37

## Assessment of the Annual Report

The Board has charged the Audit and Risk Committee with reviewing the contents of this 2018 Annual Report to assess whether, when taken as a whole, it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Alfa consolidated position, performance, business model and strategy. As such, the Committee has reviewed the contents of this 2018 Annual Report and when forming its opinion in respect of the above matters, the Committee assessed the following:

### Fair

- Is the presentation or information complete based on materiality?
- Are the key messages in the narrative aligned with the financial statements and supported by KPIs?
- Are the KPIs appropriate based on the financial reporting and the outlook?

### Balanced

- Is the Strategic Report consistent with the financial reporting?
- Is there appropriate balance between financial measures under IFRS and adjusted measures not defined by IFRS, with the latter not having undue prominence?
- Are the key judgements and issues set out in this report consistent with the critical accounting estimates and judgements in the financial reporting and the significant issues set out in the report of the External Auditors?
- Are the principal risks and uncertainties set out in the Strategic Report aligned with the key risks set out in the report of the External Auditors?

### Understandable

- Are the important messages highlighted and presented consistently and prominently throughout this Annual Report?
- Are the messages written clearly, simply and transparently?
- Will a shareholder understand the market we operate in and how we generate value?

Following the Committee's review, the Directors confirm that the 2018 Annual Report, when taken as a whole, is fair, balanced and understandable and presents the information necessary for a shareholder to assess the Company's position and performance, business model and strategy.

## Internal controls and risk management

While the Board is ultimately responsible for the operation of an effective system of internal control and risk management appropriate to the business, the Committee is responsible for reviewing the risk management systems and internal controls to ensure that they remain effective and that any identified weaknesses are appropriately dealt with.

### Overview of the internal control environment

The following key elements comprise the internal control environment which has been designed to identify, evaluate and manage, rather than eliminate, the risks facing the Group and to ensure timely and accurate reporting of financial data.

- An appropriate organisational structure with clear lines of responsibility.
- A comprehensive process for the annual strategic and business planning process.

- Systems of control procedures and delegated authorities, beyond the Board Terms of Reference, which operate within defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions.
- Procedures by which the Group's consolidated financial information and statements are prepared, which identify and take into account changes to financial risks as a result of changes to operating models or commercial terms or new accounting standards and disclosures.
- Established policies and procedures setting out expected standards of business conduct, integrity and ethical standards which require all employees to adhere to legal and regulatory requirements in the area in which they do business.
- A finance function which has appropriate experience and qualifications and which regularly assesses the financial impact of risks facing the Group.
- An appropriate and documented risk management process.

### Developments to the control environment in 2018

The most significant changes during 2018 relate to the following:

- (i) the implementation of a new HR and finance system which is used globally for HR-related processes and by the Group's UK entities for finance and Group consolidation; and
- (ii) a change to the leadership structure of the Group.

The new HR and finance system was implemented as of 1 July 2018 and has significantly increased the number of automated controls in relation to finance processes and financial reporting. The implementation of the new system has therefore required updated documentation of key controls and processes, which has been completed in the second half of the year. This implementation will be supplemented by follow-on implementations of a new time-reporting and billing module to be undertaken in the first half of 2019 with the aim of automating project revenue accruals and billing.

Additionally in the fourth quarter of 2018 the CEO restructured the Executive Committee to include formal human resources membership, an interim CTO position and to include representatives from each of the key geographical regions. The Executive Committee will not have decision-making power but instead will support the CEO in delivering on his strategic vision and be a forum for robust debate to assist the CEO with input and recommendations to help the CEO run the business. This structure will allow all departments or business units to be represented, will enable clearer personal accountability whilst also enabling more efficient decision making at the top of the business.

In the fourth quarter of 2018, the CEO has also created an Investment Committee, with the purpose of advising the CEO on the technical and commercial costs and benefits of internal investment projects which are aimed at increasing the long-term sustainability of the business. The Investment Committee will also monitor emerging technology risks and opportunities and whether development projects should be capitalised.

### Review of effectiveness of the internal control environment

The Committee, on behalf of the Board, is responsible for reviewing the effectiveness of the internal control systems and the risk management process on an ongoing basis. The process of review has been operational throughout the year and through to the date of approval of this Annual Report.

At each Committee meeting, management reports any whistle-blowing activity, frauds identified and any other significant issues. The Committee has neither identified, nor been informed of any failings or weaknesses that it has determined to be significant.

In 2019, management has indicated to the Committee that they will continue to focus on increased automation of controls, specifically in the area of revenue recognition, and also to increase detective controls as increased reporting related to utilisation and chargeability metrics is introduced, following the new time reporting and billing modules.

### Risk management process

Alfa recognises that effectively managing risk is integral to allowing the Group to deliver on the strategy. Therefore management continues to monitor and manage risk utilising a five step process throughout the business, as discussed in more detail on pages 30-32 in the Strategic Report. Additionally, the Committee has, and will continue to, review the risk register a minimum of twice-annually and assess the actions taken by management to manage and mitigate the risks.

The Group's principal risks and uncertainties are laid out on pages 33-35 in the Strategic Report.

### Internal Audit

The Committee appointed KPMG LLP in December 2017 as the Group's outsourced internal audit function following a tender process (the "Internal Auditors"). Its key objectives are to provide independent and objective assurance on risks, and controls, to the Board, the Audit and Risk Committee and senior management, and to assist the Board in meeting its corporate governance and regulatory responsibilities.

During 2018, the Internal Auditors have undertaken a review of expenses claimed in the business, including a benchmarking exercise on the updates to the expense policy in 2018, and a review of core financial processes following the implementation of the new HR and finance system. In addition to this there have been reviews of IT resilience, disaster recovery and scalability and data protection and cyber security which have been carried out by third party specialist providers during 2018.

The three-year internal audit plan for 2019 was approved by the Committee in February 2019 and covers a broad range of core financial processes and controls focusing on specific risk areas including but not limited to:

- Contracts review and new business acceptance
- Business continuity
- People and talent management
- Financial controls and expenses.

Annual updates to reviews of IT resilience, disaster recoverability and scalability and data protection and cyber security reviews will also be carried out in 2019 by other third party specialist providers.

The effectiveness of the Internal Audit team will be reviewed annually, starting in the first half of from 2019, as the Committee determined it was too early to carry out such a review in 2018.

### **Independence and performance of the External Auditors**

The Board has approved a policy which is intended to maintain the independence and objectivity of the External Auditors.

The policy governs the provision of audit, audit-related services and non-audit services provided by the auditor. In summary this requires Committee approval for all projects with an expected cost in excess of £10,000.

The Group's auditors are Deloitte LLP, and were appointed, as statutory auditor to the Group on 5 May 2017 for the year ended 31 December 2016. They were re-appointed for the 31 December 2018 period on 24 April 2017 and the Committee has recommended to the Board that a resolution to reappoint Deloitte LLP for the 2019 financial period be prepared and presented to shareholders. The audit partner is Richard Howe, who has been the partner on the engagement since 2016.

There were no non-audit fees paid to the Group's auditors in 2018 other than for interim review services (2017:£779,000 in relation to IPO-related services). Details of audit, audit-related fees and non-audit fees are included in note 18 to the consolidated financial statements. The External Auditor is prohibited from providing internal audit services. No former employee of the external or internal audit providers is employed by the Group. Deloitte has confirmed its independence to the Committee on a regular basis during the year of review.

### **Effectiveness of the External Auditor**

The Committee has reviewed the quality of the audit plan and related reports for the 2018 audit and is satisfied with the quality of these documents. The Committee has discussed the quality of the audit throughout the year and considered the performance of the External Auditors, taking into account feedback from a survey targeted at various stakeholders across the business and the committee's own assessment. The evaluation focused on: robustness of the audit process, quality of delivery, reporting and people and services.

The Committee has reviewed the independence of the External Auditor and concluded that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The external audit will not be put out to tender in the coming financial year as the appointment of Deloitte LLP has occurred in the last five years, and therefore the Company has complied with the Competitions and Markets Authority requirement in relation to audit tenders every 10 years. The Committee will continue to keep this under review as part of their review of effectiveness of the External Auditor.

### **Performance of the Audit and Risk Committee**

The performance of the Committee has been assessed by way of an internal process in the fourth quarter of 2018. The chair and company secretary carried out a Committee evaluation through an electronic questionnaire. The results of this report were discussed at the November 2018 meeting and it was noted that the overall results from the assessment were positive. The respondents felt that Committee members work well together as a unit, and that there was robust challenge and discussion with a good balance between supporting and challenging management.

### **Interaction with the FRC**

During 2018, the 2017 Annual Report was reviewed by the FRC, based solely on the publicly available report and accounts, with no questions or queries raised. There were a limited number of matters for improvement raised from this review.

### **Focus for 2019**

Moving into 2019, we will continue to discuss and give healthy challenge to management on their key judgements and estimates in relation to financial accounting and review and assess the performance of the business in line with the plan. We also look forward to supporting management as they further develop and enhance their IT systems which will support the expected future growth of the business.

Specifically we will:

- Review the changes to the financial control environment as IT systems enhancements are implemented;
- Assess the work being undertaken by management to automate all internal control processes;
- Review the timeliness of non-financial reporting metrics; and
- Continue to review risk management systems and IT security arrangements to ensure that they are appropriately robust to support the strategies of a high growth business.

We considered early adoption of the CEO pay ratio disclosure which does not apply to us until FY2019. Given the complexity of gathering the data needed under the Government's preferred calculation method, we have decided not to early adopt. We will include the appropriate disclosures in our 2019 Annual Report.

### **Robin Taylor**

Chair of the Audit and Risk Committee

7 March 2019

## E. Remuneration

**Karen Slatford**  
Independent  
Non-Executive  
Director and Chair  
of the Remuneration  
Committee



*“The Committee has worked during the year to implement the remuneration policy. It continues to monitor the various parts of the remuneration paid to Executive Directors to provide a competitive level of salary with the opportunity to receive significant elements of variable remuneration if stretching business targets are met.”*

**Karen Slatford**  
Chair of the Remuneration Committee

### Membership of the Committee

**Karen Slatford<sup>(1)</sup>**  
Chair of the Remuneration Committee

**Richard Longdon<sup>(1)</sup>**  
Senior Independent Non-Executive Director

**Robin Taylor<sup>(1)</sup>**  
Independent Non-Executive Director

(1) Denotes independent member under the Code.

### Role of the Committee

Further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our website, at [www.investors.alfasystems.com](http://www.investors.alfasystems.com).

### Committee meetings in 2018

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

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### Meetings

The Committee met three times during the year. Attendance by the Committee members at these meetings is shown below:

	Scheduled meetings attended	Member since
Karen Slatford (Chair)	3/3	2017
Richard Longdon	3/3	2017
Robin Taylor	3/3	2017

As Chair of the Remuneration Committee, I am pleased to present our report covering Alfa Systems' remuneration policy and practice. This is our first report since the Remuneration Policy set out in last year's report was approved by shareholders at the AGM. The policy will therefore remain in place for three years. The intention of the Policy remains to incentivise and motivate the leadership team to achieve the Company's strategic goals. The Committee is also supportive of senior management's wishes to extend share ownership as widely as possible amongst the workforce. The LTIP awards made during 2018 were made to selected employees below senior management level who had not received share awards prior to IPO in 2017.

We have again set out the report in two parts. The Annual Statement sets out an overview of 2018 activities. Secondly, the Annual Report on Remuneration, set out on pages 76-78, sets out the amounts paid to Executive Directors in 2018. We also provide a summary of the Remuneration Policy set out in the 2017 Annual Report which remains unchanged, but now includes the Employee Share Purchase Plan, a share-based savings vehicle for US based employees which was approved by shareholders at the AGM.

Shareholders will note that no long-term incentive awards were made to Executive Directors during 2018 and are reminded that 25% of any bonus awards will be deferred into shares for three years following the award.

We hope you find the information contained in the report to be clear and informative.

### Role of the Committee

The Committee's primary role is to review and set the remuneration policy for the Executive Directors. It also approves discretionary performance-related awards to Executive Directors and senior management. The Committee's full Terms of Reference may be viewed on Alfa's website ([www.investors.alfasystems.com](http://www.investors.alfasystems.com)). The Executive Chairman, the CEO and other senior members of Alfa's management team may attend by invitation but will not be present when their own remuneration is discussed.



## Appointment of external advisors

Mercer Kepler have acted as external advisors to the Committee to provide independent support and information as required. Mercer Kepler were appointed by the Committee following a tender process. Mercer Kepler's fees for 2018 amounted to £11,100 to support the production of the remuneration policy for the Executive Directors as agreed at the 2018 AGM.

## Principal activities in 2018

During 2018, the principal activities were as follows:

- Approved the structure of the deferred bonus arrangements;
- Approved the structure of the Employee Share Purchase Plan for US based employees;
- Reviewed the annual bonus targets for the Executive Directors for the financial year 2018 and measured performance against them;
- Agreed the annual bonus targets for the Executive Directors for the financial year 2019;
- Approved awards to employees under the Long Term Incentive Plans (LTIP), with appropriate performance measures, bonus deferral into shares and malus and claw back provisions; and
- Reviewed and approved the terms of reference of the Committee

## Remuneration policy overview

The principal objectives of the Company's remuneration policy are to attract, retain and motivate the Group's Executive Directors and Senior Management, provide incentives that align with, and support, the Group's business strategy as it evolves, and align incentives with the creation of long-term shareholder value plans.

The Remuneration Committee oversees the implementation of this policy and seeks to ensure that the Executive Directors are fairly rewarded for the Group's performance over the short, medium and long-term. Taking typical practice into account, the Committee has decided that a significant proportion of potential total remuneration should therefore be performance-related.

During 2018, the salary for the Executive Chairman has remained at £374,448 per annum, at £321,912 per annum for the CEO and at £220,000 per annum for the CFO. No increases are proposed for 2019.

The Committee will continue to monitor the salary and total remuneration for Executive Directors and make adjustments if it considers it appropriate.

The Executive Chairman and the CEO have separately advised the Remuneration Committee that, as they have a significant shareholding in the Company, they wish to waive their eligibility for a bonus in respect of the performance year 2018 and for any LTIP award for the performance period beginning January 2019. Shareholders will be aware that the Executive Chairman and CEO also waived any entitlement for the performance year 2017.

## Focus for 2019

In the coming year the Remuneration Committee will consider a number of matters including:

- Assessment of Group performance against 2018 budget and determination of bonus awards;
- Approval of bonus performance measures and targets for 2019;
- Approval of performance conditions and awards under the Company's Long-Term Incentive Plan for 2019;
- Review of any issues raised by shareholders in relation to remuneration and the remuneration policy;
- Assessment of the ongoing appropriateness of the remuneration arrangements in light of remuneration trends and market practice; and
- Preparation for the requirements of the revised UK Corporate Governance Code.

The Committee believes that the total remuneration package for each Executive Director represents an appropriate balance between fixed and variable remuneration. It will reward personal and corporate outperformance whilst ensuring overall awards are broadly in line with FTSE250 levels.

## Resolutions at the AGM

Shareholders will be asked to vote on the Annual Report on Remuneration at the Annual General Meeting. I look forward to your support.

### Karen Slatford

Chair of the Remuneration Committee

7 March 2019



## Annual Report on Remuneration

The 2017 Annual Report sets out the Directors' Remuneration Policy which was proposed and approved at the AGM in April 2018. A summary is included on pages 79-82 of the Governance Report. This 2018 Annual Report sets out how the Directors' Remuneration Policy of the Company has been applied since Admission and how the Committee intends to apply the policy going forward. An advisory shareholder resolution to approve this report will be proposed at the AGM.

The Remuneration Policy was approved at the 2018 AGM with 99.78% votes for and 0.22% against (number of votes withheld were 16,744,191). The 2018 Remuneration Report was approved at the 2018 AGM with 99.94% votes for and 0.06% against (number of votes withheld were 171,161,099).

### A) Audited Section of the Remuneration Report

#### Single total figure of remuneration – Executive Directors (audited information)

The following tables set out the aggregate emoluments earned by the Directors in the years ended 31 December 2018 and 2017 respectively. It should be noted that remuneration is only included from the point the Director was appointed to a director role. For the purpose of the comparison, the table shows the remuneration of Andrew Page and Andrew Denton for the full year of 2017 as they were Directors of Alfa Financial Software Group Limited prior to appointment as Directors of the Company in May 2017.

The following table shows the aggregate emoluments in the year ended 31 December 2018:

£'000s	Salary and fees <sup>(1)</sup>	Benefit <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long-term incentives <sup>(4)</sup>	Pension <sup>(5)</sup>	Total
<b>Executive</b>						
Andrew Page	374	64	–	–	–	439
Andrew Denton	322	16	–	–	–	338
Vivienne Maclachlan	220	8	–	–	22	250
<b>Non-Executive</b>						
Richard Longdon	65	–	–	–	–	65
Karen Slatford	65	–	–	–	–	65
Robin Taylor	65	–	–	–	–	65

The following table shows the aggregate emoluments in the year ended 31 December 2017:

£'000s	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long-term incentives <sup>(4)</sup>	Pension <sup>(5)</sup>	Total
<b>Executive</b>						
Andrew Page	374	58	–	–	–	438
Andrew Denton	322	28	–	–	–	350
Vivienne Maclachlan <sup>(6)</sup>	146	4	71	–	15	236
<b>Non-Executive</b>						
Richard Longdon <sup>(7)</sup>	43	–	–	–	–	43
Karen Slatford <sup>(8)</sup>	43	–	–	–	–	43
Robin Taylor <sup>(7)</sup>	43	–	–	–	–	43

(1) Annual salary and fees – corresponds to the amount received during the relevant financial year, either as base salary for executives or fees for non-executives.

