

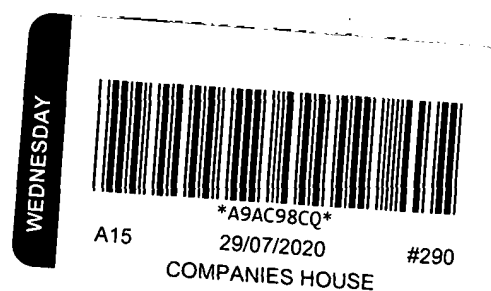


Delivering our strategy

Annual Report
and Accounts 2019

ALFA FINANCIAL SOFTWARE HOLDINGS PLC

Co. No. 10713517



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Alfa is a leading provider of software and services to the global auto and equipment finance industries.

Our software platform combines three decades of expertise with the best in modern enterprise technology.

Live across four continents, our class-leading software platform is at the heart of some of the world's largest and most innovative asset finance companies.

Our implementations transform our customers' businesses, and our delivery track record is exceptional.

2019 highlights

Group revenue

£64m

£71 million in 2018

Operating profit

£14m

£22 million in 2018

Cash balance

£59m

£45 million in 2018

Adjusted EBIT margin⁽¹⁾

20%

31% in 2018

Alfa team at 31 December 2019

316 employees

312 at 31 December 2018

(1) Adjusted EBIT is defined as profit from continuing operations, before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets, with the Adjusted EBIT margin being Adjusted EBIT as a proportion of revenue.

Where we operate

49%

of 2019 revenue
(2018: 49%)

Europe (including UK)

We had 18 customers based in Europe, including three implementation customers as at 31 December 2019. Alfa Systems has been implemented and is live in ten European countries, with a further expansion underway into eight countries over the next two years. We have further expanded our European operations recently by setting up a subsidiary in France.

44%

of 2019 revenue
(2018: 47%)

Americas

We primarily operated and served customers in Michigan, Georgia and Virginia, generating £28 million of revenue in 2019. We have deep experience of the US automotive finance sector.

7%

of 2019 revenue
(2018: 4%)

Rest of World

We have operations in Australia, New Zealand and South Africa, and have 13 team members in this region specialising in both automotive and equipment finance.

Our revenue streams

41%

of 2019 revenue
(2018: 43%)

Software implementation

We had six ongoing implementations at 31 December 2019 with an additional implementation having been completed in the later part of 2019. 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. Software implementation includes both implementation and development services. Implementation services include data migration, testing, configuration of customer-specific automated processes and reporting. Development services include delivery of the related software licence and also the work to customise the underlying code for a customer's requirements.

36%

of 2019 revenue
(2018: 34%)

Ongoing development and services

ODS represents additional services or development provided to customers after the go-live of the software implementation.

23%

of 2019 revenue
(2018: 23%)

Maintenance

At 31 December 2019, we had 25 maintenance customers. Maintenance pricing is based on countries or geographical areas in which Alfa Systems is being used, the number of finance contracts managed on Alfa Systems and types of assets.

Our customer types

63%

of 2019 revenue
(2018: 50%)

Banks

Customers classified as banking institutions are finance entities associated with regulated banking groups.

21%

of 2019 revenue
(2018: 27%)

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.

16%

of 2019 revenue
(2018: 23%)

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 industries

64% of 2019 revenue
(2018: 62%)

Automotive finance

The automotive finance industry provides a range of financial products to fund the acquisition of new and used vehicles. Our customers are banking institutions, OEMs and independent finance companies providing finance directly to consumers as well as through dealers.

36% of 2019 revenue
(2018: 38%)

Equipment finance

Equipment finance covers a myriad of asset types – from vending machines, which are high volume, low value, to power plants which are low volume, high value. Alfa's equipment finance offering is predominately a service lending for agriculture, manufacturing, mining, construction and transportation equipment. Historically, lending products on offer have been relatively traditional,

yet the equipment industry is seeing significant evolution towards consumption-based and 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.

Andrew Denton
Chief Executive Officer

“

The medium- and long-term prospects for Alfa remain compelling with a number of pipeline opportunities across our target markets. Those opportunities extend beyond our existing market segments, and our pre-configured Alfa Start offering and cloud-hosted solutions have already attracted significant interest. At the time of writing, the extent of the impact of Covid-19 is necessarily uncertain. Implementation customers continue to see the benefits of installing Alfa Systems and our plans for 2020 remain substantially unchanged.”

Trading performance and delivery

In line with our revised expectations, set out in our Trading Update issued on 16 September 2019, the Group recognised total revenue for the year ended 31 December 2019 of £64.5 million (2018 £71.0 million). In securing £5.5m of contractual non-recurring revenue items in H2 2019, operating profit was boosted to £13.7 million (2018 £22.4 million). Alfa operated in challenging business conditions throughout 2019 with macroeconomic and political uncertainty contributing to reduced capital expenditure by customers. That, in turn, led to slower than anticipated implementations of certain projects and a reduction in customer spend on optional upgrades and non-critical work.

During the year, we increased our focus on cash management. Our operating free cash flow conversion for the year was 142% (2018: 87%). We ended the year with a cash balance of £58.8m (2018: £44.9m) and a strong, unencumbered balance sheet.

We continued to provide implementation services for the four customers we were working on at the start of 2019. Of those, one OEM went live in three countries: Spain, in June 2019, Germany, in September 2019 and the UK, in November 2019. Separately, in September 2019, another OEM went live with an initial phase of their project, in Europe.

In November 2019, we signed a contract with one of the largest automotive finance providers in Germany where we had started implementation work, under a letter of engagement, early in 2019. In the same month, we announced an Alfa Start sale in the UK to Hampshire Trust Bank, a fast-growing challenger bank. In March 2020, Hampshire Trust Bank went live, just 19 weeks after we started implementation work.

Since March 2019, we have been working for one of the largest banks in South Africa, under successive letters of engagement. In October 2019, we progressed from design to implementation work, and in March 2020, we signed a contract to provide implementation and cloud hosting services.

The core phase of an implementation project, for one of the largest US automotive finance companies, went live in January 2020. The culmination of a substantial and significant systems replacement project, spanning five years, this achievement further positioned Alfa as a compelling software choice for retail auto firms in the US.

Hosting and subscription-based revenue streams, in connection with cloud-based installations, will be increasingly material in 2020 and beyond. In March 2020, we celebrated the hard launch of the global

Alfa Start product line; and announced a new contract with an existing customer in the US auto industry. In the same month, we announced a second Alfa Start sale, to a fast-growing US-based automotive manufacturer, but this contract, which was lower tier in terms of value, was cancelled by the customer due to the economic downturn precipitated by Covid-19.

Product development and innovation

Investment in the Alfa platform will always be at the heart of our corporate strategy. During 2019, the principal advances were in respect of cloud hosting, digital investment, the performance and scalability of Alfa Systems and key new functional areas.

The company is generating returns on previous years' investment in cloud, which we continued in 2019. We have rebuilt our automated tooling for the management of customer environments to provide more security, scalability and simplification. This has generated significant additional capacity, which increases the number of production environments we are able to host.

Our cloud service also offers an accelerator for customers who want to manage our service for themselves. This is in line with our general objective of speeding up implementation projects.

The investment in digital solutions in 2018 and 2019 has resulted in the aforementioned go-lives in Spain, Germany and the UK of a React-based point of sale solution. This implementation was also the first deployment of a POSkit-based point of sale. POSkit is a toolkit of point of sale software components that allows customised applications to be built quickly and efficiently. This approach has proven to work well, and we are in the early stages of further POSkit projects. We expect digitalisation to remain an important factor in customer purchasing decisions.

Continued development has enhanced Alfa's library of APIs, as well as the development of mobile application functionality to support the full asset finance customer journey. We have partnered with industry-leading specialist suppliers to provide additional functionality such as customer identity verification, e-signing and direct payments. This development is an important part of ensuring the Alfa platform maintains its market-leading position.

Beyond these developments, a number of functional enhancements to the platform are in progress including:

- Measurable improvements to all users' experience;
- Development of Cash Accounts functionality;
- Development of usage-based billing – a key enabler for the industry trend towards servitisation and subscription models; and
- PostgreSQL support.

We have also invested in research in artificial intelligence. An accompanying thought leadership campaign launched in H2 2019, and this work will continue in 2020.