(2) Benefits – corresponds to the taxable value of benefits received during the relevant financial year and principally includes accommodation, company car (or cash equivalent), life assurance and permanent health insurance.

(3) Annual bonus – corresponds to the amount earned in respect of the relevant financial year. Details of how this was calculated are set out overleaf. The Executive Chairman and the CEO have waived any eligibility for a bonus in 2018 and 2017.

(4) Long-term incentives – corresponds to the amount earned by the Executive Directors in respect of the relevant financial year. No long-term incentive awards were made in respect of the 2018 and 2017 performance year.

(5) Pension – corresponds to the amount contributed to defined contribution pension plans. The CFO receives a Company pension contribution worth 10% of her salary.

(6) Appointed 4 May 2017.

(7) Appointed 5 May 2017.

(8) Appointed 15 May 2017.

#### 2018 Annual bonus

The 2018 annual bonus performance measures were selected to reflect Alfa's annual and long-term objectives and reflect financial and strategic priorities, as appropriate. Performance targets are set to be stretching and achievable, taking into account a range of reference points including the strategic plan and broker forecasts, as well as the Group's strategic priorities and the external context.

In respect of the annual bonus, the following measures have been agreed:

- Revenue for the year;
- Adjusted EBIT margin, being operating profit excluding certain non-recurring or non-cash exceptional items as a ratio of revenue;
- Free Cash Flow Conversion being cash flow generated from operations after deducting the settlement of derivative financial instruments and margin calls and capital expenditures as a percentage of Adjusted EBIT, as defined above; and
- Staff retention, calculated over a rolling 12 month period.

The table below shows the bonus pay-out relating to each measure.

Measure	Actual	% of maximum	Vivienne Maclachlan
Revenue	£71.0m	–	–
Adjusted Earnings margin	32%	–	–
Free Cash Flow Conversion	86%	–	–
Staff Retention	88%	–	–
<b>Total</b>			–

#### Statement of Directors' shareholding and scheme interests (audited information)

As at 31 December 2018 and as at the 28 February 2019:

	Shareholding as a % of salary (target/% achieved) <sup>(1)</sup>	Shares owned outright at 31 December 2018	Interests in share incentive schemes without performance conditions	Interests in share incentive schemes with performance conditions
Andrew Page	Over 200%	181,224,631	–	–
Andrew Denton	Over 200%	16,421,018	–	–
Vivienne Maclachlan	0%	–	–	–
Richard Longdon	n/a	6,153	–	–
Karen Slatford	n/a	12,307	–	–
Robin Taylor	n/a	6,153	–	–

As at 31 December 2017:

	Shareholding as a % of salary (target/% achieved) <sup>(1)</sup>	Shares owned outright at 31 December 2017	Interests in share incentive schemes without performance conditions	Interests in share incentive schemes with performance conditions
Andrew Page	Over 200%	181,224,631	–	–
Andrew Denton	Over 200%	16,421,018	–	–
Vivienne Maclachlan	0%	–	–	–
Richard Longdon	n/a	6,153	–	–
Karen Slatford	n/a	12,307	–	–
Robin Taylor	n/a	6,153	–	–

(1) Calculated as base salary divided by absolute number of shares held at 31 December by the share price at 31 December 2018 and 29 December 2017 respectively.

Whilst Andrew Page and Andrew Denton have significant shareholdings in the Company, the Remuneration Committee wishes to ensure that a shareholding guideline is in place to cater for Vivienne Maclachlan and future Executive Directors who may not hold Shares. Accordingly, the Remuneration Committee has adopted formal shareholding guidelines to encourage Executive Directors to build or maintain (as appropriate) a shareholding in the Company (excluding shares held conditionally under any incentive arrangements. The required shareholding will be 200% of base salary on a gross basis.

#### Payments for loss of office (audited information)

There were no payments for loss of office during the year.

#### Payments to past directors (audited information)

There were no payments made to past Directors during the year.

## B) Unaudited Section of the Remuneration Report

#### External appointments

Executive Directors are allowed to accept one appointment outside the Company, with the prior approval of the Board. Any fees may be retained by the Director, although this is at the discretion of the Board. During 2018 and at the date of this report, none of the Executive Directors hold external appointments for which they receive a fee, other than Vivienne Maclachlan who was appointed as a Non-Executive Director of Tungsten Corporation PLC as of 11 February 2019.

#### Fees for the Non-Executive Directors

The fees were agreed on appointment of the Non-Executive Directors in May 2017. A summary of current fees is shown below:

£'000s	Basic fees	Audit and Risk Chair	Remuneration Chair	Senior Independent Director
Richard Longdon	55	–	–	10
Karen Slatford	55	–	10	–
Robin Taylor	55	10	–	–

There is no additional fee payable to the Chair of the Nomination Committee.

All the Non-Executive Directors have letters of appointment with the Company for an initial three years, subject to annual re-appointment at the AGM. Appointment is terminable on six months' written notice. The appointment letters for the Non-Executive Directors provide that no compensation is payable upon termination of employment. Letters of appointment are available for inspection at the Company's registered offices. Details of the appointment terms of the Non-Executive Directors are as follows:

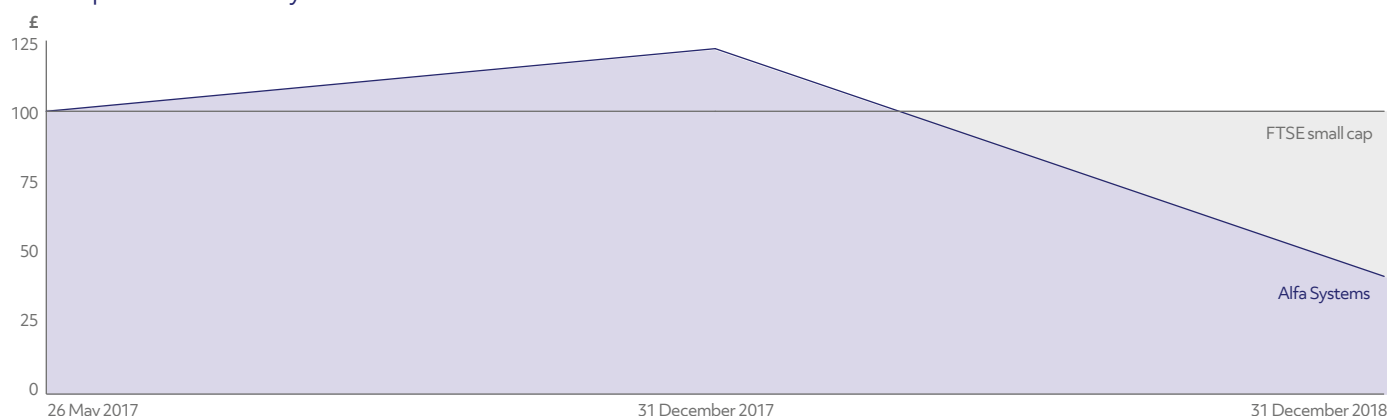
	Start of current term	Expiry of current term
Richard Longdon (resigning at 2019 AGM)	5 May 2017	4 May 2020
Karen Slatford	15 May 2017	14 May 2020
Robin Taylor	5 May 2017	4 May 2020

## Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index (excluding investment trusts). The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income. The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member since the IPO. This graph has been calculated in accordance with the Regulations and shows total shareholder return from the date of listing to 31 December 2018.

## Total Shareholder Return

For the period from 26 May 2017 to 31 December 2018



## Percentage change in CEO remuneration compared with employees

The table below shows the average increase in each component between the CEO and the average employee in the Company from 2017 to 2018 and comparative from 2016 to 2017:

	% change in base salary 2018-2017	% change in bonus earned 2018-2017	% change in benefits 2018- 2017
CEO	2018: 0% 2017: 0%	2018: 0% 2017: 0%	2018: (42%) 2017: 87%
Alfa employees	2018: 1% 2017: 2%	2018: (37%) 2017: (33%)	2018: 22% 2017: (11%)

## Relative importance of spend on pay

The following table illustrates Alfa's spend on pay for all employees in the Group in the years presented compared to distributions made to shareholders (2017 distributions shown as those made to shareholders since Admission of the Company, for the period 1 June 2017 to 31 December 2017).

£'000s	2018	2017	% change
Employee costs (note 5 to the consolidated financial statements)	35,050	35,598	(2%)
Employee costs excluding pre-IPO share based payments (note 5 to the consolidated financial statements)	35,050	31,198	12%
Average number of employees (note 5 to the consolidated financial statements)	327	301	9%
Revenue (consolidated income statement)	71,038	87,777	(19%)
Adjusted EBIT (note 2 to the consolidated financial statements)	22,382	41,229	(46%)
Shareholder distributions (dividends paid post IPO)	nil	n/a	n/a

## Implementation of the Remuneration Policy for the year ended 31 December 2018

### 2018 Executive Directors' base salary

The table below shows the salaries for the Executive Directors as at 1 January 2019 in comparison to base salary at 31 December 2017:

£'000s	1 January 2019	31 December 2017	% change
Andrew Page	374	374	–
Andrew Denton	322	322	–
Vivienne Maclachlan	220	220	–

Salaries for Executive Directors are reviewed each year taking into account the Remuneration Policy approved at the April 2018 AGM. No increases to salaries are proposed for 2019.

### Pension

The CFO will continue to receive a pension contribution of up to 10% of base salary.

### 2019 Annual bonus and LTIP

Annual bonus and LTIP performance measures are selected annually to reflect Alfa's annual and long-term objectives and reflect financial and strategic priorities, as appropriate. Performance targets are set to be stretching and achievable, taking into account a range of reference points including the strategic plan and broker forecasts, as well as the Group's strategic priorities and the external context.

In respect of the annual bonus, the following measures are in line with 2017 and 2018 and are as follows:

- Revenue for the year (40% of bonus);
- Adjusted Earnings before Interest and Tax Margin, being operating profit excluding certain non-recurring or non-cash exceptional items, such as IPO-related expenses and pre IPO share-based payment expenses, as a ratio of revenue (40% of bonus);
- Free Cash Flow Conversion being cash flow generated from operations after deducting the settlement of derivative financial instruments and margin calls and capital expenditures as a percentage of adjusted EBIT, as defined above (10% of bonus); and
- Staff Retention, turnover calculated over a rolling 12 month period (10% of bonus).

Each measure has a target. Failure to meet a minimum percentage of the target will result in no bonus being awarded for that element. Achieving a maximum percentage of target will result in the maximum bonus being awarded under the formula, although as described earlier, the final determination is made by the Committee taking all available factors into account.

- Revenue 95-105% target
- EBIT margin 90-110% target
- Cash Conversion 80%-120% target
- Staff Retention 80-120% target

The Committee has agreed the following measures for the LTIP, with an equal weighting applied to each measure:

- Relative Total Shareholder Return (TSR)
- Earnings Per Share (EPS)

The comparator group for the TSR is the FTSE small cap, excluding investment trusts. Median performance over the three year performance period will result in 25 per cent vesting, with 100 per cent vesting if upper quartile performance is achieved. The EPS performance conditions are being finalised and details will be included in the RNS announcing the awards. The Executive Chairman and CEO have waived any eligibility to an LTIP award in 2019.

### 2019 Non-Executive Director remuneration

Following the annual review of Non-Executive Director fees, it was determined that the fees will remain at the following level:

£'000s	1 January 2019
Base fee	55
Additional fee for chairing a committee	10
Fee for the Senior Independent Director (including chairing committees)	65

## Summary of the Directors' Remuneration Policy continued

The Directors' Remuneration Policy was approved at the 2018 AGM on 24 April 2018 and applied from that date.

A summary of the policy table is reproduced below for information only. The Policy report is contained on pages 71-76 of the Annual Report and Accounts 2017 which is available on our website.

Component – Base Salary	
<b>Purpose and link to strategy</b>	Provides a set level of remuneration sufficient to attract and retain Executives with the appropriate experience and expertise.
<b>Operation</b>	<p>The Committee takes into account a number of factors when setting and reviewing salaries, including:</p> <ul style="list-style-type: none"> <li>• Scope and responsibility of the role;</li> <li>• Any changes to the scope or size of the role;</li> <li>• The skills and experience of the individual;</li> <li>• Salary levels for similar roles within appropriate comparators; and</li> <li>• Value of the remuneration package as a whole.</li> </ul>
<b>Maximum opportunity</b>	There is no set maximum to salary levels or salary increases. Account will be taken of increases applied to colleagues as a whole when determining salary increases for the Executive Directors; however the Committee retains the discretion to award higher increases where it considers it appropriate, especially where salary at outset has been set at a relatively low level.
<b>Performance measures</b>	N/A
Component – Benefits	
<b>Purpose and link to strategy</b>	Provides benefits sufficient to attract and retain Executives with the appropriate experience and expertise.
<b>Operation</b>	<p>Executive Directors are entitled to the following benefits:</p> <ul style="list-style-type: none"> <li>• Life assurance;</li> <li>• Income protection insurance;</li> <li>• Private medical insurance; and</li> <li>• Car allowance.</li> </ul> <p>Executive Directors are also eligible to participate in all-employee share schemes on the same basis as other staff.</p>
<b>Maximum opportunity</b>	The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Company strategy. The maximum will be set at the cost of providing the benefits described. One-off payments such as legal fees or outplacement costs may also be paid if it is considered appropriate.
<b>Performance measures</b>	N/A
Component – Pensions	
<b>Purpose and link to strategy</b>	Provides pension contributions sufficient to attract and retain Executives with the appropriate experience and expertise.
<b>Operation</b>	Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a salary supplement in lieu of pension benefits.
<b>Maximum opportunity</b>	10% of salary per annum.
<b>Performance measures</b>	N/A
Component – Annual bonus	
<b>Purpose and link to strategy</b>	Variable remuneration that rewards the achievement of annual financial, operational and individual objectives integral to Company strategy.
<b>Operation</b>	<p>Objectives are set annually based on the achievement of strategic goals. At the end of the year, the Committee meets to review performance against the agreed objectives and determines pay-out levels.</p> <p>From the performance year 2018 onwards, not less than 25% of any bonus will normally be deferred for a period of three years. Any accrued dividends can be paid in cash or shares. The Committee retains the discretion to allow dividends to accrue over the vesting period in respect of the awards that vest. Malus and Clawback provisions may be applied in exceptional circumstances.</p>
<b>Maximum opportunity</b>	Up to 150% salary for the Executive Chairman and CEO. Up to 125% salary for the CFO. The bonus for on- target performance is 50% of the maximum award. If performance is less than each of the thresholds of the relevant target, no bonus will be awarded.
<b>Performance measures</b>	<p>Awards are based on financial, operational and individual goals set at the start of the year. At least 50% of the award will be assessed against the Company's financial performance in that year. The remainder of the achievement against specific personal and strategic objectives.</p> <p>The Committee reserves the right to make an award of a different amount produced by achievement against the measures if it believes the outcome is not a fair reflection of Company performance.</p> <p>The split between these performance measures will be determined annually by the Committee and exceptionally during the year if there is a compelling reason to do so.</p>

Component – Long term incentive plan	
<b>Purpose and link to strategy</b>	Variable remuneration designed to incentivise and reward the achievement of long-term targets aligned with shareholder interests. The LTIP also provides flexibility in the retention and recruitment of Executive Directors.
<b>Operation</b>	Awards granted under the LTIP vest subject to achievement of performance conditions measured over a three year period. LTIPs may be made as conditional share awards or in other forms (e.g. nil cost options) if it is considered appropriate.  Accrued dividends may be paid in cash or shares, to the extent that awards vest.  The Committee may adjust and amend awards in accordance with the LTIP rules.
<b>Maximum opportunity</b>	175% salary in any scheme year for the Executive Chairman and CEO. 150% salary for the CFO. Any awards made in the same year under the Company Share Option Scheme will be taken into account in applying these limits. In exceptional circumstances awards totalling 200% salary may be made in a year.
<b>Performance measures</b>	Performance measures are currently EPS and relative TSR, with equal weighting given to each measure. The Committee reserves the right to adjust the measures before Awards are granted to reflect relevant strategic targets.  The Committee reserves the right to adjust the outcome produced by achievement against the measures if it believes the outcome is not a fair reflection of Company performance.  Awards are subject to a two-year post-vesting holding period.

Component – Company Share Option Plan (“CSOP”)	
<b>Purpose and link to strategy</b>	Variable remuneration designed to incentivise and reward the achievement of long-term targets aligned with shareholder interests. The CSOP also provides flexibility in the retention and recruitment of Executive Directors.
<b>Operation</b>	Awards granted under the CSOP become exercisable subject to such timings and performance conditions as may be set by the Committee. Options are granted at market value or the nominal share price if higher. Accrued dividends may be paid in cash or shares, to the extent that awards vest. The Committee may adjust and amend awards in accordance with the CSOP rules.
<b>Maximum opportunity</b>	Maximum value of £30,000 at the time of grant, including any existing awards under the CSOP. Overall maximum of 200% salary in any one year including any awards under the LTIP rules.
<b>Performance measures</b>	No CSOP awards to Executive Directors have been made. Details are included only for the purposes of full disclosure.

Component – Share Incentive Plan (“SIP”)	
<b>Purpose and link to strategy</b>	An all-employee plan designed to encourage share ownership.
<b>Operation</b>	The Company operates a SIP in which the Executive Directors are eligible to participate as required for HMRC approval.
<b>Maximum opportunity</b>	Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.
<b>Performance measures</b>	The Company may apply conditions to participation in the SIP, which will apply to all employees, as allowed by HMRC.

Component – Employee Share Purchase Plan (“ESPP”)	
<b>Purpose and link to strategy</b>	An all-employee plan designed to encourage share ownership for US employees
<b>Operation</b>	The Company operates a share purchase plan where US employees are eligible to participate.
<b>Maximum opportunity</b>	Participation in the ESPP is subject to the maximum permitted by the relevant terms.
<b>Performance measures</b>	The Company may apply conditions to participation in the ESPP, which will apply to all employees.



## Notes to the Policy Table

All LTIP and CSOP awards and bonus awards made in respect of the 2018 financial year onwards to Executive Directors are subject to Malus and Clawback provisions. The Committee may, in its absolute discretion, determine to reduce the number of shares to which an award or option relates or cancel it altogether. Alternatively the Committee could impose further conditions on the vesting or exercise of an award or option. At any time within five years of an award being made the Committee may require the Executive Director to transfer to the Company a number of shares or a cash amount in circumstances where:

- (a) The financial statements or results for the Group are materially restated (other than restatement due to a change in accounting policy or to rectify a minor error);
- (b) If in the reasonable opinion of the Board of directors of the Company an Executive Director has deliberately misled the management of the Company and/or the market and/or the Company's shareholders regarding the financial performance of any part of the Group;
- (c) If the Executive Director's actions have caused the Group company and/or the participant's business unit reputational damage;
- (d) An Executive Director's actions amount to serious misconduct or conduct which causes significant financial loss for the Group and/or the participant's business unit;
- (e) There have been overpayments to the Executive Director due to material abnormal write-offs affecting any Group company of an exceptional basis.

## Executive Directors' service contracts

Each of the Executive Directors entered into service contracts that were effective from 15 May 2017. Each are rolling contracts terminable by either party on six months' notice in the case of the Executive Chairman and by either party on 12 months' notice for the CEO and CFO. Each Executive Director receives life insurance, the benefit of which amounts to a maximum of four times basic annual salary. Each Executive Director is entitled to reimbursement of reasonable expenses incurred by them in the performance of their duties. Each Executive Director will be entitled to receive a payment equal to his or her gross annual salary (less any payment in lieu of notice) in the event that there is a change of control of the Company and the Director's employment is terminated within one month of the change of control. The service contracts for Executive Directors make no provision for termination payments, other than for payment in lieu of salary.

## Termination of office policy

If the employment of an Executive Director is terminated, any compensation payable will be determined by reference to the terms of the service contract in force at the time. As variable pay awards are not contractual, treatment of these awards are determined by the relevant rules. The Committee may structure any compensation payments beyond the contractual notice provisions in the contract in such a way as it deems appropriate.

The Company may at its discretion make termination payments in lieu of notice calculated only on base salary. The service agreements for the CEO and CFO allow for garden leave during any notice period.

There is no entitlement to a bonus in any year. The Committee retains discretion to award bonuses for leavers taking into account the circumstances of departure. Any bonus would normally be subject to performance, deferral and time pro-rating as appropriate.

## Non-Executive Director Remuneration

Component – Non-Executive Director Remuneration	
<b>Purpose and link to strategy</b>	Fees are set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees, and to attract and retain Non-Executive Directors of the highest calibre with relevant commercial and other experience.
<b>Operation</b>	The fees paid to the Non-Executive Directors are determined by the Board as a whole. Additional fees are payable for acting as Senior Independent Director and as Chair of the Board's Audit and Risk Committee and Remuneration Committee.
<b>Maximum opportunity</b>	Fee levels are set by reference to Non-Executive Director fees at companies of similar size and complexity and general increases for salaried employees within the Company. The maximum aggregate annual fee for Non-Executive Directors provided in the Company's Articles of Association is £500,000 per annum.
<b>Performance measures</b>	n/a

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and the Company financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and the parent company financial statements in accordance with UK Generally Accepted Accounting Principles, specifically FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs, as adopted by the European Union, have been followed in the Group financial statements and UK accounting standards, specifically FRS 102, have been followed in the parent company financial statements, subject to any material departures disclosed and explained in those financial statements; and
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Annual Report on Remuneration comply with the Companies Act 2006 (the "Act") and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole are fair, balanced and understandable and provide the information necessary to shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 60-61, confirms that, to the best of each person's knowledge and belief:

- The Group financial statements, which have been prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The parent company financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practices, consisting of FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- The Directors' Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group and the Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:

**Andrew Denton**  
CEO  
7 March 2019

### Statutory information

The Directors of Alfa present their report and the audited financial statements for the year ended 31 December 2018. This Report includes information required by the Companies Act 2006 and the Listing Rules 9.8.4R of the UK Financial Conduct Authority's listing rules and forms part of the management report as required by the Disclosure and Transparency Rule 4.

Additional information which is incorporated by reference into this Directors' Report can be located as follows:

Statutory information	Section	Page
Employee Involvement	Strategic Report – CSR	44-49
Employee Diversity and Disabilities	Strategic Report – CSR Nomination Committee Report	46 63-66
Executive Share Ownership and Benefit Plans	Annual Report on Remuneration	76-79
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### Principal activities

The principal activity of the Alfa Group is the provision of software and software-related services to the asset finance industry. Alfa is a public company limited by shares and is incorporated and domiciled in England. Its shares are listed on the London Stock Exchange. The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. Alfa's registration no. is 10713517. The principal activity of the Company is that of a holding company.

The Company's registrar is Equiniti Limited situated at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

### Branches outside of the UK

The Company has subsidiaries in the United States of America, Germany, Australia and New Zealand.

### Contracts of significance

We have no contracts deemed significant.

### Research and development

The Group continued to invest in product research and development throughout the year. The Strategic Report, specifically the Financial Review on page 38-43, sets out the research and product development expensed and £0.4 million was capitalised as internally generated intangible assets during the year ended 31 December 2018, as disclosed in note 10(c) to the consolidated financial statements.

### Employee involvement

We place considerable value on the involvement of our employees, viewing and treating them as valued team members and an integral part of our business and our success. We continue to keep them informed on matters affecting them through both formal and informal meetings and the Group intranet, including the CEO updates. Teams are consulted regularly on a wide range of matters affecting their current and future interests. We are proud to state that the share ownership schemes run throughout the Company, not just at the executive level, and this reflects our commitment to each and every team member within the Alfa family.

Further information on team engagement, as monitored by our internal employee surveys, is included in the CSR Report on pages 44-49. Details of the Group's employee share plans are contained in the Remuneration Report.

### Employee diversity and inclusion

Our policy for the Alfa team and all applicants for employment is to match the capabilities and talents of each individual to the appropriate job. We are committed to ensuring equality of opportunity in all employee relations. We aim to ensure that no employee, potential employee, customer, visitor or supplier will receive less favourable treatment on the grounds of sex, pregnancy, disability, religious beliefs, marital status, race, ethnic origin, nationality, age, sexual orientation or colour.

### Disability

With regard to existing team members and those who may become disabled, Alfa's policy is to examine ways and means to provide continuing employment under the existing terms and conditions and to provide training and career development, including promotion, where appropriate.

## Directors

The names of the persons who, at any time during the financial year and up to the date of this report, were Directors of the Company are:

	Date of appointment	Date of resignation
Andrew Page	4 May 2017	n/a
Andrew Denton	5 May 2017	n/a
Vivienne Maclachlan	4 May 2017	n/a
Richard Longdon	5 May 2017	26 April 2019
Karen Slatford	15 May 2017	n/a
Robin Taylor	5 May 2017	n/a

## Appointment and removal of a Director

The rules governing the appointment and removal of a Director are set out in the Articles of Association of the Company. The Articles of Association may be amended by a special resolution of the shareholders. Specific details relating to the Principal Shareholder, CHP Software and Consulting Limited and their right to appoint Directors are set out in the Directors' Report on page 86.

All Directors will stand for re-election on an annual basis, in line with the recommendations of the Code.

The Articles of Association are available on the corporate governance page of our investor relations website.

## Powers of the Directors

Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year.

Since listing, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

## Directors' interests

The Directors' interests in and options over ordinary shares in the Company are shown in the Annual Report on Remuneration on pages 76-78. Since the end of the financial year and the date of this report, there have been no changes to such interests.

In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Articles and each Director informed of the authorisation and any terms on which it was given. All Directors are aware of the need to consult with the Company Secretary should any possible situational conflict arise, so that prior consideration can be given by the Board as to whether or not such conflict will be approved.

## Directors' indemnities

Each Director of the Company has the benefit of a qualifying indemnity, as defined by section 236 of the Companies Act, and as permitted by the Articles, as well as prospectus liability insurance which provides cover for liabilities incurred by

Directors in the performance of their duties or powers in connection with the issue of the Company's prospectus dated 1 June 2017 in relation to the Listing. In addition, all directors and officers of Group companies are covered by Directors' and Officers' liability insurance.

No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums.

## Share capital

The Company's ordinary shares are listed on the London Stock Exchange. The authorised share capital of the Company as at 31 December 2018 and 27 February 2019, being the latest practicable date prior to the date of this Annual Report, comprises 300,000,000 ordinary shares of 0.1 pence each. Further information regarding the Company's issued share capital can be found in note 11a of the consolidated financial statements.

There have been no movements in the Company's issued share capital since 31 December 2018 through to the date of this Report.

## Shareholders' voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. No shareholder holds ordinary shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

## Restrictions on transfer of ordinary shares

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. All issued share capital of the Company at the date of this Annual Report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

For a period of one year following Admission, each of the Executive Directors, and the senior executives (each, a "Restricted Shareholder") agreed, on the terms and subject to the conditions of the Underwriting Agreement, not to dispose of any of the ordinary shares they held in the Company (the "Initial Lock-Up Period"). This Initial Lock-up Period expired on 1 June 2018 and is followed by three further lock-up periods of 365 days, 720 and 1,095 days. Each of these further lock-up periods commences on the termination of the Initial Lock-Up Period and cover in each occasion a further 25% of the relevant Restricted Shareholder's holding of ordinary shares. The final lock-up period expires on 1 June 2021.

All of the above arrangements are subject to certain customary exceptions.

### Authority to purchase own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act 2006. Any shares bought back may be held as treasury shares or cancelled immediately on completion of the purchase.

At the 2018 AGM, the Company was generally and unconditionally authorised by its shareholders to purchase in the market up to 10 per cent of the ordinary shares of the Company (30,000,000 ordinary shares).

As at 31 December 2018, and at the date of this report, the full extent of this authority remained in force and unused. This authority is renewable annually, and a special resolution will be proposed at the 2019 AGM to request shareholders to renew it. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders in general.

### Transactions with related parties

The only subsisting material transactions which the Company has entered into with related parties is as follows:

#### Relationship Agreement and the Controlling Shareholder

The Relationship Agreement was entered into on 26 May 2017 and regulates the relationship between CHP Software and Consulting Limited (the "Controlling Shareholder") and the Company following listing. Subject to a certain minimum shareholding, the Relationship Agreement details the rights the Controlling Shareholder has to representation on the Board and Nomination Committee and to appoint observers to the Nomination Committee (if no representation on the Committee). The Controlling Shareholder also undertakes not to operate, establish, own or acquire a competing business during the terms of the agreement. Any transactions between Alfa and the Controlling Shareholder will be at arm's length and on normal commercial terms.

The Relationship Agreement complies with the requirements of the LRs, including Listing Rules 9.2.2AR(2)(a), and Listing Rules 6.1.4DR.

In accordance with the requirements of Listing Rules 9.8.4(14), the Board confirms that the Company has complied with its obligations under the Relationship Agreement, including in respect of the independence provisions and, so far as the Controlling Shareholder is aware, the Controlling Shareholder has complied with the provisions of the Relationship Agreement (including the independence and non-compete provisions set out therein), at all times since it was entered into.

Other related party transactions are detailed in note 15 to the consolidated financial statements.

### Amendment of the Articles

The Articles may only be amended by a special resolution of the Company's shareholders in a general meeting, in accordance with the Companies Act.

### Profits and dividends

The consolidated profit for the year ended 31 December 2018 was £18.2 million (FY17: £25.9 million). The results are discussed in greater detail in the financial review on pages 38-43.

No dividends have been paid in or proposed for the financial year ended 31 December 2018.

### Compensation for loss of office and change of control

There are no agreements between the Company and its Directors or Alfa team members providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

The only significant agreements, to which the Company is a party to, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, and the effect thereof, is the Relationship Agreement.

The Relationship Agreement with the Controlling Shareholder contains a provision under which it will terminate upon the earlier of: (i) the Controlling Shareholder and its associates ceasing to have the entitlement to exercise or control the exercise of 10 per cent or more of the voting rights in the Company; or (ii) the Company's ordinary shares ceasing to be admitted to the listing on the Official List of the FCA.

### Significant Shareholdings at 31 December 2018 and 27 February 2019 (being the latest practicable date of this Report)

At the relevant dates, the Company has been notified pursuant to DTR5 or is otherwise aware of the following interests representing 3 per cent or more of the issued ordinary share capital of the Company:

Name of shareholder	No. of ordinary shares at 31 December 2018	% of issued share capital	No. of ordinary shares at 27 February 2019	% of issued share capital at 27 February 2019	Nature of holding
CHP Software and Consulting Limited	197,645,649	65.88	197,645,649	65.88	Direct
Aberdeen Standard Investments (Standard Life)	16,212,587	5.40	16,212,587	5.4	Direct
Carmignac Gestion	10,047,015	3.35	n/a	n/a	Direct
Cambridge Global Asset Management	n/a	n/a	11,160,795	3.72	Direct



## Political donations

The Group made no political donations and incurred no political expenditure during the year (2017: nil). It remains the Company's policy not to make political donations or to incur political expenditure.

At the 2018 AGM, the Directors were generally and unconditionally authorised by the Company's shareholders to make limited political donations up to £10,000, in order to protect against any inadvertent breaches of the relevant provisions of the Companies Act 2006 which are very broad in nature. The Board has no intention of using this authority.

## Interest capitalised in the period

No interest has been capitalised by Alfa in the year ended 31 December 2018.

## Going concern

Despite the challenges faced during the course of this year, the Group remains cash-generative and the Directors believe that the Group has a resilient business model. In making their assessment of going concern, the Directors have considered the current financial projections and facilities available to the Group. On this basis the Directors are satisfied that the Group is well-placed to manage its business risks successfully and therefore have a reasonable expectation that the Group have adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. Accordingly, the financial statements continue to be prepared on a going-concern basis.

## Viability Statement

The viability statement containing a broader assessment by the Board of the Company's ongoing viability is set out in the Strategic Report on pages 36-37.

## Corporate Governance statement

The Company's statement on corporate governance can be found in the Governance report on page 51 of this report. The governance report forms part of this Directors' report and is incorporated by cross reference.

## Disclosure of information to the auditor

Each of the Directors of the Company at the date the Directors' Report is approved confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

Deloitte LLP, the Group's auditor, has indicated its willingness to continue in office and, on the recommendation of the Audit Committee and in accordance with section 489 of the Companies Act of 2006, a resolution to reappoint it will be put to the 2019 AGM.

## Board approval of the Annual Report

The Strategic Report, Corporate Governance Statement and the Governance Report were approved by the Board on 7 March 2019.

Approved by the Board and signed on its behalf by:

**Andrew Denton**

CEO

7 March 2019



# Independent auditor's report to the members of Alfa Financial Software Holdings PLC

## Report on the audit of the financial statements

### Opinion

In our opinion:

- The financial statements of Alfa Financial Software Holdings PLC (the "parent company") and its subsidiaries ("the Group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- The consolidated statement of profit or loss and comprehensive income;
- The consolidated and parent company statements of financial position;
- The consolidated and parent company statements of changes in equity;
- The consolidated statement of cash flows;
- The notes 1 to 21 to the consolidated financial statements; and
- The notes 1 to 12 to the financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those 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 Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

#### Key audit matters

The key audit matters that we identified in the current year were:

- Revenue recognition; and
- Capitalisation of development costs.

These are consistent with the key audit matters identified in the prior period.

#### Materiality

The materiality that we used for the Group financial statements was £1.10 million, which was determined on the basis of 5% of profit before taxation.

#### Scoping

The Group audit team performed full scope audits for Alfa Financial Software Holdings PLC, Alfa Financial Software Group Limited and Alfa Financial Software Limited. Specific audit procedures were carried out on the following companies in the Group:

- Alfa Financial Software Australia Pty Limited;
- Alfa Financial Software Inc;
- Alfa Financial Software NZ Limited; and
- Alfa Financial Software GmbH.

#### Significant changes in our approach

During the period Management has implemented the new accounting standard relating to revenue (IFRS 15). This requires the company to assess whether there is an implicit material right in respect of future maintenance payments which are linked to the on-going use of the Alfa licence. This has been added to our key audit matter in relation to revenue recognition in the current year.

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- The disclosures on pages 33-35 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation on pages 36-37 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- The directors' explanation on pages 36-37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

# Independent auditor's report to the members of Alfa Financial Software Holdings PLC *continued*

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition

#### Key audit matter description

Total Group revenue recognised for the year ended 31 December 2018 was £71.0 million (2017: £87.8 million).

We have focused our work on the inappropriate recognition of revenue where there is:

- i) Risk of incorrect allocation of the transaction price to the different performance obligations;
- ii) Risk that revenue is misstated due to estimated days remaining to complete projects used in percentage of completion calculations; and
- iii) Timing of recognition of out of period items, contract modifications and right to use licence revenues.

Given the level of judgement involved in the identification of distinct performance obligations, we identified this as a potential fraud risk area.

We consider the key judgements to be the estimation of the standalone selling price of a customised licence in the material right calculations, the allocation of time spent between development and implementation days and the specific judgements on items recognised as out of period adjustments.

Further details are included in the critical accounting estimates and judgements note 3.2 and revenue note 3.1 to the consolidated financial statements and the Audit Committee Report on page 69.