In 2020, we will continue to improve the user experience of the application, to maintain its leading position. We also have planned functional changes to support the replacement for LIBOR – including SONIA in the UK; and ESTER, EONIA and SOFR in the US – and improve the ease of system maintenance, reducing the total cost of ownership for our customers and improving the efficiency of our Alfa hosting service.

Alfa Start was first used in the US automotive finance sector in 2018. Building on this, in July 2019, we started small-scale development work to adapt Alfa Start to meet the requirements of the UK equipment finance market. This gave Alfa a ready-to-deploy repeatable solution based on a subscription-licensing model for smaller customers in our home market.

A major focus for 2020 is to deliver our software, more frequently, and at a lower cost, to our customers. We are increasing our investment in modularisation. In the short-term, this will make the platform easier for us to maintain, as well as supporting longer-term opportunities in adjacent markets.

We are also enhancing our software development lifecycle (SDLC). The tooling and process needed to make changes and deliver new, high-quality versions of Alfa needs to improve continuously. We will effect a number of changes to speed up feedback time,

both of individual development changes, and from customers. This will ensure our development is more efficient by eliminating re-work and waiting times.

Alongside these improvements, the go-live in January 2020 for the large US automotive finance company, required the ability to manage 4.6 million active vehicle contracts. Through this implementation project, we delivered performance improvements and scalability of Alfa Systems. We anticipate this will provide substantial benefits to all of our current and future customers.

Partnerships

Our partnership programme is an important part of Alfa's growth strategy. Throughout 2019, we made good progress in training partner staff and co-bidding for new projects.

During 2019, we delivered induction training to 31 partner team members. At 31 December 2019, six resource augmentation partner staff (2018: one) were supporting our efforts across three discrete projects and the late-stage pipeline contained two co-bids with systems integrator partners, including one bid that was already underway at the end of 2018. We will continue to build our partner capability as these co-bids progress and as our partnership programme develops.

Our total partner ecosystem now comprises five (2018: three) partners (including Genpact, Teamwill Consulting, Tellox Finanzservice, and Accenture – the latter being an agreement signed in February 2020). We are in discussions with further potential implementation partners.

Board changes and governance

Our initial Non-Executive Directors, Richard Longdon, Karen Slatford and Robin Taylor, stood down from the Board during the year, having provided invaluable support and guidance through our transition from private to public company status. Additionally, David Stead had to stand down as a Non-Executive Director, due to restrictions on his availability. We were pleased to be able to appoint Chris Sullivan and Steve Breach as new Non-Executive Directors, in 2019. In March 2020, we announced that Adrian Chamberlain and Charlotte de Metz had agreed to join the Board after the release of our 2019 financial results. Our Non-Executive Directors collectively provide a strong combination of industry, strategic planning, and financial management knowledge and experience.

CEO business review continued

We strengthened the Executive Director team with the appointment of Matthew White to the Board, as Chief Operating Officer in October 2019.

Vivienne MacLachlan stepped down as Chief Financial Officer, in April 2019, having piloted Alfa through our IPO, with John Miller joining as Interim Chief Financial Officer, in May 2019. In March 2020, we announced that Duncan Magrath would join the Board as Chief Financial Officer after the release of our 2019 financial results.

On pages 66 and 67, we provide an assessment of the Company's performance against the UK Corporate Governance Code 2018 (the "Code") since 1 January 2019.

In November 2019, BDO was selected to provide internal audit services. This followed a review by the Audit & Risk Committee (ARC) which concluded that the Company would be best served by engaging a new external provider to complement the work of the Company's Risk Manager. KPMG, the Company's previous external provider, resigned in August 2019.

The Board continues to review the Company's procedures to ensure the Directors have a reasonable basis for making proper judgments on a continuing basis regarding the financial position and prospects of the Group. As detailed in our H1 results announcement, as part of the Board's review process, in October 2019, the Company launched an improvement programme, led by John Miller. Good progress was made in the initial phase of the programme in the final quarter of 2019. Whilst prioritising short-term improvements in the timely provision, and extent, of financial and operational information to the Board, the Company is also in the process of expanding the functionality of the recently

implemented Finance and HR system, which, in the medium-term, will improve the provision of management information.

Leadership and employees

In 2019, a new Company Leadership Team (CLT) was constituted. We took the opportunity to promote a number of staff with a deep understanding of their functional areas. The CLT has a combined total of 124 years of service at Alfa. We have supplemented this core Alfa and industry experience with selective external recruitment and, in March 2020, we were delighted to welcome Vicky Edwards as our new Chief People Officer. Further details of the CLT can be found at pages 78-79.

We spent considerable time during the year ensuring that business development was given sufficient resource and leadership. As Chief Executive Officer, I provided this leadership directly for most of 2019 and business development will continue to be a key focus for me, through 2020. These efforts were reflected in the successful generation, progression and conversion of late-stage pipeline opportunities from late 2019, onwards.

Our exceptional people will always be central to our efforts. We recruit talented people across the Company and provide them with the skills and environment to develop and succeed. We support their efforts with a full Environmental, Social and Governance (ESG) programme, Innovation Days and Learning and Development opportunities. 2019 also saw the company focus on communication of strategy at all levels of the business and, entering 2020, we benefit from greater engagement in and understanding of, the Company's goals.

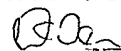
Outlook for 2020

At the time of writing, the extent of the impact of Covid-19 is necessarily uncertain. Apart from the aforementioned contract cancellation, we have received requests from some other customers to reschedule work, but at this stage we expect to be able to redeploy most of our people to satisfy other customer projects.

We will continue to monitor and actively mitigate any challenges by careful resource allocation. We are grateful to our people who have adapted with remarkable efficiency and professionalism to these unusual times.

The full year effect of remuneration increases for our people, in November 2019, will be fully reflected in 2020's financial performance. Taken together with the impact of investment in Alfa's future capabilities and one-off legal costs, there will be short-term pressure on Alfa's margins. Beyond this, we will maintain rigorous cost control such that expenditure is only incurred to the extent that it is business critical and/or supports the growth of the company in the future.

Above all our priority is to support our people, customers, partners and suppliers through the current crisis. Our implementation customers continue to see the benefits of installing Alfa Systems and our plans for 2020 remain substantially unchanged. We benefit from having a strong net cash position with no debt. We are therefore in a position where we do not need to make reactive decisions, but can run the business to ensure that, when the crisis abates, we are in the strongest possible position for 2021 and beyond.



Andrew Denton
Chief Executive Officer

23 April 2020

Turn to page 8 to read more about our plan for growth and how this fits within our strategy

1.
People at the heart of our business
Page 22

3.
Partnership an important part of our ongoing growth strategy
Page 26

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Investment in our leading edge software to grow our market share
Page 24

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Our market offering future growth for our leading digital solutions
Page 28

Alfa Systems is a leading software platform purpose-built for asset finance enterprises globally, developed to meet the current and future needs of the global asset finance industry.

Uniquely positioned in a large addressable market with clear structural growth drivers

We have an established position of leadership in the asset finance software market, underpinned by our experience and in-depth understanding of the asset finance industry.

Europe and the USA remain key markets for Alfa, contributing 49% and 46% to revenue over the last three years, respectively.

We are committed to growing our market share by maintaining and developing our leading-edge technology, surpassing customer expectations and winning new business in our target markets.

We have a number of late-stage pipeline opportunities across our target markets.

Our differentiated business model

With an excellent delivery history over three decades in the industry, Alfa's track record is unrivalled.

Our Alfa Start methodology enables us to deliver a subscription-based service rapidly to smaller, less complex customers.

Our business model typically involves the sale and deployment of our asset finance software platform into large enterprises, which have highly complex and varying requirements.

We have established a partner network that enables us to extend our operational capacity to integrate customers' existing technology solutions and processes with Alfa Systems.

We are able to leverage our understanding of these complexities to enhance Alfa Systems – a significant selling point for new prospects.

Alfa Systems' comprehensive functionality enables customers to automate critical business functions and enhance business agility.

Leading-edge technology and consultancy proposition, reflected by deep long-term relationships and blue-chip customer list

Alfa has invested significantly in the development of its technology platform to ensure it is secure, reliable, resilient and scalable to grow with our customers' business ambitions.