#### How the scope of our audit responded to the key audit matter

In response to this key audit matter, we performed the following procedures:

- Evaluated the design and implementation of controls regarding revenue recognition.
- Reviewed trends in monthly revenue recognised by customer to identify any large deviations from expectations.
- Reviewed a sample of new and ongoing contracts to test the completeness of relevant contractual terms identified in Management's technical analysis.
- Engaged in discussions with the project managers to check for completeness of contracts and other contractual arrangements outside the usual terms and/or any contract modifications.
- Tested the key inputs and mathematical accuracy of the percentage of completion calculations.
- Made enquiries of project managers by challenging their estimates of the projected costs to complete, including the allocation of effort between development and implementation performance obligations.
- Carried out a review of the historical budgeting accuracy of the allocation of development and implementation performance obligations.
- Considered the evidence available for standalone selling prices by reference to day rates offered to post go-live customers for consultancy services.
- We have reviewed a sample of accrued and deferred income and evaluated the impact on the financial statements.
- Reviewed the disclosures in the financial statements for: i) changes to revenue policies are clearly described and explained, ii) performance obligations are identified and explained, and iii) critical judgements and key sources of estimation uncertainty.

#### Key observations

We identified differences in judgement around estimates of standalone selling prices included within Management's assessment of material rights and on the timing of recognition of items that relate to previous periods. On balance, we are satisfied that the balance is free from material misstatement.

## Capitalisation of development costs

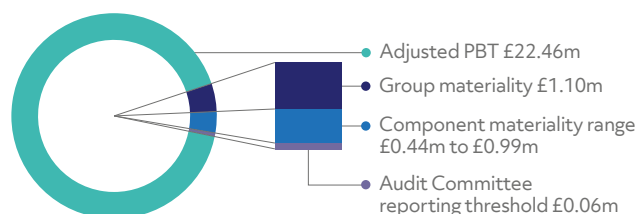
<b>Key audit matter description</b>	<p>The Group expends time in research and product development work in relation to the enhancement of its product. In accordance with IAS 38: Intangible assets internally generated research and development costs can only qualify for capitalisation if the Group can demonstrate all of the recognition criteria are met. The Group considers the eligibility of development costs for capitalisation on a project by project basis.</p> <p>There is a judgement over the point at which work moves from the research phase to the development phase and over whether development costs are creating an asset which is substantially new in functionality or design. Therefore, there is a risk that development costs are not capitalised for projects that create an enduring enhancement to the software capabilities available for sale to other customers.</p> <p>Further details are included in the critical accounting estimates and judgements note 3.2 and operating profit note 4.1 to the consolidated financial statements and the Audit Committee Report on page 70.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In response to this key audit matter, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Evaluated design and implementation testing of the controls surrounding the classification of development costs and the assessment of these costs against IAS 38.</li> <li>• Tested Management's assessment of the customisation and costs incurred on client specific costs, against the criteria set out in the accounting standard, to determine whether an asset is generated for future use with other customers and should be capitalised.</li> <li>• Made enquiries of the development team as to the activities of both the client specific and the non-client specific costs and assessed whether the criteria for capitalisation as per IAS 38 have been met.</li> <li>• Performed tests of details on the allocation and valuation of costs capitalised by testing both the associated 3rd party and employee salary costs.</li> <li>• Reviewed both the numerical and narrative disclosures in the annual report to assess whether there is a fair and balanced presentation of the development costs incurred which is consistent with the accounting judgements applied.</li> </ul>
<b>Key observations</b>	<p>From the procedures performed, whilst we consider Management's assessment of those development costs that should be capitalised to be conservative, we are satisfied that the balance is free from material misstatement and that the associated disclosures are appropriate.</p>

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£1.10 million 2017: £2.06 million	£1.08 million 2017: £2.04 million
<b>Basis for determining materiality</b>	Circa 5% of profit before taxation. 2017: 5% of adjusted profit before taxation. Adjustments were made in respect of IPO costs of £3.0 million and a share-based payment charge of £4.4 million because they were non-recurring.	Materiality equates to less than 1% of the parent company's net assets capped at 99% of the materiality of the Group. This is the same basis as in the prior period.
<b>Rationale for the benchmark applied</b>	As a listed entity, profit before taxation is considered the most appropriate benchmark for users of the financial statements.	As a holding company, the net assets benchmark is considered the most appropriate benchmark on which to base materiality for users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.06 million (2017: £0.10 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. The Group was audited by the Group audit team which also tested the consolidation process.

The Group has seven components (2017: six) and the Group audit team performed full scope audits for Alfa Financial Software Holdings PLC, Alfa Financial Software Group Limited, Alfa Financial Software Limited and specific audit procedures were performed on the remaining components

## Independent auditor's report to the members of Alfa Financial Software Holdings PLC continued

(Alfa Financial Software Australia Pty Limited, Alfa Financial Software Inc, Alfa Financial Software GmbH and Alfa Financial Software NZ Limited). All procedures are performed by the Group audit team.

The total revenue for the components audited together with those on which specific audit procedures were performed represented 100% of the Group's revenue. The component materiality ranged from 40% to 99% of Group materiality totalling £0.44 million to £0.99 million (2017: £0.82 million to £2.04 million).

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

### Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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 directors are responsible for assessing the Group's and the parent company'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 directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

### 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 ISAs (UK) 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of Management and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;



- Discussing among the engagement team and involving relevant internal specialists, including taxation, IT and remuneration, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: revenue recognition and capitalisation of development costs; and
- Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that could have a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, taxation legislation and Market Abuse Regulations.

### Audit response to risks identified

As a result of performing the above, we identified revenue recognition and capitalisation of development costs as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- Enquiring of Management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports; and
- In addressing the risk of fraud through Management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including taxation, IT and remuneration specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- The strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

## Other matters

### Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of directors 5 July 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the year ending 31 December 2017 to 31 December 2018.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Richard Howe FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
7 March 2019



## Consolidated statement of profit or loss and comprehensive income for the years ended 31 December

£'000s	Note	2018	2017
<b>Continuing operations</b>			
Revenue	2/3	71,038	87,777
Implementation and support expenses	4/5	(18,924)	(20,971)
Research and product development expenses	4/5	(16,341)	(13,963)
Sales, general and administrative expenses	4/5	(13,457)	(19,076)
Other operating income		66	62
<b>Operating profit</b>		22,382	33,829
Finance income	7	74	33
<b>Profit before taxation</b>		22,456	33,862
Taxation	8	(4,306)	(7,996)
<b>Profit for the financial year</b>		18,150	25,866
<b>Other comprehensive income:</b>			
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translation of foreign operations	11(b)	376	–
<b>Total comprehensive income, net of tax</b>		376	–
<b>Total comprehensive income for the period</b>		18,526	25,866
<b>Earnings per share (in pence) for profit attributable to the ordinary equity holders of the company</b>			
Basic	17	6.3	9.1
Diluted	17	6.1	8.6
Weighted average no. of shares – basic	17	285,962,898	283,134,180
Weighted average no. of shares – diluted	17	300,000,000	300,000,000

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position for the years ended 31 December

£'000s	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	10(b)	24,737	24,737
Other intangible assets	10(c)	1,203	–
Deferred tax assets	10(d)	8	–
Property, plant and equipment	10(a)	1,455	1,463
<b>Total non-current assets</b>		<b>27,403</b>	<b>26,200</b>
<b>Current assets</b>			
Trade and other receivables	9(a)	4,651	6,887
Accrued income	9(b)/16	9,162	5,505
Prepayments	9(b)	1,452	1,731
Other receivables	9(b)	947	619
Derivative financial assets	9(e)	–	108
Cash and cash equivalents	9(c)	44,922	31,267
<b>Total current assets</b>		<b>61,134</b>	<b>46,117</b>
<b>Total assets</b>		<b>88,537</b>	<b>72,317</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	9(d)	7,588	7,417
Corporation tax	9(d)	2,448	3,956
Contract liabilities – software implementation	3/16	1,662	1,673
Contract liabilities – deferred maintenance	3	3,772	5,046
<b>Total current liabilities</b>		<b>15,470</b>	<b>18,092</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10(d)	–	17
Provisions for other liabilities	9(d)	152	87
<b>Total non-current liabilities</b>		<b>152</b>	<b>104</b>
<b>Total liabilities</b>		<b>15,622</b>	<b>18,196</b>
<b>Capital and reserves</b>			
Ordinary shares	11(a)	300	300
Translation reserve	11(b)	376	–
Retained earnings		72,239	53,821
<b>Total equity</b>		<b>72,915</b>	<b>54,121</b>
<b>Total liabilities and equity</b>		<b>88,537</b>	<b>72,317</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 94-127 were approved and authorised for issue by the Board of Directors on 7 March 2019 and signed on its behalf.

**Andrew Denton**  
Chief Executive Officer

**Vivienne Maclachlan**  
Chief Financial Officer

## Consolidated statement of changes in equity for the years ended 31 December

£'000s	Note	Share capital	Share premium	Translation reserve	Retained earnings	Equity attributable to owners of the parent
<b>Balance as at 1 January 2017</b>		27	11,123	–	73,448	84,598
Profit for the financial year		–	–	–	25,866	25,866
<b>Total comprehensive income for the year</b>		–	–	–	25,866	25,866
Capital reduction		(27)	(11,123)	–	11,150	–
Reorganisation of share capital		300	–	–	(300)	–
Dividends paid to parent		–	–	–	(60,743)	(60,743)
Employee share schemes – value of employee services	6	–	–	–	4,400	4,400
<b>Balance as at 31 December 2017</b>		300	–	–	53,821	54,121
Profit for the financial year		–	–	–	<b>18,150</b>	<b>18,150</b>
Other comprehensive income		–	–	<b>376</b>	–	<b>376</b>
<b>Total comprehensive income for the year</b>		–	–	<b>376</b>	<b>18,150</b>	<b>18,526</b>
Employee share schemes – value of employee services	6	–	–	–	<b>268</b>	<b>268</b>
<b>Balance as at 31 December 2018</b>		<b>300</b>	–	<b>376</b>	<b>72,239</b>	<b>72,915</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated statement of cash flows for the years ended 31 December

£'000s	Note	2018	2017
<b>Cash flows from operations</b>			
Operating profit		<b>22,382</b>	33,829
Adjustments:			
Depreciation and amortisation	10(a)(c)	<b>876</b>	495
Employee share scheme charge	6	<b>305</b>	4,400
Loss on disposal of property, plant and equipment		<b>2</b>	–
Unrealised loss/(gain) on derivative financial instruments	2/9(e)	<b>119</b>	(1,675)
Movement in working capital:			
Movement in trade and other receivables		<b>(1,237)</b>	252
Movement in trade and other payables and provisions (excluding derivative financial instruments and contract liabilities)		<b>(114)</b>	(1,148)
Movement in contract liabilities		<b>(1,379)</b>	(7,300)
<b>Cash generated from operations</b>		<b>20,954</b>	28,853
Settlement of derivative financial instruments and margin calls		<b>(108)</b>	(2,683)
Income taxes paid		<b>(5,846)</b>	(6,888)
<b>Net cash generated from operating activities</b>		<b>15,000</b>	19,282
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	10(a)	<b>(622)</b>	(663)
Payments for software intangible assets	10(c)	<b>(609)</b>	–
Payments for software development costs	10(c)	<b>(407)</b>	–
Repayment of loan by parent company		<b>–</b>	27,043
Interest received		<b>74</b>	33
<b>Net cash (used in)/generated by investing activities</b>		<b>(1,564)</b>	26,413
<b>Cash flows from financing activities</b>			
Dividends paid to parent	15(c)	<b>–</b>	(60,743)
<b>Cash used in financing activities</b>		<b>–</b>	(60,743)
<b>Effect of exchange rate changes</b>		<b>219</b>	49
<b>Net increase/(decrease) in cash</b>		<b>13,655</b>	(14,999)
Cash and cash equivalents at the beginning of the year		<b>31,267</b>	46,266
<b>Cash and cash equivalents at the end of the year</b>	9(c)	<b>44,922</b>	31,267

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## **1. Significant changes in the current reporting period and going concern**

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

### **i. The adoption of the new accounting standards**

### **ii. Delay in software implementation projects**

### **iii. Loss of a significant maintenance customer as of the fourth quarter of 2018**

- (i) **Adoption of new accounting standards** – The Group has updated its accounting policies as a result of adopting IFRS 15 “Revenue from Contracts with Customers”. The Group has applied IFRS 15 using the modified retrospective method of adoption and there have been no resultant changes to the quantum of revenue recognised on application of IFRS 15.

Alfa has also voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15. Contract liabilities such as license amounts collected ahead of implementation completions were previously presented as deferred license amounts.

The other standards, including the application of IFRS 9 “Financial Instruments” on 1 January 2018, did not have any impact on the Group’s accounting policies and did not impact the six months to 30 June 2018 or require retrospective adjustment to prior periods presented.

- (ii) **Delay in software implementation projects** – On 1 June 2018, we announced that one of our major customers had decided to delay its software implementation project for internal reasons with our understanding from the customer being that a restart is expected in 2019. This pause has impacted our results for the year ended 2018 in that software implementation revenue has decreased by £4.1 million and maintenance revenue by £1.2 million.

- (iii) **Loss of a significant maintenance customer as of the fourth quarter of 2018** – As at 31 October 2018, one of our significant maintenance customers confirmed that they were terminating their agreement for maintenance and right-of-use of Alfa Systems. This customer contributed £2.5 million of maintenance revenue annually and £0.4 million of ODS revenue in 2018. As there is no right of clawback on the contractual amounts, £2.5 million of non-recurring maintenance revenue was recognised in 2018 with no revenue expected to be recognised in 2019.

**Assessing the impact of these events** – In assessing the application of a going-concern basis in the preparation of these financial statements, the Directors reassessed that the Group meets its day-to-day working capital requirements through its cash reserves, which were £44.9 million at 31 December 2018 (see note 9(c)). The Group’s forecasts and projections take into account reasonably possible changes in trading performance due to the impact of operational, legal, macro-economic risks or reputational risks.

Having assessed the principal risks, and other matters discussed in the viability statement, the Directors have a reasonable expectation that Alfa has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of signing of this report, and therefore they continue to adopt the going-concern basis of accounting in preparing these consolidated financial statements.

Following the recent decision by the UK population to exit, in due course, from the European Union (“Brexit”), the Directors have considered whether or not this will manifest itself as an additional risk to the Group. While it is difficult to predict the impact of an exit, there may be an impact on the way Alfa does business. The Directors do not consider this to constitute a principal risk to the business, however they will continue to monitor and assess it.

## How the numbers are calculated

### 2. Segments and principal activities

**2.1 Segments** Operating segment and reporting segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (“CODM”). The Group’s Chief Executive Officer (“CEO”), who is responsible for allocating resources and assessing performance, has been identified as the CODM.

The CODM regularly reviews the Group’s operating results in order to assess performance and to allocate resources. The CODM considers the business from a product perspective and, therefore, recognises one operating and reporting segment, being the sale of software and related services. The Group is choosing to present revenue segmentation by type of project and a consolidated adjusted Earnings Before Interest and Taxation (“Adjusted EBIT”) measure, as presented to the CODM, as additional information in this note, along with the required entity-wide disclosure.

The Group discloses revenue split by type of project; Software implementation, Ongoing development and services (“ODS”) and Maintenance.

- a) Software implementation projects – An implementation process contains three types of billing stream; the recognition of a license, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from nine months to five-years depending on the complexity of the implementation or size of customer.

The license element is generally invoiced and collected at the beginning of the project and the license amount is banded by the number of geographies, modules taken by the customer and the number of contracts or agreements to be written and managed on Alfa Systems.

Implementation and development fees are invoiced based on a daily-rate basis.

- b) ODS revenue – represents the ongoing development and services efforts which are either ad hoc projects with existing customers or relate to development or services delivered after a new implementation. The services can be support immediately after an implementation, further development for customer specific functionality or change management assistance. Such services are generally provided on a shorter contractual term.
- c) Maintenance revenue is invoiced periodically in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer’s portfolio increases.

See note 3 for details of our revenue recognition accounting policy and related critical accounting judgements and key sources of estimation uncertainty in relation to revenue recognition.

**2.2 Adjusted EBIT and Adjusted Earnings** The CODM analyses the financial performance of the business on two adjusted profit measures, being adjusted earnings before interest and tax (“Adjusted EBIT”) and adjusted earnings (“Adjusted Earnings”). Adjusted EBIT and Adjusted Earnings are not measures defined by IFRS. The most directly comparable IFRS measure to both Adjusted EBIT and Adjusted Earnings is operating profit for the relevant period.

**Adjusted EBIT** – Adjusted EBIT is defined as profit from continuing operations before income taxes, finance income, pre-IPO share-based compensation and IPO-related expenses. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of the Group or adding items which are reflective of the overall trading operations, as applicable.

**Adjusted Earnings** – Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and pre-IPO share-based compensation, less the tax effect of these adjustments. Adjusted Earnings is used by the CODM in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believe affect shareholder value and in-year return, such as income tax expense and net finance costs.

Management use Adjusted EBIT and Adjusted Earnings to (i) provide senior management with a monthly report of operating results that is prepared on an adjusted earnings basis and (ii) prepare strategic plans and annual budgets on an adjusted-earnings basis. Senior management’s annual compensation may also be reviewed, in part, using adjusted performance measures.

In addition, Adjusted Earnings is used for the purposes of calculating diluted Adjusted Earnings per share. Management uses diluted Adjusted Earnings per share to assess performance on a consistent basis at a per share level. See note 17.



## 2. Segments and principal activities continued

### 2(a) Revenue by type

The Group assesses revenue by type of project, being Software implementations, ODS and Maintenance, as summarised below:

£'000s	2018	2017
Software implementation	30,391	43,654
ODS	23,920	20,831
Maintenance	16,846	21,617
Operating revenue	71,157	86,102
(Loss)/gain on derivative financial instruments	(119)	1,675
<b>Total revenue</b>	<b>71,038</b>	<b>87,777</b>

### 2(b) Adjusted EBIT and Adjusted Earnings

The following tables reconcile profit for the period to Adjusted EBIT and profit for the period attributable to equity holders of the Company to Adjusted Earnings for the periods presented:

£'000s	2018	2017
Profit for the year	18,150	25,866
Adjusted for:		
Taxation	4,306	7,996
Finance income	(74)	(33)
Pre-IPO employee share schemes <sup>(1)</sup>	–	4,400
IPO-related expenses <sup>(2)</sup>	–	3,000
<b>Adjusted EBIT</b>	<b>22,382</b>	<b>41,229</b>

£'000s	2018	2017
Profit for the period attributable to equity holders of the Company	18,150	25,866
Adjusted for:		
Pre-IPO employee share schemes <sup>(1)</sup>	–	4,400
IPO-related expenses <sup>(2)</sup>	–	3,000
Tax effect adjustments <sup>(3)</sup>	–	(290)
<b>Adjusted Earnings</b>	<b>18,150</b>	<b>32,976</b>

(1) Relates to pre-IPO employee share schemes expense as detailed in note 6.

(2) Relates to costs related to the IPO.

(3) IPO-related professional fees, where applicable, were tax-effected based on the applicable rate in the UK in the period in which incurred. Pre-IPO employee share schemes were not deductible for tax purposes and therefore have not been tax-effected.

### 2(c) Non-current assets geographical information

Non-current assets (other than financial instruments and deferred tax assets) attributable to each geographical market:

£'000s	2018	2017
UK	27,096	25,855
US	269	310
Rest of world	30	35
<b>Total non-current assets (other than financial instruments and deferred tax assets)</b>	<b>27,395</b>	<b>26,200</b>

Revenue by geographical market is contained within note 3.

### 3. Revenue from contracts with customers

#### 3.1 Revenue

The Group derives revenue from the following sources:

- (1) software implementation revenue which includes software licenses, software development and other software implementation services;
- (2) software maintenance (help desk and other support services); and
- (3) ongoing development and support services.

The Group provides the right to use, software development services, core implementation services and ongoing support of its product, Alfa Systems. The Group's contractual arrangements contain multiple deliverables or services, such as the development or customisation of the software to the customer's requirements, implementation services such as migration of data and testing and certain project management services.

Alfa assesses whether there are distinct performance obligations at the start of each contract and throughout the performance of the implementation, development and services projects and maintenance period. These performance obligations are laid out below.

#### 3.2 Accounting policy, performance obligations and critical accounting judgements and key sources of estimation uncertainty

The Group has identified the following separate performance obligations:

- (i) **Software implementation services** – Where implementation services are considered to be distinct, i.e. when relatively straightforward, do not require additional development services and could be performed by an external third party, the implementation services are accounted for as a separate performance obligation from any development services. The transaction price is allocated to each performance obligation based on the stand-alone selling prices, derived from day rates and is recognised monthly based on the effort incurred, limited to the amount to which Alfa has a right to payment.
- (ii) **Development services** – The second performance obligation is the granting of a right to use Alfa Systems, which includes the delivery of the related software license and any development efforts which change the underlying code. The total revenue attributable to this performance obligation is estimated at the outset of the relevant software implementation project and recognised as the effort is expended, on a percentage of completion basis, limited to the amount to which Alfa has the right to payment. A percentage-of-completion basis has been used as customers obtain the ability to benefit from the product from the start of the implementation project, the development or customisation of the asset has no alternative use to the Group and the customer is entitled to the benefits of the efforts as at the date the efforts are delivered, so recognition over time is appropriate.  
  
Development services are valued using the residual-value method as there are no stand-alone selling prices which are observable as each project is customised.
- (iii) **Option over the right to use Alfa Systems** – In the event that customers have to pay periodic maintenance fees in order to keep using Alfa Systems, a component of these future maintenance fees is attributable to the right to use the software. In these circumstances the license granted by Alfa is considered to renew in future periods. There may be a material right in respect of discounts in future periods. In order to ascribe a value to this option, management initially determine the periodic value of the development services during the software implementation period and estimate the remaining expected customer life.
- (iv) **Periodic right to use Alfa Systems** – This represents the stand-alone selling price of the periodic option to renew the right to use Alfa Systems. If there is the right of clawback of the annual right to use, such amounts are recognised throughout the annual period. If there is no right of clawback, then the annual right to use amount is recognised in full when there is a right of collection.
- (v) **Periodic maintenance amounts** – This represents the stand-alone selling price of the ongoing support or maintenance of Alfa Systems, which is recognised throughout the period as the services are delivered.

#### Critical judgements in applying the Group's accounting policies

**Revenue recognition – Assessing performance obligations** – The Group is required to make an assessment as to whether the implementation process, which includes license, implementation and development revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. In doing so, the Group assesses each software implementation contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements before Alfa Systems can be utilised by the customer. Therefore there is a judgement required in determining what efforts relate to the implementation process, by assessing whether these efforts can be delivered by a third party and what efforts could be determined to be development and services which change or enhance the underlying code. In making this judgement, the Group assesses the contractual terms and the original project plan for the implementation but also uses historical evidence of what is core implementation work.

### 3. Revenue from contracts with customers *continued*

#### Key sources of estimation uncertainty

**Revenue recognition – percentage of completion estimate** – The Group estimates the number of days required to complete the relevant software-customisation effort at the outset of the project and at each balance sheet date implementation. Estimates of total project days required for a relevant project are based on historical evidence of past implementations, knowledge of the customer's systems being replaced and scope of customisation being requested. The Group applies the percentage-of-completion method when calculating development services revenue and updates estimates at each quarter end accordingly. At 31 December 2018, if the Group's estimates of project days to complete increased by 5% in relation to ongoing software implementation projects, this would result in development services revenue decreasing by £0.3 million in 2018.

#### Key sources of estimation uncertainty

**Revenue recognition – Assigning a stand-alone selling price for implementation services day rates** – The Group assesses the value of the implementation services delivered by assessing the effective day rate for an implementation contract, taking into account all revenue streams from implementation contracts against day rates of similar projects in the same geographies. If the stand-alone selling price in relation to implementation day rate decreased by 5%, this would result in operating profit decreasing by £0.4 million.

#### 3.3 Unrealised gains or losses on derivative financial instruments

The Group has made an accounting policy election to recognise unrealised gains or losses on derivative financial instruments within revenue, therefore such gains or losses are shown net of revenue where instruments have been entered into match the US dollar denominated projected cash flows. £0.1 million of unrealised losses on derivative financial instruments were recognised in the year ended 31 December 2018 (2017: £1.7 million of unrealised gains).

#### Disaggregation of revenue from contracts with customers

**3(a) Customer concentration** – Customers with revenue accounting for more than 10% of total revenue are as follows:

£'000s	2018	2017
Customer A	21%	23%
Customer B	13%	3%
Customer C	10%	10%
Customer D	9%	10%

See note 9(a) for outstanding trade receivables from those customers with revenue accounting for more than 10% of total revenue.

**3(b) Timing of revenue** – The Group derives revenue from the transfer of goods and services over time and at a point in time in the following revenue segments:

2018 – £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – fixed price	–	2,461	–	2,461
Over time – time and materials	30,391	21,459	–	51,850
Over time – fixed price	–	–	16,846	16,846
<b>Total revenue from customers<sup>(1)</sup></b>	<b>30,391</b>	<b>23,920</b>	<b>16,846</b>	<b>71,157</b>

(1) Revenue from customers is presented net of any losses or gains on derivative financial instruments. During 2018 we settled the final portion of our USD forward programme, with £0.1 million of losses recorded against revenue in the period (2017: £1.7 million gain).

2017 – £'000s	Software implementation	ODS	Maintenance	Total revenue
Over time – time and materials	43,654	20,831	–	64,485
Over time – fixed price	–	–	21,617	21,617
<b>Total revenue from customers<sup>(1)</sup></b>	<b>43,654</b>	<b>20,831</b>	<b>21,617</b>	<b>86,102</b>

(1) Revenue from customers is presented net of any losses or gains on derivative financial instruments. During 2018 we settled the final portion of our USD forward programme, with £0.1 million of losses recorded against revenue in the period (2017: £1.7 million gain).

All goods and services are sold directly to the customer.

**3(c) Revenue geographical information** – Revenue attributable to each geographical market based on where the license is sold or the service is as follows:

£'000s	2018	2017
UK	22,847	30,686
US	33,124	40,492
Rest of world	15,186	14,924
<b>Total revenue from customers<sup>(1)</sup></b>	<b>71,157</b>	<b>86,102</b>

(1) Revenue from customers is presented net of any losses or gains on derivative financial instruments. During 2018 we settled the final portion of our USD forward programme, with £0.1 million of losses recorded against revenue in the period (2017: £1.7 million gain).

**3(d) Revenue by currency** – Revenue by contractual currency is as follows:

£'000s	2018	2017
GBP	23,608	34,349
USD	36,532	40,695
Euro	5,830	2,481
Other	5,187	8,577
<b>Total revenue from customers<sup>(1)</sup></b>	<b>71,157</b>	<b>86,102</b>

(1) Revenue from customers is presented net of any losses or gains on derivative financial instruments. During 2018 we settled the final portion of our USD forward programme, with £0.1 million of losses recorded against revenue in the period (2017: £1.7 million gain).

**3(e) Assets and liabilities from contracts with customers**

£'000s	2018	2017
Contract liabilities – deferred license	1,662	1,673
Contract liabilities – deferred maintenance	3,772	5,046
	<b>5,434</b>	<b>6,719</b>

**Significant changes in contract liabilities** – Contract liabilities have remained relatively constant as the Group has collected \$5.4 million (£4.1 million) in relation to license fees from software implementation customers and adjusted £1.7 million in relation to reassessment of total time to complete the implementation, offset by £4.3 million recognised in the year.

## 4. Operating profit

**4.1 Operating profit** is calculated after items such as personnel costs (including training and recruitment), cost of hardware not capitalised, research and development costs and other infrastructure expenses.

**Implementation and Services expenses** – Such expenses relate to the remuneration of personnel assigned to software implementation services, in addition to project-related travel and accommodation expenses and an appropriate portion of relevant overheads.

**Research and product development expenses** – The Group invests a substantial part of its time in research and product development work in relation to the enhancement of its product platform and capabilities. Research and product development work is charged to the client where it is linked to specific client projects such as initial software implementations. The Group's research and product development costs include remuneration costs and an appropriate portion of relevant overheads.

Internally generated research and product development costs only qualify for capitalisation if the Group can demonstrate all of the criteria explained in note 10(c), which presents capitalised development costs, disclosed as internally generated intangible assets. If the criteria are not met, such expenditure is recognised as an expense in the period in which it is incurred. The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

All other operating costs are recorded through "Sales, general and administrative expenses."

The following items have been included in arriving at operating profit:

£'000s	2018	2017
Personnel costs	33,361	31,197
Training and recruitment	516	1,036
Other personnel related expenses	2,726	2,320
Advertising, sponsorship and marketing expenses	822	855
Depreciation and amortisation (note 10(a) and 10(c))	876	495
Property costs	2,750	1,857
Travel costs	3,862	4,057
IT expenses	1,498	1,241
Professional advisor costs	1,670	4,579
Insurance	216	193
Foreign currency differences	(523)	1,100
Employee share schemes (note 6)	268	4,400
Other	680	680

A further split by function is set out below:

£'000s	2018	2017
Personnel costs	12,522	14,620
Travel costs	3,862	4,057
IT expenses	1,213	1,241
Overhead allocation	1,327	1,053
<b>Implementation and support expenses</b>	<b>18,924</b>	<b>20,971</b>
Personnel costs	14,723	12,445
Overhead allocation	1,618	1,518
<b>Research and product development expenses</b>	<b>16,341</b>	<b>13,963</b>
Personnel costs	8,842	6,452
Advertising, sponsorship and marketing expenses	822	855
Professional advisor costs	2,128	4,579
Depreciation and amortisation (note 10(a) and 10(c))	876	495
Foreign currency differences	(523)	1,100
Employee share schemes (note 6)	268	4,400
Overhead allocation	1,044	1,195
<b>Sales, general and administrative expenses</b>	<b>13,457</b>	<b>19,076</b>

## 5. Personnel costs

**Employee benefits** – The Group provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

**Short-term benefits** – Short-term benefits, including health cover and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

**Post-employment benefits** – The Group operates various defined contribution plans for its employees. A defined contribution plan is a pension plan where the Company pays fixed contributions into a separate independent entity. The Group has no legal or constructive obligation 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.

**Employee share schemes** – Expense in relation to employee share schemes is recognised in line with the accounting policy in note 6.

### Personnel costs

£'000s	2018	2017
Wages, salaries and short-term benefits	28,366	24,524
Social security	4,322	5,050
Post-employment benefits	2,094	1,624
Employee share schemes	268	4,400
<b>Total personnel costs</b>	<b>35,050</b>	<b>35,598</b>

Average monthly number of people employed (including Directors)	2018	2017
UK	235	218
US	72	67
Rest of World	20	16
<b>Total average monthly number of people employed</b>	<b>327</b>	<b>301</b>

Average monthly number of people employed (including Directors)	2018	2017
Software implementation	110	110
Research and product development	152	142
Sales, general and administrative	65	49
<b>Total average monthly number of people employed</b>	<b>327</b>	<b>301</b>



## 6. Employee share schemes

Employee share schemes are schemes in which the Group receives goods or services as consideration for its own equity instruments. These are accounted for as equity-settled share-based payments. The grant date fair value of the employee share scheme is recognised as a personnel cost, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model where required, taking into account the terms and conditions upon which the options were granted and is charged to the income statement on a straight-line basis over the vesting period of the award. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The Group has two schemes in existence, being the 2018 LTIP plan granted in May 2018 and the 2014/2015 pre-IPO plan.

£'000s	2018	2017
Employee share schemes – value of services	268	4,400
Expense in relation to fair value of social security liability on employee share schemes	37	–
<b>Total cost of employee share schemes</b>	<b>305</b>	<b>4,400</b>

	Year of grant	Vesting date	2018 Number of shares	2017 Number of shares
2018 LTIP plan	2018	1 June 2021	1,733,375	–
2014/2015 pre-IPO plan	2014/2015	4 equal tranches from 1 June 2018	11,627,878	16,744,191

	2018 LTIP		2014/2015 pre-IPO plan	
Number of shares	2018	2017	2018	2017
Issued and outstanding at the beginning of the year	–	–	16,744,191	16,854,351
Granted during the year	1,745,250	–	–	–
Vested during the year	–	–	(4,867,716)	(110,160)
Forfeited during the year	(11,875)	–	(248,597)	–
<b>Issued and outstanding at the end of the year</b>	<b>1,733,375</b>	<b>–</b>	<b>11,627,878</b>	<b>16,744,191</b>

**2018 LTIP plan** – Under the 2018 LTIP plan, awards in the form of nil cost options over ordinary shares in Alfa were granted on 31 May 2018 to selected employees in accordance with the Group's Long-Term Incentive Plan approved by shareholders at the annual general meeting on 24 April 2018. Shares in the company are transferred to participants at the end of the three-year service period if they continue to be employed by the Group throughout the period.

**Calculation of the fair value of the 2018 LTIP plan** – None of the outstanding options have an exercise price. The weighted average contractual life is 3 years (2017: 3.5 years).

The 2018 LTIP plan is valued using the grant date share price as a proxy for fair value of the option adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the option scheme and as such no performance conditions are included in the fair value calculations. The market price of the shares at the grant date which was £1.43, which is the weighted average fair value of those share options at the measurement date. Assumptions used in relation to fair value include no dividends expected to be paid on the shares in the next three-years. Employee attrition has been assumed at 45%.

The Group's shares have only been quoted since June 2017, therefore the amount of historical share price data was considered insufficient to determine the expected volatility parameter at the time of valuation. This was therefore assessed based on the volatilities of certain quoted companies that were considered to offer some degree of comparability to the Company. These volatilities were assessed based on a measurement period of the past 10 years. The fair value of the Company's shares was the intrinsic value at the date of grant as the exercise price was nil.

The appraisal value at the date of grant (being 4 October 2018), with a three-year vesting period, was determined to be the intrinsic value at that date.

**2014/2015 pre-IPO plan** – The Group granted 91,020 Ordinary A shares and 75,689 Ordinary A1 shares to employees in 2014 and 2015, which were subsequently re-measured to fair value when a listing event became probable in the fourth quarter of 2016. The share-based compensation charge in relation to these grants has been recognised in full in the year ended 31 December 2017.

## 7. Finance income

**Finance income** is recognised on related party loans using the effective interest method. See note 9.2 for further details on effective interest method.

£'000s	2018	2017
Interest income on cash or short-term bank deposits	74	33

## 8. Income tax expense

**Taxation expense** for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

**i) Current tax** – 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.

**ii) Deferred tax** – Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's consolidated 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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.