Our hosted solution adds further value by reducing the need for customer IT training and infrastructure.

Our suite of integrated modules can be deployed and configured as a full end-to-end solution covering the entire asset finance life cycle or alternatively to provide standalone support for functional or product areas.

Our strong, long-term customer relationships underpin Alfa's significant revenue visibility as well as providing references for new prospects.

Customers include Bank of America, Santander, Mercedes-Benz and Nordea.

A strong balance sheet and financial position that supports all investment plans

Alfa has a robust balance sheet position with £58.8m of cash (2018: £44.9m) and no debt (2018: £nil).

We have healthy recurring maintenance income and implementation and ODS revenues contracted under long-term statements of work.

We are highly cash-generative with impressive cash conversion of 142% (2018: 87%).

Our strategy

Our strategy for creating long-term sustainable business value

Our vision

To grow our company size naturally, but grow our impact rapidly, whilst maintaining our underlying culture. We will deliver more concurrent Alfa implementations, more efficiently, with a world-class product. We will have a big company impact, but a small company feel.

Our purpose

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

Our values

Challenge without being challenging

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

Create a positive impact

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

Let great ideas grow

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

Make it better together

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

Our strategic priorities

1

Grow 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

Related KPIs

- Group revenue
- New implementation projects
- Revenue on a constant currency basis
- R&D expense
- Number of customers
- Headcount

Related Risks

A	B	C	D	E
F	G	H	I	J

2

Develop our partner ecosystem to increase operational capacity and sales opportunities

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

Related KPIs

- Group revenue
- New implementation projects
- Revenue on a constant currency basis
- Number of customers
- Number of partner relationships

Related Risks

A	B	C	D	E
F			I	

3

Extend our best-in-class digital agenda

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

Related KPIs

- R&D expense
- New implementation projects

Related Risks

A E
F

Risks

- A** Failure to retain or increase market share in our strategic target markets
- B** High customer concentration risk
- C** Socio-economic, geo-political risk
- D** Risk to people, skills, location and working environment

4

Establish Alfa Start as the leading solution for the volume market

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

Related KPIs

- New implementation projects
- R&D expense

Related Risks

A B C
F

- 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 the cost of development in the future and to allow competitive technological and product development

5

Maintain a high- performance organisation with a culture of continuous improvement

We will continue to offer a supportive, diverse and collaborative working environment and be considered to be an employer of choice

Related KPIs

- Headcount
- Retention rate
- Employee engagement
- Greenhouse gas emissions

Related Risks

D E
F I

- G** IT security and cyber risks
- H** Business interruption or continuity
- I** Brexit and uncertainty surrounding trading arrangements after the transition period

6

Promote and grow value and develop resilience

We will deliver value to shareholders by building and extending long-term profitability in a cash-efficient manner

Related KPIs

- Operating profit margin
- Adjusted EBIT margin
- Billings
- Operating free cash flow conversion
- R&D expense

Related Risks

A C D E
F G H I J

- J** Pandemic outbreak in Alfa and/or customer geographies

**Our strategic priorities
and objectives**

	Objectives
1 Grow market share by maintaining leading-edge technology, increasing customer loyalty and winning new business	Win in our existing markets by demonstrating capability of product and best-in-class delivery
	Maintain our leading position as partner to the US automotive finance sector
	Grow in target markets
	Drive innovation in our existing solutions
	Lead with our cloud-first offering
2 Develop our partner ecosystem to increase operational capacity and sales opportunities	Embed partners into our sales and customer relationship processes
	Select preferred partners and establish engagement terms
	Deliver training to partners and establish ongoing information exchange
3 Extend our best-in-class digital agenda	Focus on Alfa as a platform
	Develop value-adds to the platform
	Thought leadership to demonstrate Alfa as a leading technology partner to the asset finance industry

Progress in 2019	Focus for 2020
• Hosted EMEA and US User groups. • Improvements to sales process.	• Maintain and increase focus on continuous improvement.
• Continued product roadmap enhancements (Integrations, Workflow, Performance).	• Continuation of the roadmap. • Incorporate further feedback from implementations into delivery approach.
• Commenced three new implementation projects. • Developed multiple sales opportunities and progressed some to late-stage pipeline. • Further analysis performed confirming target markets.	• Deliver Alfa implementations and ODS projects. • Win new implementation projects.
• Planned pieces used to maintain position as key thought leader. • Continued research and development in relation to application of artificial intelligence (AI), machine learning and IoT.	• Monitor and increase take-up of innovation time. • Generate pipeline of value-add work for existing customers.
• Used a cloud-first sales strategy with all prospects.	• Continued improvements to hosting, tooling and monitoring.
• Engaged in three joint sales proposals. • Partners utilised on four customer projects. • Continued strengthening of our partner relationships.	• Deliver projects based on joint bids. • Participate in further joint bids. • Scale and leverage our existing partner ecosystem for staff augmentation.
• Established engagement terms with new partners.	• Add to our partner ecosystem (Global agreement with Accenture signed in February 2020).
• Four large partner intakes successfully onboarded. • Partner portal set up.	• Provide further technical materials to partners for system integration efficiency.
• Delivered further POS and self-serve applications. • Investment in APIs, the user interface and target market features. • Delivery of processing efficiency improvements at high-volume.	• Develop improvements to our integration capabilities. • Further develop always-on, always-available strategy. • Continue investment in user experience and tooling. • Further develop materials to support partner implementations and customers.
• Used a cloud-first sales strategy with all prospects.	• Support customers in move to Docker or Alfa hosting deployment model. • Evaluate the potential for a new software-as-a-service product in an SME market.
• Published position paper on AI and engineering blogs on React.	• Continue AI tooling development and collaborate with customers on practical use of AI. • Assess and develop future business models in asset finance.

Objectives	
4 Establish Alfa Start as the leading solution for the volume market	Promote simplification of delivery through our Alfa Start proposition
	Promote product simplification
	Win customers in the volume market, based on Alfa Start proposition
	Continue investment model for volume market
5 Maintain a high-performance organisation with a culture of continuous improvement	Retain and attract the best people via a compelling value proposition
	Provide career development and learning opportunities
	Encourage inclusivity and diversity
	Foster innovation throughout the company
	Encourage open communication and strategic alignment
6 Promote and grow value and develop resilience	Improve operational efficiencies
	Improve management information and control
	Reinvestment in the product to increase value for customers and prospects
	Align our global locations with our growth potential

Progress in 2019	Focus for 2020
Extended Alfa Start proposition to new volume market segment.	Maintain and increase a continuous improvement to Alfa Start delivery process and documentation. Utilise feedback from implementations.
Continuation of modularisation programme.	- Continuation of modularisation programme. - Utilise feedback from first implementations and support to inform further changes.
- Developed pricing, sales and support model for volume market. - Won a new Alfa Start customer.	- Deliver for Alfa Start customers. - New sales of Alfa Start. - Continued development of sales approach.
Developed process for assessing and managing investment return.	- Conduct further market analysis to inform strategic investment. - Evaluate the potential for a new software-as-a-service product in the SME market.
- Successfully reviewed and revised experienced engineering recruitment. - Reviewed total reward package.	- Continue balanced recruitment for key geographies. - Fill open executive team positions. - Monitor working hours and increase take-up of training time, innovation time and ESG.
Implemented new learning and development framework. Monitored uptake.	- Increase relevance, timeliness and take-up of training. - Engage further senior staff in training delivery across Alfa.
- Developed a set of activities to improve diversity within Alfa. - Embedded inclusivity/diversity in company events.	- Develop, execute and monitor plan to introduce diversity into leadership team and board. - Expand discussions on inclusivity and diversity.
- Continued innovation days and hackathons. - Provided recommendations for carbon offsetting following investigation of approaches that do not encourage us to "greenwash".	- Renew innovation team charter, on-boarding and training. - Use UN Sustainable Development Goals to inform Alfa ESG efforts. - Decide on carbon-offsetting approach and integrate into operating plans.
- Continued to use the Company's Purposes and Values as the foundations for strategic thinking. - Regular communication e.g. from Investment Committee.	- Establish a team structure for strategy, including change management, to facilitate the upkeep of our strategy. - Continue to engage through regular blogs, company meetings and open Q&A sessions. Review and revise based on engagement.
Continued focus on operating cost efficiencies to ensure that we have the capacity to invest in new skills to drive future growth.	- Focus on improvements to project margins and capitalise on appropriate tactical opportunities. - Increase proportion of income from licence revenues.
Assigned further devolved budget holders.	- Implement improvements to internal systems to improve metrics and information. - Implement additional monitoring and feedback for budgeting.
Invested in the user interface, expanded digital API and continuous improvement.	- Maintain and increase focus on continuous improvement. - Revise the software development lifecycle (SDLC) to improve engineering efficiency. - Continue to evolve the user interface and user experience.
	Review our physical presence in line with market focus and add to our current office network if necessary.