### Analysis of charge in the year

£'000s	2018	2017
Current tax		
Current tax on profit for the year	3,800	7,326
Adjustment in respect of prior years	(73)	(63)
Foreign tax on profit of subsidiaries for the current year	605	728
<b>Current tax</b>	<b>4,332</b>	<b>7,991</b>
Deferred tax		
Origination and reversal of temporary differences	(29)	5
Adjustment in respect of prior years	3	–
<b>Deferred tax</b>	<b>(26)</b>	<b>5</b>
<b>Total tax charge in the year</b>	<b>4,306</b>	<b>7,996</b>

## 8. Income tax expense continued

The effective tax rate for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

### Analysis of charge in the year

£'000s	2018	2017
Profit on ordinary activities before taxation	22,456	33,862
Profit on ordinary activities at the standard rate of corporation tax	4,267	6,518
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	84	353
Expenses not deductible for tax purposes	51	383
Income not taxable for tax purposes	(26)	(26)
Share-based payment	–	847
Adjustment in respect of prior years	(70)	(63)
Group relief	–	(16)
<b>Total tax charge for the year</b>	<b>4,306</b>	<b>7,996</b>

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 on 6 September 2016. These include reductions to the main rate of corporation tax to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

## 9. Financial assets and liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the Group;
  - Trade receivables (note 9(a));
  - Other financial assets at amortised cost (note 9(b));
  - Cash and cash equivalents (note 9(c));
  - Trade and other payables (note 9(d)); and
  - Derivative financial instruments (note 9(e))
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial assets and liabilities:

£'000s	Notes	2018	2017
Financial assets at amortised cost			
Trade receivables	9(a)	4,651	6,887
Other financial assets at amortised cost	9(b)	11,561	7,855
Cash and cash equivalents	9(c)	44,922	31,267
Derivative financial assets – used for hedging	9(e)	–	108
<b>Total financial assets</b>		<b>61,134</b>	<b>46,117</b>
Financial liabilities at amortised cost			
Trade and other payables	9(d)	7,588	7,417
Contract liabilities		5,434	6,719
<b>Total financial liabilities</b>		<b>13,022</b>	<b>14,136</b>

**9.1 Financial assets and liabilities** are recognised in the statement of financial position when the Group becomes party to the contractual provision of the instrument.

**9.2 Financial assets** are classified as either financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are initially recognised at fair value plus, in the case of financial assets not subsequently reported at fair value through profit or loss, transactions costs that are attributable to the acquisition of the financial asset.

Subsequent measurement – Financial assets at fair value through profit or loss (FVTPL).

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Revenue.' FVTPL financial assets are classified as current assets.

Loans and receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents (notes 9(a) and 9(c)).

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, except for the current portion where the recognition of interest would be immaterial. The effective interest income is recognised in profit or loss within "Finance income".

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Impairment of financial assets – Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted. The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets carried at amortised costs with the exception of trade receivables, where the carrying amount may be reduced through the use of an allowance account (note 9(a)).

**9.3 Financial liabilities** are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised costs, net of directly attributable costs.

Subsequent measurement – Financial liabilities at fair value through profit or loss (FVTPL) – Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; and
- A derivative not designated and effective as a hedging instrument.

Financial liabilities measured at amortised cost – Financial liabilities measured at amortised cost are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The resulting discounted interest charge is recognised in profit or loss within 'Finance costs'.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

## 9. Financial assets and liabilities *continued*

**9.4 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 the assumptions that market participants would use when pricing the asset or liability, 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 is available to measure fair value, maximising the use of relevant observable inputs and minimising 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 categorised 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 recognise transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

### 9 (a) Trade receivables

**9.5 Trade receivables** are amounts due from customers for licenses sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment loss is recognised 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. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recognised in the income statement within "Sales, general and administrative expenses" and subsequent recoveries are credited in the same account previously used to recognise the impairment charge.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The credit qualities of these receivables are periodically assessed by reference to external credit ratings (if available) or to historical information about their default rates. The Group does not hold any collateral as security.

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 the contractual amount or the fair value initially recognised.

£'000s	2018	2017
Trade receivables	4,651	6,887
Provision for impairment	–	–
<b>Trade receivables – net</b>	<b>4,651</b>	<b>6,887</b>

### Ageing of trade receivables

Ageing of net trade receivables £'000s	2018	2017
Less than 30 days	3,976	5,596
Past due 31-90 days	643	1,291
Past due 91+ days	32	–
<b>Trade receivables – net</b>	<b>4,651</b>	<b>6,887</b>

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation.

#### Currency of trade receivables

£'000s	2018	2017
GBP	1,109	2,833
USD	2,993	3,109
Other	549	945
<b>Trade receivables – net</b>	<b>4,651</b>	<b>6,887</b>

**Trade receivables due from significant customers** – Customers with revenue accounting for more than 10% of total revenue have outstanding trade receivables as follows:

£'000s	2018	2017
Customer A	2,228	1,541
Customer B	–	–
Customer C	542	658
Customer D	475	372

As at issuance of these financial statements, 86% of amounts relating to customers accounting for more than 10% of total revenue had been collected.

**Impairment and risk exposure** – Information about the impairment of trade receivables and the Group's exposure to market risk (specifically foreign currency risk) and credit risk can be found in note 13(a) and (b).

#### 9 (b) Other receivables held at amortised cost

£'000s	2018	2017
Accrued income	9,162	5,505
Prepayments	1,452	1,731
Other receivables	947	619
<b>Total other receivables held at amortised cost</b>	<b>11,561</b>	<b>7,855</b>

**9.6 Accrued income** represents fees earned but not yet invoiced at the reporting date which has no right of offset with contract liabilities – deferred license amounts.

Accrued income increased by £3.7 million representing an increase due to termination settlements of £1.8 million to be invoiced in 2019 and an increase in ODS customer activity. In relation to customers which had accrued income balances at 31 December 2018, £10.8 million had been invoiced and £3.8 million collected as at 28 February 2019.

#### 9(c) Cash and cash equivalents

**9.7 Cash and cash equivalents** include cash at bank and in hand as well as short-term deposits with original maturities of three months or less.

£'000s	2018	2017
Cash at bank and in hand	44,922	30,283
Short-term deposits	–	984
<b>Cash and cash equivalents</b>	<b>44,922</b>	<b>31,267</b>

Short-term deposits relate to deposit accounts held in relation to financial instruments.

#### Currency of cash and cash equivalents

£'000s	2018	2017
GBP	20,882	19,341
USD	16,877	9,955
Euro	4,751	591
SEK	206	334
AUD	1,813	472
Other	393	574
<b>Cash and cash equivalents</b>	<b>44,922</b>	<b>31,267</b>



## 9. Financial assets and liabilities continued

### 9(d) Trade and other payables

**9.8 Trade payables** are obligations to pay for goods or services which have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method.

Trade and other payables are initially recorded at fair value and subsequently measured at amortised 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 the contractual amount or the fair value initially recognised.

Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

**9.9 Provisions** are recognised 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. 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.

£'000s	2018	2017
Trade payables	7,588	7,417
Corporation tax	2,448	3,956
Deferred tax liabilities	–	17
Contract liabilities – software implementation	1,662	1,673
Contract liabilities – deferred maintenance	3,772	5,046
Provisions for other liabilities	152	87
<b>Total trade and other payables</b>	<b>15,622</b>	<b>18,196</b>
Less non-current portion	(152)	(87)
<b>Total current trade and other payables</b>	<b>15,470</b>	<b>18,109</b>

See note 8 for further information on corporate tax liabilities.

See note 3 and 16 for further information on contract liabilities.

£'000s	Provision for wear and tear
<b>At 1 January 2017</b>	58
Provided in the period	29
<b>At 31 December 2017</b>	87
Provided in the period	65
<b>At 31 December 2018</b>	152

Provisions for general wear and tear are made for expected future expenditure of the Alfa headquarters at Moor Place in London in accordance with lease obligations and are based on the Group's best estimate of the likely committed cash outflow. These costs are expected to be incurred at the end of the lease and therefore have been classified as non-current.

### 9(e) Derivative financial instruments

**9.9 Derivative financial instruments** are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at fair value at each reporting date. The method of recognising the gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item. The Group designates derivatives as held for trading. While providing effective economic hedges under the Group's risk management policies, certain derivatives are not designated as hedging instruments according to IFRS 9 "Financial Instruments".

They are classified as held for trading and the changes in the fair value are immediately recognised within "Revenue". See note 3 for further information. Related cash flows are reported as cash flows from investing activities. Derivatives not designated for hedge accounting are classified as a current asset or liability.

The Group has nil foreign currency financial instruments assets outstanding at 31 December 2018 (2017: £0.1 million assets). The Group has used Level 2 inputs for determining and disclosing the fair value of financial instruments.

## 10. Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability:
  - Property, plant and equipment (note 10(a));
  - Goodwill (note 10(b));
  - Other intangible assets (note 10(c)); and
  - Deferred income tax (note 10(d)).
- accounting policies; and
- information about determining the fair value of the assets and liabilities, including judgements and estimation uncertainty involved.

### 10(a) Property, plant and equipment

**10.1 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:

Furniture and fittings	3 -10 years
IT equipment	3-5 years
Motor vehicles	10 years, or over life of the lease

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 the income statement as incurred. Any gains or losses on disposals are recognised within "Sales, general and administrative expenses" in the income statement unless otherwise specified.

**10.2 Impairment of finite lived non-financial assets** – Finite lived non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

£'000s	Fixtures and fittings	IT equipment	Motor vehicles	Total
<b>Cost</b>				
At 1 January 2017	1,245	3,162	40	4,447
Additions	43	610	–	653
Disposals	(247)	(1,261)	–	(1,508)
At 31 December 2017	1,041	2,511	40	3,592
<b>Depreciation</b>				
At 1 January 2017	533	2,586	23	3,142
Charge for the year	103	384	8	495
Disposals	(247)	(1,261)	–	(1,508)
At 31 December 2017	389	1,709	31	2,129
<b>Net book value</b>				
At 31 December 2017	652	802	9	1,463
<b>Cost</b>				
At 1 January 2018	1,041	2,511	40	3,592
Additions	95	527	–	622
Foreign exchange	12	75	–	87
Disposals	(1)	(254)	–	(255)
At 31 December 2018	1,147	2,859	40	4,046
<b>Depreciation</b>				
At 1 January 2018	389	1,709	31	2,129
Charge for the year	121	494	8	623
Foreign exchange	13	79	–	92
Disposals	(1)	(252)	–	(253)
At 31 December 2018	522	2,030	39	2,591
<b>Net book value</b>				
At 31 December 2018	625	829	1	1,455

## 10. Non-financial assets and liabilities continued

### Sub-lease rentals

One of the leased properties is sub-leased to tenants under long-term operating leases, with rentals payable monthly. Minimum lease payments receivable on these sub leases of property are as follows:

£'000s	2018	2017
Within one year	427	–
Later than one year but not later than 5 years	900	–
Later than 5 years	–	–
<b>Total sub-lease payments receivable</b>	<b>1,327</b>	<b>–</b>

### 10(b) Goodwill

**10.3 Goodwill** arose on the acquisition of subsidiaries in 2012 as part of a group reorganisation and represents the excess of the consideration transferred and the amount of any non-controlling interest in the investment over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed.

Goodwill is tested annually for impairment. The carrying amount is allocated to the cash-generating unit (“CGU”) that is expected to benefit from investment and which 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 recognised immediately as an expense and is not subsequently reversed.

£'000s	2018	2017
<b>Cost</b>		
At 1 January	24,737	24,737
At 31 December	24,737	24,737

**Impairment of goodwill** – The Group tests annually whether goodwill has suffered any impairment on an annual basis in accordance with the accounting policy stated above. There is one CGU, being the Group, as its geographical operations do not have separate or distinct cash inflows. The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections based on financial budgets for a five-year period using a discount rate of 12%. Cash flows beyond these periods have been extrapolated using a steady 2% average growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Group operates.

Budgeted cash flow projections are based on the expectation of signing new customers in the Group's sales pipeline as well as ongoing projects or ODS projects with existing customers. Budgeted gross margin is based on historical evidence and the 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 CGU. The pre-tax discount rate reflects the current market assessment of the time value of money and the risks specific to the Group for which the estimates of future cash flows have not been adjusted, as required by IFRS.

Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount.

## 10(c) Other intangible assets

Internally generated research and product development costs only qualify for capitalisation if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products, modules or capabilities is not proven until all high risk development issues have been resolved through testing in the marketplace. Development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria, where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

The Group amortises intangible assets with a limited useful life, using the straight-line method over the following periods:

- Computer software – license period or up to 10 years as applicable
- Internally generated software – 3-5 years.

£'000s	Computer software	Internally generated software	Total other intangible assets
<b>Net book value</b>			
At 31 December 2017	–	–	–
<b>Cost</b>			
At 1 January 2018	–	–	–
Additions	1,049	407	1,456
At 31 December 2018	1,049	407	1,456
<b>Amortisation</b>			
At 1 January 2018	–	–	–
Charge for the year	253	–	253
At 31 December 2018	253	–	253
<b>Net book value</b>			
At 31 December 2018	796	407	1,203

**Significant movement in other intangible assets** – During 2018, Alfa implemented a new HR and finance system at a cost of £1.1 million, including £0.6m of subscription costs. The externally acquired computer software will be amortised over either the license period or 10 years, as applicable.

### Critical judgements in applying the Group's accounting policies

**Internally generated software development – Assessing whether project meets criteria of IAS 38** – Group is required to make an assessment of 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 judgement. In making this judgement, 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, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

The total research and product development expense for the period was £16.3 million (2017: £14.0 million) and there was £0.2 million capitalised personnel costs in the year and £0.2 million of capitalised external agency costs (2017: nil).

## 10. Non-financial assets and liabilities *continued*

### 10(d) Deferred income tax

The provision for deferred tax consists of the following deferred tax assets/(liabilities) relating to accelerated capital allowances and short-term timing differences in relation to unpaid pensions accruals and share-based payments.

£'000s	2018	2017
Deferred tax assets due within 12 months	30	21
Deferred tax liabilities due within 12 months	(22)	(38)
<b>Total</b>	<b>8</b>	<b>(17)</b>

There are no balances due after 12 months.

£'000s	2018	2017
Balance as at 1 January	(17)	(22)
Adjustments in respect of prior period	(1)	–
Deferred income taxes recognised in the income statement	26	5
Balance as at 31 December	8	(17)
Consisting of:		
Depreciation in excess of capital allowances	22	38
Other timing differences	(30)	(21)

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as the Group is able to control the timing of these temporary differences and it is probable that they will not reverse in the foreseeable future. Unremitted earnings totalled £7.6 million at 31 December 2018 (2017: £4.0 million).

## 11. Equity

### 11(a) Ordinary shares

**Ordinary shares** are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

	2018		2017	
	Shares	£'000s	Shares	£'000s
<b>Issued and fully paid</b>				
Ordinary shares – 0.1 pence	300,000,000	300	300,000,000	300
Balance as at 31 December	300,000,000	300	300,000,000	300

No additional shares have been issued or cancelled in the year ended 31 December 2018.

### 11(b) Other reserves

Cumulative translation reserve	£'000s
At 1 January 2017 and 31 December 2017	
Currency translation of subsidiary	376
At 31 December 2018	<b>376</b>

Exchange differences arising on translation of the foreign controlled entity are recognised in OCI and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

At the end of 2017, the functional currency of one of our subsidiaries changed to the local currency in which it operated due to a change in the underlying contracting method with customers.

## 12. Critical judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note explains where there have been actual adjustments this year as a result of changes to previous estimates.

The Group's areas involving significant judgements or estimates are as follows:

- Critical judgement – Revenue recognition – Assessing performance obligations (note 3)
- Key sources of estimation uncertainty – Revenue recognition – percentage of completion estimate (note 3)
- Key sources of estimation uncertainty – Revenue recognition – Assigning the transaction value to performance obligations (note 3)
- Critical judgement – Internally generated software development – assessing whether the project meets the criteria of IAS 38 (note 10(c))

## 13. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Area	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Contracted revenue and costs denominated in a currency other than the entity's functional currency; and Monetary assets and liabilities denominated in a currency other than the entity's functional currency.	Cash flow forecasting	Natural hedging from localised cost base
Credit risk – cash balances	Cash and cash equivalents	Credit ratings	Diversification of bank deposits
Credit risk – customer receivables	Trade receivables and contract assets	Ageing analysis Credit ratings	Diversification of credit limits and letters of credit
Liquidity	Cash and cash equivalents	Cash flow forecasting	Collection of up-front license fees, ageing analysis of customer receivables

The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has used financial instruments to hedge certain risk exposures in the past. Risk management is carried out by the finance function under policies approved by the Chief Financial Officer. The finance function identifies, evaluates and mitigates financial risks when deemed necessary.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure.

### 13(a) Market risk

#### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to those described below. Revenue is predominantly denominated in pounds sterling and US dollar. Operating costs are influenced by the currencies of the countries where the Group's subsidiaries are based and the pounds sterling and the US dollar are the currencies most significantly influencing operating costs.

The split by currency in relation to trade receivables is set out in note 10(b).

The Group's exposure to foreign currency risk in relation to revenue is set out in note 4.

All instruments have been settled as of 31 December 2018. The notional principal amounts of the outstanding commercial foreign exchange contracts at 31 December 2017 were \$9.0 million or £6.7 million.



### **13. Financial risk management continued**

In 2019, the Group intends to naturally hedge exposure to foreign currency risk by entering into customer contracts in local currency, with a matching cost base. Previously the policy of the Group had been to hedge committed and highly probable forecasted foreign currency operational transactions. The Group had used foreign exchange forwards for this purpose. Hedge accounting had not been applied and therefore the mark-to-market impact is recorded net of revenue. For the year ended 31 December 2018, the impact of these derivatives was an unrealised loss of £0.1 million (2017: gain of £1.7 million) as the US dollar depreciated against pounds sterling in 2018 compared to 31 December 2017. The offsetting loss related to the forecasted revenue is not visible due to the sales not yet being recorded in the books of the Group as a significant amount of US dollar denominated revenue is in relation to license and maintenance which are recognised rateably in the income statement.