Our differentiators

This is why our customers choose Alfa Systems

Delivery track record

Our best practice methodologies and specialised knowledge of asset finance enable us to deliver large system implementations and highly complex business change projects. With an excellent delivery history over three decades in the industry, Alfa's track record is unrivalled.

Innovate and challenge in multiple markets

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

Create an omnichannel experience

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

Perform through leading-edge tech

Alfa Systems has a comprehensive service-oriented architecture, 100% web user interface alongside reliable, scalable performance, proven for a 10 million contract portfolio.

Achieve operational agility

Alfa Systems helps streamline operations through process automation, across different functions and geographies. Customers achieve greater control, connected processes and a seamless flow of information.

Unify systems

Alfa Systems helps customers avoid systems spaghetti – consolidating disparate legacy systems, integrations and workarounds. Alfa Systems removes inefficiency and complexity by using a single platform with a single database.

A complex and highly regulated market with many challenges and opportunities

Global trends

Alfa's global market remains attractive even in times of political and economic uncertainty. Asset finance has increased security compared to unsecured loans, and the stability this provides means that the fundamentals of the industry tend to remain strong regardless of the short-term macro environment.

Even so, change is a constant in today's commercial world, and asset finance is no exception. New regulations, such as GDPR, WLTP, US Banking regulations and the drive for limiting dealer commission all mean that auto and equipment financiers must move quickly to protect their operations.

At the same time, Brexit and global trade disputes have undoubtedly increased business uncertainty. Additionally the worldwide spread of Coronavirus (Covid-19) will undoubtedly have far-reaching effects on all parts of the economy, and the full impact of the virus on the asset finance industry remains uncertain.

Nevertheless, businesses must continue to plan even through this uncertain future, and put themselves in the best possible position to operate effectively when Covid-19 has run its course.

In order to succeed in an even more competitive future market, asset finance businesses must respond to an increasingly demanding customer base, and advances in technology that happen on an ever-shortening cycle. Demand for cloud solutions, a fully digitised offer and use of artificial intelligence and machine learning are creating multiple opportunities for Alfa. In the automotive sector, the race towards electric and autonomous vehicles is well underway, forcing financiers to introduce new products and services. In the equipment sector, financiers are also looking to find competitive advantage through innovative offerings such as pay-per-use billing.

Despite increased uncertainty, including the uncertain impact of Covid-19, business decisions cannot be delayed indefinitely. The Alfa late-stage sales pipeline was increasingly healthy over the course of 2019, with appetite for large-scale IT implementations returning across our markets, and we view prospects in the post-pandemic world with optimism.

“

The full impact of the spread of Covid-19 on the asset finance industry remains uncertain. Nevertheless, businesses must continue to plan even through this uncertain future, and put themselves in the best possible position to operate effectively when Covid-19 has run its course.”

Technology trends

10%

of new cars could be offered as a subscription by 2025^(a)

“

Alfa has been a leading voice in the industry on digitalisation, releasing two white papers to give meaningful definition to the term and explain how its power can be harnessed”

Cloud

Cloud deployments have become increasingly popular and on-premise deployment is now the exception rather than the rule. Cloud offers a wealth of benefits in terms of speed of set up, flexibility and cost management. Having more parts of the solution in the cloud also provides additional options to ease integration, and this is an increasingly significant factor in customers' digital strategies.

Larger finance providers have been slower to move to this new platform, often due to the perceived additional data governance risk. Improvements in security from cloud providers have mitigated these concerns and we expect that the movement to cloud will continue. Use of Alfa's hosting services is growing among customers, although some finance providers with mature IT servicing offerings are engaging directly with cloud providers like AWS or Azure to manage public cloud infrastructure themselves.

Alfa's approach

Alfa Systems can be deployed on any cloud platform, improving customer experience and mitigating risks associated with being tied to a single provider. This, in turn, helps mitigate the risk that disruptors could become competitors in our customers' markets. For three years, Alfa's recommended deployment has been via its hosted solution, and this offering provides a quick and easy option for customers to realise the benefits of cloud hosting without the need for significant technical skills.

Digitalisation

Digitalisation continues to be a popular theme, being discussed with increasing frequency at industry conferences and in conversations with customers and prospects. An industry-wide agreed definition of the term remains elusive, though.

In many cases, we see that prospective customers see "digitalisation" as a traditional systems' uplift, replacing manual processes across multiple different legacy systems with a modern integrated solution like Alfa Systems. Others, including those who have already implemented Alfa Systems, are increasingly looking to achieve the next-level benefits of more integrated technology to solve business problems more efficiently. These customers are seeking seamless digital connectivity, allowing for transformative solutions such as self-service mobile applications, customer portals and real-time links to third party providers.

Ever-closer integration also requires systems to be easily connected, with a minimum of difficulty for those managing the process. Developer Experience ("DX") is therefore becoming as important as Customer Experience ("CX") in choosing a system.

Alfa's approach

Alfa has been a leading voice in the industry on digitalisation, releasing two white papers to give definition to the term and explain how its power can be harnessed. Alfa's digital strategy allows Alfa Systems to be deployed either as part of a connected systems landscape, or as a standalone system, as required. In particular, our continued investment in the open-platform API for Alfa Systems positions us well for a greater level of customer ownership of the digital journey and to create a positive Developer Experience.

Mobility and autonomous vehicles

Mobility solutions remains an industry buzzword in the auto finance sector, but also stretches into equipment finance with OEMs exploring similar techniques.

'Car as a service' is an increasingly likely future model in the medium term, with analysts suggesting that 10% of new cars could be offered via a subscription by 2025.^(a) Typically, this will be for a specified car – a monthly fee will provide the paying customer access to a car, with quick and easy options to change, or terminate, at any point. In comparison, we expect that there will be a slower take-up of 'car clubs', where a subscription would provide access to a fleet of cars and the ability to use any car, at any time.

Autonomous cars remain in some ways the end-state for mobility solutions, as this would even allow the 'driver' to be provided as a service. While initial estimates of when autonomous vehicles will be on the road have been pushed back as understanding of AI and machine learning has increased, all the major OEMs are putting significant investment into this technology and 'driver-assisted' cars remain likely in the next five years.

In the equipment space, Daimler Trucks has recently become the first provider to launch a usage-based lease, with its Dynamic Lease offering. This is an exciting development in an industry that typically lags auto finance in innovation. While the business-to-business nature

of equipment finance means a direct equivalent to 'car as a service' is less likely, Dynamic Lease is likely to be the first of many such offerings.

Alfa's approach

The flexible nature of Alfa Systems has always positioned us well to manage new and complex product offerings. Structures like the Dynamic Lease product are already fully supported, and Alfa features such as variable billing cycles, customisable contract lengths, simply-effected changes of contract and independent views of the asset all enable support not just for the products of today, but for future innovations.

As with all ventures into new technology, there are risks and uncertainties involved in mobility solutions, and the timing and exact balance of future trends is uncertain. Alfa will continue to stay abreast of technological developments, provide thought leadership and innovative solutions to our customers and potential customers.

AI and machine learning

Artificial Intelligence and machine learning are increasingly common tools within business and their use and sophistication is likely to increase.

In the asset finance industry, pilots and proofs of concept using AI and machine learning techniques abound, but production instances are limited. Efforts remain focussed on some 'traditional' machine learning areas,

such as data analytic techniques for BPO and credit decisioning. Partly, this is due to the complexity of preventing the encoding of systemic biases: apparent bias in card credit decisions made the news recently in the USA, and avoiding bias is regulated under GDPR in Europe.

Nevertheless, the prize for achieving successful machine learning application is as great in asset finance as in other industries, and we expect to see continued investment in this area over the coming years.

Alfa's approach

In 2019, Alfa released its first position paper: 'Balancing Risk and Reward: AI in Equipment and Auto Finance'. This covers some of the challenges of introducing machine learning into a business environment, whilst recognising the obvious benefits it can bring. Alfa will continue to perform its own research into how AI can be used successfully within asset finance during 2020, with a focus on launching applications that provide true value to Alfa and the asset finance industry.

(a) Frost & Sullivan – Future of Vehicle Subscription

Europe

€183bn

European total leasing volumes in first half of 2019^(b)

49%

Of Alfa's revenue over the last three years

4.3%

Expansion of automotive leasing volumes in first half of 2019^(b)

3.1%

Expansion of equipment leasing volumes in first half of 2019^(b)

Overall

The European asset finance market is heavily influenced by a small number of major economies, with the five largest European economies (UK, France, Germany, Italy, Spain) accounting for around 63% of vehicle and equipment finance originations^(a). Growth across this market slowed in 2019 after several years of sustained growth.

Growth was modest in H1 2019, with only real estate leasing bucking the trend. Total new leasing volumes in the first half of 2019 were €183.1 billion, higher by 3.4%^(b) than the same period of 2018. Until the outbreak of Covid-19, the outlook for the European industry overall remained positive, but growth will undoubtedly be impacted by the measures taken to combat the virus.

In Alfa's home market of the UK, the exit from the EU has been confirmed, but the specific impacts of Brexit are still being worked through and uncertainty continues to dominate. Brexit-related uncertainty continues to impact customers appetite for capital expenditure.

Nevertheless, the demand for asset finance in the UK remains strong, with total new business growing in all but one month in 2019, and while Covid-19 will have an effect, the need for asset finance to help revive the economy should help drive the requirement for IT projects.

Alfa's approach

Europe is a key market for Alfa, contributing 49% of revenues over the last three years. Alfa's experience of cross-border implementations and Alfa Systems' flexibility positions us well for pan-European implementations for larger European automotive and equipment finance companies. Additional mainland European subsidiaries in Germany and more recently France, increase our proximity to customers.

Automotive

Vehicle leasing volumes expanded by 4.3% in the first half of 2019, although new passenger vehicle registrations were more static, with only a 1.2% growth compared to 2018^(c). New business volumes in 2020 look certain to be impacted by Covid-19, although to what extent is unclear. Manufacturers are increasingly looking to exploit the shift towards electric and autonomous cars, with companies joining forces where necessary to navigate this change.

Diesel engines are particularly at risk, with the UK stating that these will be phased out by 2035. Outside the UK, consumers are particularly uncertain about the future of diesel engines: their poor green credentials are in direct opposition to their current economic benefits to the user, leaving buyers conflicted. However, this uncertainty could be a positive for the finance industry, as consumers potentially shy away from long-term ownership of assets in order to avoid committing to a choice of fossil fuels or less-proven emerging technologies.

“
With a proven track record in equipment finance,
both in the UK and across Europe, Alfa continues
to see great potential in this market.”

Across the globe, captives are increasingly focused on mobility, enabling car buyers to finance vehicles in a way that best meets their individual needs. End user expectations are constantly evolving, with customers becoming increasingly tech-savvy. Alfa's customers and prospects report that the ability to provide these customers with a slick and simple customer experience will prove invaluable in retaining brand loyalty.

Alfa's approach

The strength of the Alfa Systems offering to the automotive finance industry is evident both in its work with UK and German auto finance companies, and in its market-leading status in the equivalent US market. Regional variations make multi-country implementations difficult, but the configurable nature of Alfa Systems and its ability to support multiple products, verticals and jurisdictions on a single platform make it an excellent fit for large companies looking for economies of scale.

Alfa's positioning as a modern digital platform gives customers the ability to integrate easily into a complex systems landscape, providing end users with the ease of use that they require.

Equipment

Equipment leasing expanded by 3.1% in the first half of 2019^(b), continuing a pattern of single-digit growth over the past five years. This increase masks significant variations, with markets such as the Baltics contracting by double-digits but markets as varied as Denmark, Greece and Ukraine experiencing significant growth. Covid-19 is likely to have a negative impact on the market, but businesses will need help in order to recover, and equipment financing may contribute towards this.

Equipment finance is historically more conservative than automotive finance, but end users in the business-to-business sector increasingly demand the same kinds of products and solutions as consumers in the auto finance sector. Alfa expects this trend to continue

through 2020 and beyond, with customers across Europe seeking to gain competitive advantage by offering tailored solutions to brokers, vendors and direct customers.

Alfa's approach

With a proven track record in equipment finance, both in the UK and across Europe, Alfa continues to see great potential in this market, despite present uncertainty. Alfa's ability to cover both auto finance and equipment finance on a single platform also positions us well to support demand for auto-style products and solutions in the equipment finance sector. In addition to continued support for large-scale pan-European implementations, Alfa is also placing a focus on providing a pre-packaged solution for smaller equipment finance players, starting with the UK market.

(a) Leaseurope – 2018 Statistical Enquiry

(b) Leaseurope – 2019 Biannual Statistical Survey

(c) Europe Automobile Manufacturers Association press release

USA

17.0m

Number of US vehicle sales in 2019^(b)

6%

Growth in equipment finance in 2019^(d)

Overall

The US administration remains business-friendly and the economy continued to grow through 2019 and early 2020. Consumer spending, the foundation of the US economy, improved significantly and is a key driver of this economic growth. GDP has expanded by 2.1% over the past year^(a) and the stock market finished 2019 near a record high. The industry benefitted from a 25-basis-point interest rate cut by the Federal Reserve at the end of October 2019, the third time the Fed cut rates during the year, leaving the central bank's benchmark rate at 1.5% to 1.75% at the end of the year.

These positive signs were set against a backdrop of trade frictions with China and a pull-back in the US manufacturing sector; along with geopolitical uncertainty caused by Syria, Hong Kong and Brexit. As such, most measures of US business confidence were already well below 2018 highs and trending downward. Covid-19 has now increased those challenges significantly, and the risk of recession that was already present has increased significantly.

Whilst there will be storms to be weathered, Alfa's customers will need to continue to invest in their businesses. This will put them in a good position to recover once the threat of Covid-19 has eased, and insulate them from any potential future further downturn.

Alfa's approach

The USA remains a key market for Alfa, contributing 46% to turnover for Alfa for the past three years. In 2020, our focus will be to continue working with the largest and most prestigious auto finance companies in the region. We will also expand and diversify our customer base by working increasingly with US equipment finance companies and by servicing smaller portfolios in the auto finance market.

Automotive

Annual US vehicle sales had stabilised at around 17.2m vehicles in the past few years. However, 2019 sales dropped to 17.0m, and pre-Covid-19 projections for 2020 and beyond showed a reduced level of 16.5m – 16.8m vehicles^(b); this will undoubtedly drop further unless a rapid exit from Covid-19 restrictions can create a bounce in H2 2020. Alternatively-powered vehicles remain a likely growth area but, at around 5% of total sales, this is not currently a major segment.

Auto finance volumes in 2019 remained at similar levels to 2018^(c), with increased finance penetration driving a slight increase in finance volumes. The list of the top 100 auto finance providers has been fairly stable, but for the first time we are seeing disruptors rise up the table: providers such as Tesla and Carvana are growing fast with over 50% growth in portfolio value^(c).

The challenge for finance providers will be to keep auto finance volumes healthy in the face of reducing car sales volumes. Finance product diversification

continues in order to tackle this, driven largely by consumer buying habits and the large providers' efforts to future-proof their portfolio offering. Current trends include: an increase in demand for white-labelling to drive efficiency; mobility and telematics; commercial fleet offerings; and second-life fleet solutions.

Alfa's approach

Alfa is deeply entrenched in this market and we are the premium solution in the region. To cement our position as the market leader, Alfa continues to invest in implementation accelerators such as a best-in-class pre-configured solution and a cloud-first offering. The reduced implementation effort opens opportunities for partnering and enables Alfa to target a larger section of the auto finance market.

The flexibility of Alfa Systems means we are able to support new products offered by customers. We already have solutions for leases, loans, white-labelling, commercial fleet, usage-based contracts, second-life fleet and many others. As the range of products diversifies further, Alfa will continue to be an attractive option for large, medium and disruptor customers.