As the US dollar appreciates against pounds sterling, the derivative contracts entered into with financial institutions have a negative mark-to-market. The Group's financial derivative counterparties require margin call should its mark-to-market exceed a pre-agreed contractual limit. In order to protect from the potential margin calls for significant market movements, the Group holds a liquidity buffer in cash and monitors margin requirements on a daily basis for adverse movements in the US dollar versus pounds sterling.

At 31 December 2018 and 2017, the margin requirement related to foreign exchange hedges was nil and nil respectively.

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2018 would impact revenue and operating profit (excluding share-based payments) by 6% and 15% respectively.

#### **13(b) Credit risk**

##### **(i) Credit risk related to transactions with financial institutions**

Credit risk with financial institutions is managed by the Group's finance function in accordance with a Board approved policy. Management is not aware of any significant risks associated with financial institutions as a result of cash and cash equivalents deposits (including short-term investments) and financial derivative transactions.

All financial counterparties where assets held are over £250,000 are AA rated or above (as per ratings from Moody's Investor Services).

##### **(ii) Credit risks related to customer trade receivables**

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, change of strategy and default or delinquency in payments are considered indicators that the trade receivable could be impaired. Given the complexity, the size and the length of certain software implementation of service-related projects, a delay in the settlement of an open trade receivable does not constitute objective evidence that the trade receivable is impaired.

The Group has a relatively diverse customer base geographically and by industry. The responsibility for customer credit risk management rests with management of the Group. Payment terms are set in accordance with practices in the different geographies and end-markets served, typically being 30 days from the date of the invoice. Trade receivables are actively monitored and managed. Collection risk is mitigated through the use of upfront payments of licenses and maintenance. Historically, there has been a de minimis level of customer default as a result of the long history of dealing with the Group's customer base and an active credit monitoring function. Where applicable, credit limits may be established based on internal or external rating criteria, which take into account such factors as the financial condition of the customers, their credit history and the risk associated with their industry segment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts, other than where the Group has collected upfront payments in the form of license fees at the start of a software implementation contract. The Group has therefore concluded that the expected loss rates for trade receivables are less than the loss rates for the contract assets.

The expected loss rates of trade receivables are based on the payment profiles of customer invoices over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates would then be adjusted to reflect current or forward-looking information in relation to any macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has not identified any current factors or forward-looking information which would be relevant to the historical loss rates as all trade receivables have been collected in the past 24 months. Therefore, on this basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was nil, for both trade receivables and contract assets.

See note 9(a) – Trade and other receivables for the ageing of trade receivables and significant customer credit risk exposure.

### 13(c) Liquidity risk

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 capital structure of the Group consists of cash and cash equivalents (note 9(c)) and equity attributable to equity holders of the parent.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its exposure to liquidity risk through short and long-term forecasts and by seeking to align the maturity profiles of its financial assets with its financial liabilities. The Group's policy is to maintain an adequate level of liquidity to meet its liabilities expected to be settled in the short or near term, under both normal and stressed conditions.

The following table details the remaining contractual maturity of the Group's derivative and non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

£'000s	31 December 2018				
	Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
Trade and other payables	7,588	–	–	–	–
Provisions	–	–	–	–	152

£'000s	31 December 2017				
	Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
Trade and other payables	7,417	–	–	–	–
Provisions	–	–	–	–	87

## 14. Unrecognised items

### 14 (a) Contingencies and commitments

The Group has no capital commitments, no material contingent liabilities and no contingent assets.

### 14(b) Non-cancellable operating leases

**14.1 Operating leases**, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Various buildings, machinery and equipment from third parties are leased under operating lease agreements. Under such operating lease agreements, the total lease payments are recognised as rent expense on a straight-line basis over the term of the lease agreement, and are included in "Sales, general and administrative expenses," reflecting the nature of the leased assets. Lease incentives received to enter into an operating lease are credited to the consolidated income statement, to reduce the lease expense, on a straight-line basis, over the period of the lease. The Group's property lease in respect of its London headquarters has a lease term of ten years, with a five-year extension.

Operating lease commitments relate to property and motor vehicle leases. Operating lease payments in the year amounted to £2.3 million (2017: £1.3 million). Future operating lease payments, in respect of non-cancellable leases, are set out below at the applicable dates:

£'000s	2018	2017
Within one year	2,465	1,302
Later than one year but not later than 5 years	9,306	4,535
Later than 5 years	7,856	3,566

### 14 (c) Events occurring after the reporting period

There have been no reportable subsequent events.

## Other information

### 15. Related parties

#### 15 (a) Controlling shareholder

The ultimate parent undertaking is CHP Software and Consulting Limited (the “Parent”), which is the parent undertaking of the smallest and largest group in relation to these consolidated financial statements. The ultimate controlling party is Andrew Page.

#### 15 (b) Subsidiaries

**Subsidiaries** – Subsidiaries are all 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.

Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Inter-company transactions and balances between Group companies are eliminated.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. All subsidiaries have a 31 December year end and all trading subsidiaries act as sales offices for the Company’s principal activity. The below percentages held by company and Group refer to ordinary shares held.

	Registered address and country of incorporation	Principal activity	Held by Company 2018	Held by Group 2018	Held by Company 2017	Held by Group 2017
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%	100%	100%	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	100%	–	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	–	100%	–	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Software and services	–	100%	–	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, NZ	Software and services	–	100%	–	100%
Alfa Financial Software GmbH	Bockenheimer Landstraße 20, 60323 Frankfurt am Main	Software and services	–	100%	–	–

Alfa Financial Software GmbH was established in 2018 and has not traded in the period.

#### 15(c) Transactions with related parties

There was no trading between the Group and the Parent.

The balances outstanding from the Parent at 31 December 2018 and 2017 were nil and nil respectively.

During the period, the Group made arms-length transactions with Classic Technology Limited, a company in which the founder holds an interest. These transactions amounted to £0.04 million (2017: £0.04 million) in relation to fees paid for rental of property. There were no outstanding receivables balances at the end of the reporting period.

**15(d) Key management compensation****Key management compensation (including Directors)**

£'000s	2018	2017
Wages, salaries and short-term benefits	1,651	2,236
Social security	229	286
Post-employment benefits	63	31
Share-based payments	–	1,201
<b>Total key management compensation</b>	<b>1,943</b>	<b>3,754</b>

**15(e) Directors' compensation****Aggregate Directors' compensation**

£'000s	2018	2017
Aggregate emoluments	1,366	1,132
Post-employment benefits	22	15
<b>Total aggregate director compensation</b>	<b>1,388</b>	<b>1,147</b>

For further details on Directors' remuneration, see the Report on Directors' Remuneration in the Governance section of the Annual Report. Key management includes members of the Executive Committee (including any relevant Directors).

**16. Offsetting assets and liabilities**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where Alfa currently has a legally enforceable right to offset the recognised amounts, and there is an intention to realise the asset and settle the liability simultaneously.

The following table presents the recognised financial instruments that are offset as at 31 December 2018 and 31 December 2017.

2018 £000's	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
<b>Financial assets</b>			
Accrued income	12,301	(3,139)	9,162
<b>Financial liabilities</b>			
Contract liabilities – software implementation	(4,801)	3,139	(1,662)

2017 £000's	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
<b>Financial assets</b>			
Accrued income	8,612	(3,107)	5,505
<b>Financial liabilities</b>			
Contract liabilities – software implementation	(4,780)	3,107	(1,673)

## 17. Earnings per share

**Basic earnings per share** is calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

**Diluted earnings per share**; for the periods presented are the ordinary shares which are held in an employee trust on behalf of employees are treated as having a potentially dilutive effect as these shares have service conditions attaching to them. Should the service conditions not be met, the shares will be forfeited. The shares have no right to voting or to dividends while held in trust.

**Diluted Adjusted Earnings per share** is defined as Adjusted Earnings, as reconciled below, divided by the weighted average number of shares issued and outstanding, diluted.

As a result of the Group reorganisation in 2017, the basic and diluted earnings per share metrics, actual and adjusted, are calculated with reference to the share structure of the new parent company, as if it has been the parent for all periods presented.

	2018	2017
Profit attributable to equity holders of Alfa (£'000s)	18,150	25,866
Weighted average number of shares outstanding during the year	285,962,898	283,134,180
Basic earnings per share (pence per share)	6.3	9.1
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted earnings per share (pence per share)	6.1	8.6

	2018	2017
Adjusted Earnings attributable to equity holders of the Company (£'000s) (note 2)	18,150	32,976
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted adjusted earnings per share (pence per share)	6.1	11.0

## 18. Auditors' remuneration

The Group obtained the following services from the Group's auditor as detailed below:

£'000s	2018	2017
Audit of the consolidated financial statements	117	100
Audit of subsidiaries	108	63
<b>Total audit fees</b>	<b>225</b>	<b>163</b>
Audit related assurance fees	77	61
<b>Total assurance fees</b>	<b>302</b>	<b>224</b>
Non-audit services	–	779
<b>Total audit and non-audit related services</b>	<b>302</b>	<b>1,003</b>

## 19. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group, consisting of Alfa Financial Software Holdings PLC and its subsidiaries.

A list of subsidiaries is contained in note 15(b). Alfa is a public company limited by shares and is incorporated and domiciled in England. Its shares are listed on the London Stock Exchange.

The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. Alfa's registration no. is 10713517.

These financial statements were authorised for issue by the Directors on 7 March 2019. All press releases, financial reports and other information are available on our website in the Investor Relations section at [investors.alfasystems.com](http://investors.alfasystems.com)

The principal activity of the Group is to provide software solutions and consultancy services to the asset finance industry in the United Kingdom, United States of America, Europe and Asia Pacific.

### 19 (a) Basis of preparation

**Compliance with IFRS** – The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS.

Prior to the admission of Alfa's shares on the main market of the London Stock Exchange on 1 June 2017 (the "Admission"), the Company obtained control of the entire share capital of Alfa Financial Software Group Limited ("AFSGL") via a share-for-share exchange. In substance, these consolidated financial statements reflect the continuation of the pre-existing Group previously headed by AFSGL, and the consolidated financial statements have been prepared applying the principles of predecessor accounting as this was a common control transaction and therefore outside the scope of IFRS 3 "Business Combinations".

**Historical cost convention** – The consolidated financial statements have been prepared under the historical cost convention, other than the revaluation of financial assets and financial liabilities (including derivative instruments) recorded at fair value through profit or loss.

**Going concern** – The ability of the company to continue as a going-concern is contingent on the ongoing viability of the Group. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. There may be uncertainty in relation to operations, particularly over (a) the level of demand for the Group's software, and (b) the ability to retain existing customers. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group has sufficient cash reserves to operate for a period of not less than 12 months.

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going-concern basis of accounting in preparing its consolidated financial statements. Further information on cash and cash equivalents is given in note 9(c) to the consolidated financial statements.

**New and amended standards adopted by the Group** – The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers";
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2;
- Annual Improvements 2014–2016 cycle; and
- Interpretation 22, "Foreign Currency Transactions and Advance Consideration".

Alfa has changed its accounting policies and made certain retrospective adjustments to the presentation of contract assets and liabilities following the adoption of IFRS 15. This is disclosed in note 3. The adoption of IFRS 15 has not had any impact on the amounts recognised in the prior period and is not expected to affect the current or future periods.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.



## **19. Summary of significant accounting policies** *continued*

**New standards, amendments and interpretations not yet adopted** – 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 in note 20, these publications are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 16 "Leases", effective for annual periods beginning on or after 1 January 2019. This new standard supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### **19(b) Principles of consolidation**

The accounting policy and list of subsidiaries consolidated are contained in note 15(b).

### **19(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as disclosed in note 2.

### **19(d) Foreign currency translation**

**(i) Functional currency** – Items included in the consolidated financial statements of each of the Group's subsidiaries are measured using the currency deemed to be their functional currency. Significant subsidiaries are deemed to have a functional currency similar to the currency in which they operate. Certain smaller subsidiaries are deemed to be operating as an extension of the UK trading subsidiary, and therefore have a functional currency of pounds sterling.

**(ii) Presentation currency** – The consolidated financial statements are presented in pounds sterling. Alfa's functional and presentation currency is pounds sterling.

**(iii) Foreign currency transactions** – Transactions in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions. 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 recognised in profit or loss. The average annual rate for the US dollar used was 1.3355 in 2018 (2017: 1.2887). The closing rate for the US dollar used was 1.2736 in 2018 (2017: 1.3493).

**(iv) Group companies** – the results and financial position of foreign operation's (none of which has the currency of a hyperinflationary economy) which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### **19(e) Revenue recognition**

The accounting policies for the Group's revenue from contracts with customers are explained in note 3.

### **19(f) Income tax**

The accounting policies for income tax and deferred tax are explained in notes 8 and 10(d).

### **19(g) Leases**

The accounting policy for operating leases is explained in note 14(b).

**19(h) Impairment of assets**

The accounting policy for impairment of long-lived assets is explained in note 10(b).

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**19(i) Cash and cash equivalents**

The accounting policy for cash and cash equivalents is explained in note 9(c).

**19(j) Trade receivables**

The accounting policy for operating leases is explained in note 9(a).

**19(k) Investments and other financial assets**

The accounting policy for financial assets is explained in note 9.1.

Impairment of financial assets is explained in note 13(b).

**19(l) Derivative financial instruments**

The accounting policy for derivative financial instruments is explained in note 9(e). Hedge accounting has not been applied.

**19(m) Property, plant and equipment**

The accounting policy for property, plant and equipment is explained in note 10(a).

**19(n) Goodwill and other intangible assets**

The accounting policies for goodwill and other intangibles, including the amortisation methods and periods, are explained in notes 10(b) and 10(c) respectively.

Research and development which do not meet the criteria in 10(c) are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

**19(o) Trade and other payables**

The accounting policy for trade and other payables is explained in note 9(d).

**19(p) Provisions**

The accounting policy for provisions is explained in note 9(d).

**19(q) Employee benefits**

Short-term obligations – See accounting policy in note 5.1.

Long-term benefits – See accounting policy in note 5.1.

Pension obligations – See accounting policy in note 5.1.

Employee share scheme expense – See accounting policy in note 6.

**19(r) Equity**

The accounting policies for ordinary shares and other reserves are explained in note 11.

**19(s) Earnings per share**

The accounting policies for basic, diluted and adjusted earnings per share are explained in note 17.

## 20. Changes in accounting policies

The Group has applied IFRS 15 using the modified retrospective method of adoption and there have been no resultant changes to the quantum of revenue recognised on application of IFRS 15, and no changes were required to retained earnings on adoption of the new standard on 1 January 2018.

Alfa has also voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15. Contract assets recognised in relation to software implementation contracts were previously presented as part of trade and other receivables. Contract liabilities such as license amounts collected ahead of implementation completions were previously presented as deferred license amounts.

The Group has also applied IFRS 9 "Financial Instruments" from 1 January 2019 with no material impact.

## 21. Future changes in accounting policies in relation to standards not yet applied

**Application of IFRS 16 "Leases" on 1 January 2019** – IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The statement of profit or loss will also be affected, because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, an operating expense will be replaced with interest and depreciation, so key metrics like EBIT will change.

Alfa has elected to apply IFRS 16, "Leases", in accordance with the transition provisions in IFRS 16, in that the new rules will be adopted from 1 January 2019, with the cumulative effect of initially applying the new standard recognised on that date. Comparatives for the 2018 financial year will not therefore be restated.

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4, "Determining whether an Arrangement contains a Lease".

### Amended accounting policy for leases under IFRS 16

Alfa leases various properties and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 10 years, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by Alfa. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

**Impact at 1 January 2019** – On 1 January 2019, Alfa will recognise lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17. These liabilities will be measured at the present value of the remaining lease payments, discounted using Alfa’s assumed incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.0%.

The lease liability to be recognised at 1 January 2019 is expected to be £21.9 million. If the standard had been retrospectively applied as of 1 January 2018, lease liabilities of £11.6 million would have been recognised, as the London headquarters expanded during 2018 and therefore an additional lease liability was entered into.

The following sets out the impact on the statement of financial position at 1 January 2019:

31 December 2019	31 December 2018	Impact of IFRS 16	Adjusted 1 January 2019
<b>Non-current assets</b>			
Property plant and equipment	1,455	19,766	21,221
Other non-current assets	25,948	–	25,948
Total non-current assets	27,403	19,766	47,169
<b>Current assets</b>			
Total current assets	61,134	70	61,204
Total assets	88,537	19,836	108,373
<b>Current liabilities</b>			
Total current liabilities	15,470	(961)	14,509
<b>Non-current liabilities</b>			
IFRS16 lease liability	152	–	152
Other non-current liabilities	152	21,943	22,095
Total non-current liabilities	15,622	20,982	36,604
Shareholders’ equity	72,915	(1,146)	71,769
<b>Total liabilities and equity</b>	<b>88,537</b>	<b>19,836</b>	<b>108,373</b>

Additionally, if IFRS 16 had been applied from 1 January 2018, it would have increased operating profit by £0.2 million and decreased profit before taxation by £0.4 million. Operating cash flows would have been higher by £1.7 million, since cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

## Company Statement of Financial Position

As at 31 December

£'000s	Note	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiary companies	2/3	346,800	424,560
<b>Total non-current assets</b>		346,800	424,560
<b>Current assets</b>			
Other receivables	1(a)	187	43
Amounts owed by subsidiaries	1(b)	–	116
Cash and cash equivalents	1(c)	86	106
<b>Total current assets</b>		273	265
<b>Total assets</b>		347,073	424,825
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Amounts owed to subsidiaries	1(d)	1,556	932
Other payables	1(e)	152	60
<b>Total current liabilities</b>		1,708	992
<b>Non-current liabilities</b>			
Amounts owed to subsidiaries	1(d)	32,201	30,535
<b>Total non-current liabilities</b>		32,201	30,535
<b>Total liabilities</b>		33,909	31,527
<b>Capital and reserves</b>			
Ordinary shares	4	300	300
Retained earnings – brought forward		392,998	–
Dividends		–	(29,200)
Employee share scheme compensation	3	268	–
Retained earnings – current period		(80,402)	422,198
<b>Total equity</b>		313,164	393,298
<b>Total liabilities and equity</b>		347,073	424,825

The above company statement of financial position should be read in conjunction with the accompanying notes.