Equipment

Equipment finance volumes are expected to have grown by over 6% in 2019, from \$894bn to over \$950bn^(d). This demonstrates the strength of the industry and confidence that businesses had to invest in equipment in the year.

Australia and New Zealand

However, trade frictions with China could dent equipment sales in areas such as farming and machinery. Further, the full impact of Covid-19 is not yet known and equipment finance is likely to experience at least a short-term slowdown until the virus countermeasures are relaxed.

Equipment finance has been very slow to embrace digitalisation, but the industry is starting to transition, driven by end-customer demand. Digitalisation is much more extensive than app-based customer service solutions, and includes connectivity of the lender's systems with the asset, other systems, and end-customer information, to create the quality of customer journey demanded.

The competitive landscape for equipment finance systems is being affected by one of the largest software providers in the market enforcing an upgrade to their extensive customer base. This is forcing customers to make a choice between upgrading or changing systems, creating opportunities for Alfa in 2020 and beyond.

Alfa's approach

With digitalisation requiring a modern real-time platform, the 70% of the market currently on legacy systems, or internally developed solutions, will need to make changes to remain competitive. Alfa therefore anticipates acceleration in a software market that has remained slow for the past few years, once the effects of Covid-19 have been ameliorated. Our modern technical stack and digitalisation initiative positions us well to serve this market. We also have a proven migration path from the systems of the aforementioned competitor enforcing an upgrade, meaning we are well placed to take advantage of this disruption.

58%

Australia's CEOs are 'very confident' about their company's prospects over the next three years^(f)

NZD4.7bn

NZ leasing industry estimated turnover in 2017^(e)

Overall

General business confidence in Australia remained high through 2019, with the 2019 KPMG Global CEO outlook survey finding that 58% of Australia's CEOs were 'very confident' about their company's prospects over the next three years. However, although in 2019 Australia entered its 28th consecutive year without a recession, bushfires and Covid-19 will have a significant impact on the economy, at least in the short-term.

A rebound in the natural resources sector has driven up house prices in mining towns and also generated renewed activity in equipment leasing for yellow goods. At the same time new car sales have fallen consistently in the past two years, with finance penetration rates remaining largely static. The leasing market itself could change considerably over the

next twelve months, as this period may see an increase in M&A activity among significant market players.

In New Zealand much focus in financial services has been on the Official Cash Rate (OCR), with a larger than expected 50bps reduction in August 2019: against this backdrop bank profits are flat.

The leasing industry in NZ is estimated to have generated NZD4.7bn in turnover in 2017^(e), with consistently rising revenues year on year. Rising tourism numbers and an increase in construction, attributed to post-earthquake recovery activity in Christchurch, continues to drive turnover, although, as with other countries, Covid-19 will have a material impact on the local economy.

Alfa's approach

Industry leaders in Australia and New Zealand have highlighted potential disruption from start-ups and the rise of peer-to-peer lending. Alfa's strong commitment to R&D enables our customers to meet these challenges through product innovation and take advantage of changes in an increasingly dynamic market.

As the leasing market gets more competitive it is apparent that a number of lenders are feeling constrained by legacy systems, and are unable to take advantage of market opportunities. Alfa expects that this will drive an increase in software refresh activity over the next two to five years.

- (a) US Bureau of Economic Analysis
- (b) MarkLines data center
- (c) Big Wheels Report 2019
- (d) Equipment Leasing and Finance Foundation – 2019 Horizon Report
- (e) Westpac Industry Insight report into Equipment Rental and Leasing, May 2019
- (f) 2019 KPMG Global CEO outlook survey

People

at the heart of
our business

Staff development and training is key to our future success and ensuring staff retention

Once we find and recruit talented staff, it is important that we retain them by developing them to their full potential. One way we do this is to provide opportunities for innovation. We run a number of company events throughout the year where time and space are given to work on projects people are passionate about. This is great for the business, as fantastic ideas grow from these events, and for our people as they have the chance to develop their ideas and then have a platform to present them to the rest of the company, from teammates to Directors.

We have witnessed excellent levels of engagement at these events which produce business benefits and, of equal importance, are fun for all involved. Visit alfasystems.com/innovation to view a video of our 2019 Hackathon.

The development of our people never stops. For instance, in 2019 we made a number of internal promotions to our Company Leadership Team. In order to accelerate this transition, each person entered into a coaching programme with an external provider, helping them to adapt quickly to their new roles.

Recruitment

2019 has been a challenging year for recruiting software engineers in London. We are proud to have recruited 59 new employees over the course of 2019. A buoyant jobs market, coupled with associated wage inflation, resulted in Alfa exploring alternative options for sourcing candidates. We started working with Makers Academy, a software development boot camp, and this has provided an excellent way to source a highly motivated and diverse pool of talented individuals.

It is well documented that the tech industry lacks gender balance. Alfa is committed to greater female representation across the company. Within our product engineering team, Makers Academy is a valuable partner helping us move towards that goal.

We have also worked on enhancing our employer brand in the London tech market. Our aim is to build a high-quality candidate pool of potential employees, whilst reducing external recruitment agency fees.

Retention

A reduction in retention levels and an increase in salaries in the tech market in the past year led to a rigorous salary benchmarking exercise. This resulted in the company awarding salary increases that were above inflation in November 2019. This is an investment in our future. If we want to attract and retain the best staff, we must offer a competitive remuneration package. This sits alongside the other things that make Alfa a great place to work: opportunities for varied and challenging work, a good work-life balance, our focus on learning and development and inclusive events.

Link to strategy

5. Maintain a high-performance organisation with a culture of continuous improvement

Delivering a faster Alfa Systems, more efficiently, enabling our customers to generate value earlier

As customers drive their businesses harder and expect more access to information, Alfa Systems' performance has been improved, continuing our journey to an always-available system. Simple deployment models, such as cloud hosting and Docker containers, enable us to deliver Alfa Systems more efficiently and earlier, allowing our customers to focus on their business differentiators rather than infrastructure. Meanwhile, the same hardware handles more users and processes portfolios faster, improving the user experience.

Investing in our whole engineering process, including our people, ensures that our onboarding, tools and infrastructure enable us to scale teams efficiently, whilst benefiting more from external expertise and leading-edge technology. Initial system modularisation effort has separated components and re-used them in new contexts.

Our future investments will continue to focus on shortening the cycle from requirements to delivery ensuring that our customers receive the best service and are kept future-ready.

Investment

**in our leading-edge software
to grow our market share**

Digital agenda

Expectations for connectivity continue to increase and we are accelerating our system integration partners and customers use of Alfa Systems to support the whole customer journey. POSKit now supports new use-cases and has been delivered for both equipment and auto finance providers; Alfa Systems has expanded to include webhooks and simpler alternatives for using existing APIs; and the platform's rich feature-set has been leveraged for further in-life interactions, including with online payment processors.

Investment will further standardise our documentation to provide ready-to-use examples and develop support for more use-cases.

Our artificial intelligence tooling is already guiding our engineers' efforts and we will continue to collaborate with customers to provide further value from the rich data Alfa Systems provides.

Concise, responsive, clearer user interface

The Alfa Systems user interface continues to evolve, using end-user feedback from our close customer relationships to prioritise investment. The refresh to leading-edge technology has improved user experience and eased training requirements, while the faster, more seamless transitions have increased productivity.

Alfa is committed to continuing collaborations with our customers, including through hosted user groups, identifying opportunities to create meaningful improvements and a seamless experience on the platform.

Link to strategy

- 1. Grow market share by maintaining leading-edge technology, increasing customer loyalty and winning new business**

- 6. Promote and grow value and develop resilience**

Partnership

enhancing our operational capacity

Our partnership programme is a key part of Alfa's strategy

Strategic alliances increase our operational capacity allowing us to deliver more Alfa Systems implementations, as well as enhance our ability to target new customers and markets.

Our initial approach has been to augment our teams with partner staff and also work with Systems Integrator partners, with Alfa retaining ownership of the customer relationship and delivery. This ensures our high standards of quality are maintained. We work with a small, carefully selected partner ecosystem of like-minded organisations with geographical spread and complementary delivery capabilities.

In 2019, we have scaled our partner relationships, successfully embedding partners in our project teams and our sales process. We have continued to invest in partner training, as well as providing onboarded partners with access to the latest information about Alfa Systems and our delivery methodology via a partner portal. We have also grown our partner ecosystem, agreeing engagement terms with a specialist automotive finance consultancy and in 2020, with Accenture, the latter opening up opportunities for joint sales and collaboration on software implementations in multiple regions.

In 2020, we will continue to scale our existing partnerships and evaluate other potential partners to strengthen further our partner ecosystem and core market coverage.

Onboarding partners

In 2019, we developed our partner training and learning programme and have significantly increased our partner onboarding. Through four intakes, partner staff have been taken through our comprehensive training schedule, including Alfa Systems training, our delivery methodology and simulation-based implementation workshops. Alfa subject matter experts and experienced practitioners have provided high-quality training and the best possible introduction to the company.

In total we have onboarded 31 people from across our partner ecosystem in 2019. These partners have now assisted on four Alfa projects, for customers both currently live and at implementation stage, and they will enable us to scale up as we convert sales pipeline prospects.

Sales collaboration helping to secure long-term growth in our project pipeline

We have two significant late-stage sales opportunities (one each in EMEA and the USA) where we are co-bidding with our partners, a very important step towards implementing side-by-side at scale and securing long-term operational growth.

Partners continue to provide local language and market expertise which is invaluable in the sales process, particularly with regards to new market entry opportunities.

We have also benefited from increased sales channel opportunities via our partner relationships and the extended global reach and credibility they provide.

Partner relationships

5

(2018: 3)

Partner staff trained in 2019

31

(2018: 0)

Link to strategy

2. Develop our partner ecosystem to increase operational capacity and sales opportunities

Our market

offering future growth for our leading digital solutions

Continuing to deliver to our core customers

In 2019, Alfa continued to deliver implementations across a broad range of customers and markets. Alfa's largest projects are among the most high-profile and complex in our industry and we continued to meet major milestones on time during the year. The Alfa team's unique industry knowledge has enabled us to develop and deliver a range of innovative products and technology solutions, generating operational efficiencies for our customers.

Alfa's commitment to regular product upgrades allows customers to benefit from new features and develop new capabilities to innovate in their markets.

This platform for digitalisation is providing Alfa customers, unencumbered by the integration challenges of legacy technology, with significant competitive advantages.

Along with these core projects our investment in project delivery for smaller customers has borne fruit, with Hampshire Trust Bank going live 19 weeks after the start of implementation work. Further investment and experience in this area in 2020 will lead to an even more compelling, feature-rich product for the volume market.

Volume market

Smaller finance companies often have the same requirements as larger customers for industry-leading technology and breadth of functionality. Through Alfa investment in developing preconfigured Alfa Start positions and hosting capabilities, we are now able to offer such companies a highly streamlined deployment of Alfa Systems with rapid delivery timescales. Our implementation at Hampshire Trust Bank was completed in March 2020, after just 19 weeks.

Market leadership

Alfa's long-term market leadership was further consolidated in 2019 as we worked with customers to deliver projects of unique scale and challenge. The platform continues to prove itself year after year, demonstrating its capabilities on the largest, most complex portfolios in the world. In addition, our approach to integrating with customer project teams has allowed us to see challenges from the inside and help develop holistic solutions to complex problems which could not be achieved with a traditional external supplier relationship model. The commitment, knowledge and collaborative approach of Alfa team members, customers and partners is a true enabler for these super-large projects.

Link to strategy

3. Extend our best-in-class digital agenda

4. Establish Alfa Start as the leading solution for the volume market

Our business model

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

Our resources

Technology ¹

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 ^{H 1}

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 ^H

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 ¹

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 markets – delivering excellence in everything we do.

Financial ^F

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

How we create value

Building long-term relationships

The life of an Alfa customer spans the initial needs assessment through to go-live, continued maintenance services and ongoing development and services work, across a myriad of asset types, geographies and lending products. But it does not stop there – customers often return to a needs assessment as their portfolio increases, their asset types expand and geographical reach increases.

Innovation

Assessment

Implement, develop and train

REVENUE STREAMS

From proposal to end of term, across many asset types and financing structures.

Software implementation

Includes implementation and development work for new customers and upgrades and geographical or asset type roll-outs for existing customers.

UPGRADING AND INCREASING PORTFOLIOS

R&PD and innovation

All supported by strong governance and robust risk management

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

F Financial	I Intellectual
H Human	S Social
M Manufactured	N Natural

The value we create for stakeholders

Shareholders

EPS (basic)

3.5p

(2018: 6.3p)

Customers

Delivery over last 3 years

7 software implementations

(2018: 6)

Alfa team

Retention

83%

(2018: 88%)

Product

Investment in Research & Development

£15.2 million

(2018: £16.3 million)

Brand coverage

Countries

26

(2018: 26)

Communities and society

Money raised

£35,000

(2018: £47,000)

Carbon emissions

821 tCO₂e

(2018: 890 tCO₂e)

Reinvestment

Maintain

Continued value creation

Maintenance

Ongoing support for existing customers' portfolios, including upgrades available on a monthly, quarterly or biannual basis at a customer's choosing, help desk support and other maintenance services.

Ongoing development and services (ODS)

Includes further functionality, development or process changes in response to new regulation and further change management as businesses grow.

Reinvestment

Measuring our performance

Alfa measures a range of financial and non-financial metrics to help manage business performance

Our strategic priorities

- 1 Grow market share by maintaining leading-edge technology, increasing customer loyalty and winning new business
- 2 Develop our partner ecosystem to increase operational capacity and sales opportunities
- 3 Extend our best-in-class digital agenda
- 4 Establish Alfa Start as the leading solution for the volume market
- 5 Maintain a high-performance organisation with a culture of continuous improvement
- 6 Promote and grow value and develop resilience

Risks

- A Failure to retain or increase market share in our strategic target markets
- B High customer concentration risk
- C Socio-economic, 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 the 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
- I Brexit and uncertainty surrounding trading arrangements after the transition period
- J Pandemic outbreak in Alfa and/or customer geographies

Financial

Group revenue
£64.5m

2019 performance

Group revenue has been impacted by delays to anticipated implementation projects and reduced discretionary spend by customers.

Focus in 2020

- Convert late-stage sales pipeline opportunities in Europe and USA;
- Continue implementation activities at existing customers; and
- Hosting and cloud opportunities.

Why do we measure this?

Revenue and customer base growth. Growing revenue is a measure of customer success. It is central to our objective of becoming the number one supplier to 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 I J

New implementation projects

3

2019 performance

Three customers began new implementation projects in 2019, of which two signed up to our new subscription-based invoicing model, including one utilising our Alfa Start proposition.

Focus in 2020

- Convert late-stage sales pipeline opportunities in Europe and USA.

Why do we measure this?

Revenue and customer base growth. New sales is a measure of success with customers and is an indication of future growth. New customers defined as implementation work started 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 I J

Revenue on a constant currency basis
(11%)

2019 performance

Constant currency decline is marginally higher than actual revenue reduction, following devaluation of GBP against USD and EUR during 2019.

Focus in 2020

- Growing Group revenue as described above; and
- Managing the impacts of foreign exchange fluctuations.

Why do we measure this?

Revenue and customer base growth. Demonstrates underlying organic growth excluding the impacts of currency movements.

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 I J

Operating profit margin**21%****2019 performance**

Operating profit margin affected by revenue decreases and a higher cost base, including increased staff costs in a competitive market for software engineers.

Focus in 2020

- Control margin erosion by ensuring costs are incurred only to the extent necessary to support future business growth.

Why do we measure this?

Promote and grow value and develop resilience. Operating profit is a measure of how effectively we sell Alfa Systems and manage our cost base.

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 I J

Adjusted EBIT margin**20%****2019 performance**

Adjusted EBIT margin affected by revenue decreases and a higher cost base, including increased staff costs in a competitive market for software engineers. Adjusted EBIT also adjusts for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets. This explains why this KPI is slightly lower than the related Operating Profit margin.

Focus in 2020

- Control margin erosion by ensuring costs are incurred only to the extent necessary to support future business growth.

Why do we measure this?