The company financial statements on pages 128-134 were approved and authorised for issue by the Board of Directors on 7 March 2019 and signed on its behalf.

**Andrew Denton**  
Chief Executive Officer

**Vivienne Maclachlan**  
Chief Financial Officer

## Company Statement of Changes in Equity for the years ended 31 December

£'000s	Note	Called-up share capital	Retained earnings	Total equity
<b>Balance as at 6 April 2017 (date of incorporation)</b>		–	–	–
<b>Total comprehensive loss for the period</b>		–	(2,062)	(2,062)
Issuance of shares in consideration of acquisition of a Group company		424,560	–	424,560
Capital reduction		(424,277)	424,277	–
Dividends paid to parent prior to admission to the London Stock Exchange		–	(29,200)	(29,200)
Bonus issue		17	(17)	–
<b>Balance as at 31 December 2017</b>		<b>300</b>	<b>392,998</b>	<b>393,298</b>
<b>Total comprehensive loss for the period</b>		–	(80,402)	(80,402)
Employee share schemes – value of employee services	<b>3</b>	–	<b>268</b>	<b>268</b>
<b>Balance as at 31 December 2018</b>		<b>300</b>	<b>312,864</b>	<b>313,164</b>



## 1. Financial assets and financial liabilities

This note provides information about Alfa Financial Software Holdings PLC's (the "Company") financial instruments, including:

- an overview of all financial instruments held by the Company;
  - Other receivables (note 1(a));
  - Amounts owed by subsidiaries (note 1(b))
  - Cash and cash equivalents (note 1(c));
  - Amounts owed to subsidiaries (note 1(d)); and
  - Other payables (note 1(e))
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The company holds the following financial assets and liabilities:

£'000s	2018	2017
<b>Financial assets at amortised cost</b>		
Other receivables (note 1(a))	187	43
Amounts owed by subsidiaries (note 1(b))	–	116
Cash and cash equivalents (note 1(c))	86	106
<b>Total financial assets at amortised cost</b>	<b>273</b>	<b>265</b>

£'000s	2018	2017
<b>Financial liabilities at amortised cost</b>		
Amounts owed to subsidiaries (note 1(d))	33,757	31,467
Other payables (note 1(e))	152	60
<b>Total financial liabilities at amortised cost</b>	<b>33,909</b>	<b>31,527</b>

**Financial assets** – Basic financial assets, including trade and other receivables, cash and bank balances and other receivables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

**Financial liabilities** – Basic financial liabilities, including trade and other payables and trading balances and loans from subsidiaries are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

### 1(a) Other receivables

Other receivables include prepayments for professional fees, VAT receivable or other operating expenses.

Other receivables are classified as current assets or liabilities if receipt or payment is due within one year or less.

At 31 December 2018, other receivables relate to prepayments of professional fees and other expenses of £158,000 and VAT receivables of £29,000 (2017: £43,000 in relation to VAT receivable).

### 1(b) Amounts owned by subsidiaries

Amounts owed by subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of such receivables are considered to be the same as their fair values due to their short term nature.

Amounts owned by subsidiaries is nil (2017: £116,000).

### 1(c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

£'000s	2018	2017
Cash and cash equivalents	86	106

### 1(d) Amounts owed to subsidiaries

£'000s	2018	2017
Amounts owed to subsidiaries – current	1,556	932
Amounts owed to subsidiaries – non-current	32,201	30,535
<b>Total amounts owed to subsidiaries</b>	<b>33,757</b>	<b>31,467</b>

Current amounts owed to subsidiaries of £1,556,000 relates to operating expenses owed (2017: £932,000) and non-current amounts owed of £32,201,000 reflects a loan of £29.9 million principal, repayable in 10 years, and accrued interest, accruing at 2% over the applicable base rate.

### 1(e) Other payables

**Other payables** are obligations to pay social security and other taxes or other operating expenses.

Other payables are initially recorded at fair value and subsequently measured at amortised 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 recognised.

Payables are classified as current assets or liabilities if receipt or payment is due within one year or less.

Other payables relate to accruals of social security and other taxes of £56,000 (2017: £60,000) and trade creditors of £96,000 (2017: nil).

## 2. Investments in subsidiaries

**Subsidiaries** – Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company 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.

Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the company. The country of incorporation or registration is also their principal place of business.

Investments in subsidiary undertakings are stated at cost, including those costs associated with the acquisitions, less provision for any impairment in value. Where events or changes in circumstances, including an adverse movement in the share price, indicate that the carrying amount of an investment may not be recoverable, an impairment review is performed. An impairment write down is recognised to the extent that the carrying amount of the asset exceeds the higher of the fair value less cost to sell and value in use.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control. Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated statement of financial activities.

£'000s	2018	2017
Cost		
As at 1 January 2018/ 6 April 2017 (date of incorporation)	424,560	–
Additions	–	424,560
Capital contributions to subsidiaries	268	–
Impairment charge	(78,028)	–
<b>As at 31 December</b>	<b>346,800</b>	<b>424,560</b>

## 2. Investments in subsidiaries continued

On 1 June 2017, the Company's shares were admitted for trading on the main market of the London Stock Exchange. The Group consists of the Company and its subsidiaries as listed below (together the "Group"). Prior to the admission, the Group was reorganised to insert the Company, the new holding company of the Group, by way of a share-for-share exchange with Alfa Financial Software Group Limited, the previous parent company of the Group.

All subsidiaries have a 31 December year end. The below percentages held by company and Group refer to ordinary shares held.

	Registered address and country of incorporation	Principal activity	Held by Company 2018	Held by Group 2018	Held by Company 2017	Held by Group 2017
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%	100%	100%	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	100%	–	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	–	100%	–	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Software and services	–	100%	–	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, NZ	Software and services	–	100%	–	100%
Alfa Financial Software GmbH	Bockenheimer Landstraße 20, 60323 Frankfurt am Main	Software and services	–	100%	–	–

Subsidiaries are defined as entities over which the Company has control. The Company controls an entity when the Company 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 Company.

The value of investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. On 1 June 2018, it was announced that a major customer had decided to delay its software implementation project for internal reasons. This delay, coupled with other delays in starting new software implementation projects has impacted the results of the subsidiary for the year ended 2018 in that maintenance revenue has decreased by £1.0 million and software implementation revenues have also declined year on year by £4.1 million in relation to this implementation customer.

The carrying amount of the investment is £346.8 million at 31 December 2018 (2017: £424.6 million). The recoverable amount was determined based on the market capitalisation of the Company as at 31 December 2018 of £346.0 million. As the carrying value was in excess of the recoverable amount, an impairment charge was recognised during the year of £78.0 million. There was no indication of impairment of the investment in subsidiaries in the 2017 year end and therefore no value-in-use calculation was carried out in the prior year.

## 3. Employee share schemes

The Company has no employees and thus there is no charge in the income statement for share-based payments. The charge for share-based payments has been recognised as an increase in cost of investment in subsidiaries. For full details of the Group's share-based payments, refer to note 6 to the consolidated financial statements.

Under the rules of the Company's LTIP plans, on 31 May 2018 selected employees of the Company's subsidiary, were granted awards in the form of nil cost options over ordinary shares in Alfa. Shares in the Company are transferred to participants at the end of the three-year service period if they continue to be employed by the Group throughout the period. The cost of the share based remuneration is passed to the relevant subsidiary.

## 4. Called-up share capital

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

Each ordinary share has a par value of £0.01. All shares are fully paid and have equal voting rights.

Issued and full paid	Shares – Ordinary	Shares – A	Shares – A1	£'000s
At date of incorporation <sup>(1)</sup>	1	–	–	–
Share-for-share exchange <sup>(2)</sup>	2,663,689	91,020	75,689	424,560
Capital reduction <sup>(2)</sup>	263,705,310	9,010,980	7,493,211	(424,277)
Reorganisation of share capital – bonus issue <sup>(4)</sup>	16,238,969	409,254	311,877	17
Reorganisation of share capital – re-designation of A and A1 shares <sup>(4)</sup>	17,392,031	(9,511,254)	(7,880,777)	–
<b>At 31 December 2017</b>	<b>300,000,000</b>	–	–	<b>300</b>
<b>At 31 December 2018</b>	<b>300,000,000</b>	–	–	<b>300</b>

(1) On 6 April 2017, Alfa Financial Software Holdings PLC was incorporated with one £0.01 ordinary share issued.

(2) On 28 April 2017, Alfa was inserted into the Group as the new holding company by way of the share-for-share exchange agreement. The exchange was a 1:1 exchange and the nominal value of shares issued was £150.

(3) On 3 May 2017, Alfa undertook a capital reduction where the nominal value of each share was reduced to 0.1 pence.

(4) On 1 June 2017, Alfa undertook a bonus issue and share reorganisation to re-designate existing A and A1 shares into ordinary shares.

## 5. Dividends

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

No dividend has been declared or paid during the year ended 31 December 2018. In May 2017, a dividend of £29.2 million was declared and paid to the ordinary shareholders of CHP Software and Consulting Limited (the “Parent”). There was no final dividend declared at 31 December 2017.

## 6. Directors’ remuneration

The company has no employees other than the Directors. Full details of the Directors’ compensation and interests are set out in the Directors’ Remuneration report.

## 7. Financial risk management

The Company’s exposure to financial risks is managed as part of the Group. Full details about the Group’s exposure to financial risks and how these risks could affect the Group’s future financial performance are given in note 13 to the consolidated financial statements.

## 8. Related party and ultimate controlling party

The Company has taken advantage of the exemption under FRS 102:33.1A from disclosing transactions with other members of the Group.

The immediate and ultimate parent undertaking is CHP Software and Consulting Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The registered office of the immediate and ultimate parent undertaking is Moor Place, 1 Fore Street Avenue, London EC2Y 9DT and copies of the financial statements of CHP Software and Consulting Limited can be obtained from this address. The ultimate controlling party is Andrew Page.

## 9. Subsequent events

There have been no reportable subsequent events.

## **10. Basis of preparation and accounting policies**

Alfa Financial Software Holdings PLC is a public company limited by shares and is incorporated and domiciled in England. These financial statements are the separate financial statements for the Company.

The Company was incorporated as a private limited company on 6 April 2017 and was established as a holding company of Alfa Financial Software Group Limited on 28 April 2017. The Company was re-registered as a public limited company on 4 May 2017, prior to the admission of Alfa's shares on the main market of the London Stock Exchange on 1 June 2017 (the "Admission").

The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. The registered no. of Alfa is 10713517.

The principal activity of the Company is as a holding company.

The parent undertaking of the largest group to consolidate these financial statements is CHP Software and Consulting Limited. Copies of these consolidated financial statements can be obtained from Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom.

The parent undertaking of the smallest group to consolidate these financial statements is Alfa Financial Software Holdings PLC. Copies of these consolidated financial statements can be obtained from Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom.

## **11. Statement of compliance and basis of preparation**

The financial statements of Alfa Financial Software Holdings PLC have been prepared in compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on a going-concern basis, under the historical cost convention. The Directors have used the going-concern principle on the basis that the current profitable financial projections of the Company and its subsidiaries will continue in operation for the foreseeable future.

The Company financial statements have been prepared in pounds sterling which is the functional and presentational currency of the Company and have been presented in £'000s.

As permitted by section 408 of the Companies Act 2006, an entity statements of profit and loss, comprehensive income or loss and cash flow are not included as part of these financial statements. The loss for the financial period to 31 December 2018 was £80,420,000 (2017: £2,062,000).

## **12. Critical accounting judgements and key sources of estimation uncertainty**

Estimates and judgements 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 will, by definition, seldom equal the related 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 addressed below.

**12(a) Critical judgements in applying the Company's accounting policies** – There are no critical accounting judgements.

**12(b) Key accounting estimates and assumptions – The Company makes estimates and assumptions concerning the future.** The resulting accounting estimates will, by definition, seldom equal the related actual results.

**Admission:** On 1 June 2017, Alfa's shares were admitted for trading on the Main Market of the London Stock Exchange.

**Adjusted EBIT:** Adjusted EBIT is defined as operating profit excluding pre-IPO share based payments and IPO-related costs.

**Adjusted EBIT margin:** Adjusted EBIT margin is defined as profit from continuing operations before income taxes, finance income, pre-IPO share based compensation and IPO related expenses, as a proportion of revenue. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of Alfa.

**Adjusted Earnings:** Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and pre-IPO share-based compensation, less the tax effect of these adjustments. Adjusted Earnings is used by the CODM in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believe affect shareholder value and in-year return, such as income tax expense and net finance costs.

**Adjusted Earnings per share:** Is defined as Adjusted Earnings divided by the weighted average number of shares issued and outstanding.

**AFSGL:** Alfa Financial Software Group Limited.

**AGM:** The Annual General Meeting of the Company, which will be held on 26 April 2019.

**Alfa:** The Group or Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).

**Articles:** The Articles of Association of the Company.

**Automotive finance:** Automotive finance includes new and used cars. Our customers can be banking institutions providing finance to dealers, OEMs or independent sellers of automotive vehicles.

**Banks:** Customers classified as banking institutions are finance entities associated with regulated banking groups.

**Basic earnings per share:** Calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

**Billings:** These are amounts invoiced in year. This differs from revenue as defined by IFRS due to the release of deferred income in relation to license payments and maintenance agreements and accrued income.

**Board:** The Board of Directors of Alfa Financial Software Holdings PLC.

**CGU:** Cash-generating unit.

**CODM:** Chief Operating Decision Maker.

**Companies Act:** The Companies Act 2006 (as amended).

**Company:** Alfa Financial Software Holdings PLC, a company incorporated in England and Wales with registered number 10713517 whose registered office is at Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom.

**Constant currency:** Management provide percentage increases or decreases in revenue or Adjusted EBIT to eliminate the effect of changes in currency values. The comparative results are derived by re-calculating non British pounds denominated revenue and/or expenses using the average monthly exchange rates of this year and applying it to the comparative periods results, excluding gains or losses on derivative financial instruments.

**Corporate website:** [www.alfasystems.com](http://www.alfasystems.com)

**Diluted Adjusted Earnings per share:** Defined as Adjusted Earnings divided by the weighted average number of shares issued and outstanding, diluted.

**Directors:** The Directors of the Company whose names are set out on pages 60 and 61.

**Disclosure and Transparency Rules:** The Disclosure and Transparency Rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

**Equipment finance:** Equipment finance covers a myriad of asset types, although at Alfa we predominantly service the lending for agriculture, manufacturing, mining, construction and transportation equipment.

**EPS:** Earnings per share.

**Exceptional items:** Items that, by virtue of their nature and incidence, have been disclosed separately in order to draw them to the attention of the reader of the financial statements.

**Executive Committee:** A body of senior members of the Alfa team which provides input and recommendations to support the CEO.

**FRC:** The Financial Reporting Council.

**FVTPL:** Fair value through profit or loss.

**GHG:** Greenhouse gases.

**Group:** Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).



**Headcount:** Represents the number of Alfa team members under contracts of employment as at 31 December of each year.

**HMRC:** Her Majesty's Revenue & Customs.

**I&S:** Implementation and Support ("I&S") expense.

**IAS:** International Accounting Standard(s).

**IFRS:** International Financial Reporting Standard(s) as adopted for use in the European Union.

**IFRS IC:** International Financial Reporting Standards Interpretations Committee.

**Independents:** Independent customers are customers who are neither part of a regulated banking group nor manufacturers of the asset being financed.

**IPO:** Initial public offering of the Company's Ordinary Shares immediately post-admission on 1 June 2017.

**KPI:** Key performance indicator.

**LTIP:** The Company's Long Term Incentive Plan.

**Maintenance:** Maintenance revenues are invoiced annually in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer's portfolio increases.

**Non-executive Directors:** The Non-executive Directors of the Company designated as such on page 61.

**OEMs:** Original Equipment and automotive Manufacturers.

**Ongoing development and services (ODS):** ODS revenues represent the ongoing development and services efforts which are either ad hoc projects with existing customers or relate to development or services delivered after a new implementation. The services can be support immediately after an implementation, further development for customer specific functionality or change management assistance.

**Operating Free Cash Flow Conversion:** Operating Free Cash Flow represents net cash generated from operations less settlement of derivative instruments and margin calls, after the purchase of property, plant and equipment and adding back IPO-related expenses. Operating Free Cash Flow Conversion represents Operating Free Cash Flow generated as a proportion of Adjusted EBIT. Management uses Operating Free Cash Flow Conversion for monitoring and managing cash flows.

**Ordinary shares:** The ordinary shares with a nominal value of 0.1 pence each in the share capital of the Company.

**Prospectus:** The Company's prospectus dated 26 May 2017 prepared in connection with the Company's Admission.

**R&PD:** Research and product development.

**Retention rate:** Represents the retention of Alfa team members over the previous 12 month period.

**RoW:** Rest of World.

**SG&A:** Sales, general and administrative expenses.

**Shareholder:** A holder for the time being of ordinary shares of the Company.

**Software implementation:** An implementation process contains three revenue streams, being recognition of the perpetual license, implementation fees and development fees. Implementations can take from nine months to five years depending on the complexity.

**The Code:** The UK Corporate Governance Code published by the FRC in September 2014.

**VAT:** UK value added taxation.



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