Promote and grow value and develop resilience. Adjusted EBIT margin shows the full underlying cost of developing Alfa Systems, whilst removing the impact of non-recurring expenditure 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 I J

* The 2017 Adjusted EBIT was calculated before one-off pre-IPO related expenses and pre-IPO share scheme cost. Refer to the reconciliation on page 35 for further details.

Billings**£71.1m****2019 performance**

Billings are higher than revenue due to the deferral of customised licence revenue recognition and certain contractual settlement and termination amounts being billed during 2019 which related to revenue recognised in prior years.

Focus in 2020

- Maintain billings of 95% of revenue

Why do we measure this?

To seek to maintain a strong balance sheet position (initially through trade and other receivables and subsequently through cash following collection) – ability to turn billings into cash 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 I J

Operating free cash flow conversion**142%****2019 performance**

Cash conversion ratio improved through increased focus on cash management by the Group and higher billing amounts compared to the Group revenue for 2019.

Focus in 2020

- Cash flow conversion of 100%

Why do we measure this?

A strong, unencumbered balance sheet position is key to growing the business in the future. 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 I J

R&D expense**£15.2m****2019 performance**

Alfa capitalised £1.1 million in 2019 in relation to:

- Continued investment in our products digital capabilities;
- Upgrades and improvements to usability and functionality of the Alfa Systems user interfaces;
- Investment in the functionality of the cloud-hosting platform offered by the Group;
- The adaptation of the existing Alfa Start technology to meet the requirements of the UK equipment finance market; and
- Specific functionality requested by existing customers for which the Group has invested internally generated time developing new modules and capabilities within Alfa Systems.

Focus in 2020

- Continue to deliver on modularisation, our digital agenda and improve user experience along with functional changes to support the replacement for LIBOR in both the UK and the US and to improve the efficiency of our Alfa hosting service.

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 I J

Operational

Number of customers

26

2019 performance

Two new customers signed in 2019, being a South African bank and Hampshire Trust Bank, our first Alfa Start implementation in the UK.

Metric removes customers who terminated in year or who have given notice to terminate in 2020.

Focus in 2020

- Grow customer numbers and broaden diversification across geographies and industries.

Why do we measure this?

Revenue and customer base growth. Increasing the number of customers helps to grow our share of the total addressable market and also 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 I J

Headcount

316

2019 performance

Headcount increased due to recruitment across the business in anticipation of expected 2020 activity levels.

Focus in 2020

- Increase headcount as we close out late-stage pipeline opportunities.

Why do we measure this?

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

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 I J

Retention rate

83%

2019 performance

Retention rate fell as the market for software engineers became more competitive. Metric excludes any managed attrition.

Focus in 2020

- Retention of 90%.

Why do we measure this?

Engagement of people. Our deep expertise in the industry and our ability to service our customer relationships is driven by the quality of our people. 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 I J

Employee engagement

45.7%

2019 performance

This KPI was added in 2018 as employee engagement is a positive indicator of culture and has an impact on business performance. Extracted from bi-monthly employee Pulse survey, 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." The decrease in the average employee engagement during 2019 has been a focus by senior management in the second half of 2019 and employee engagement levels have grown significantly from Q4 2019 to the date of this report.

Focus in 2020

- Increased engagement from employees by providing a stimulating, challenging and appropriately rewarded working environment.

Why do we measure this?

Measures levels of employee engagement because there is a positive correlation with business performance and the metric should be a lead indicator for retention rate 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 I J

Number of partner relationships

5

2019 performance

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

Focus in 2020

- Successfully announced new global partnership agreement with Accenture. Continue to grow and utilise partner ecosystem.

Why do we measure this?

Revenue and customer base growth. The profitable growth of our business is also linked to our ability to increase operational capacity. Our relationships with partner organisations provides introductions to potential customers and also provides resource augmentation and system integration 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 I J

Greenhouse gas emissions per 1,000 square feet (tCO₂E)

821

2019 performance

We have continued to monitor our level of carbon emissions and seek opportunities for further reductions.

Focus in 2020

- Move towards neutral environmental impact through comprehensive review of total carbon emissions and identify and implement strategies for reduction.

See our ESG section for more info on page 58.

Why do we measure this?

Responsible operations. We are committed to a position of carbon neutrality through assessing our carbon footprint and emissions to include a review of flights and energy usage.

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 I J

Definition and method of calculation of KPIs

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

We believe that Billings, Adjusted EBIT, Adjusted EBIT margin and Operating free cash flow conversion are the key measures required 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 and Adjusted EBIT margin.

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 as follows.

(1) Headcount

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

(2) Retention rate

Represents the retention of Alfa employees over the previous 12-month period, excluding any managed staff attrition.

(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 licence payments and maintenance agreements and accrued income in relation to work in progress and other contractual amounts due from customers.

Adjusted EBIT	2019 £'000s	2018 £'000s	2017 £'000s
Profit for the year	10,182	18,150	25,866
Adjusted for:			
Taxation	2,818	4,306	7,996
Pre-IPO employee share schemes ⁽¹⁾	-	-	4,400
IPO-related expenses ⁽²⁾	-	-	3,000
Finance income	(143)	(74)	(33)
Finance expense	852	-	-
Adjusted EBIT – 2018 definition	13,709	22,382	41,229
Capitalised development costs	(1,135)	(407)	-
Amortisation of capitalised development costs	153	-	-
Adjusted EBIT – 2019 definition	12,727	21,975	41,229

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

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

(4) Adjusted EBIT margin

Adjusted EBIT in 2019 is defined as profit from continuing operations before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets, with the Adjusted EBIT margin as a proportion of revenue.

Previously management defined Adjusted EBIT as profit from continuing operations before income taxes, finance income, pre-IPO share-based compensation and IPO-related expenses, with the Adjusted EBIT margin as a proportion of revenue. In 2019, management updated this definition because the IPO-related expenses and share-based compensation costs were only relevant in 2017, the year in which the Company undertook its IPO.

Management utilises this revised measure to monitor performance as it illustrates the underlying performance of the business by adding back capitalised costs, net of relevant amortisation, which management believe is reflective of the underlying cost base and overall trading operations.

The table above reconciles Adjusted EBIT to profit for the year.

(5) Operating free cash flow conversion

Operating free cash flow is calculated as cash from operations, less gains and losses on settlement of derivative instruments and margin calls, less capital expenditures, less total lease payments in respect of IFRS 16 (which was applied for the first time in the year ended 31 December 2019) 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 to monitor and manage cash flows. The table below presents a reconciliation of Operating free cash flow to Cash generated by operations, which is the nearest measure defined by IFRS.

£'000s	2019	2018	2017
Cash generated by operations	22,548	20,954	28,853
Adjusted for:			
Settlement of derivative financial instruments and margin calls	-	(108)	(2,683)
Capital expenditure	(2,076)	(1,638)	(663)
IPO-related expenses excluded from Adjusted EBIT	-	-	3,000
Total lease payments in respect of Right-of-Use Assets	(2,462)	-	-
Operating free cash flow	18,010	19,208	28,507
Adjusted EBIT – 2019 definition	12,727	21,975	41,229
Operating free cash flow conversion	142%	87%	69%

Ensuring effective risk identification and management

Introduction

We recognise that managing risk effectively is integral to executing our strategy. We have therefore implemented a five-step process for monitoring and managing risk throughout our business, allowing the Directors to conduct a robust assessment of the principal risks facing the Group. Risk is not something that should be eliminated but, instead, identified, assessed and managed in a timely manner.

Risk management is integral to delivering our strategic objectives

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

Our key strategic priorities are:

1. Grow market share by maintaining leading-edge technology, increasing customer loyalty and winning new business;
2. Develop our partner ecosystem to increase operational capacity and sales opportunities;
3. Extend our best-in-class digital agenda;
4. Establish Alfa Start as the leading solution for the volume market;
5. Maintain a high-performance organisation with a culture of continuous improvement; and

6. Promote and grow value and develop resilience.

We operate within various different geographical markets, each with their own potential diverse risks attached to them. It is therefore imperative that we assess and manage risks across each of these markets to ensure we have assessed all risks appropriately.

Our customers remain 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. Our diligent approach to risk management means, we take into account the relevant implications for our business.

How we monitor risk

1 Identify risks

Whilst overall responsibility for risk lies at Board level, the Directors have delegated authority for risk identification to the CLT.

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, twice a year. The output is then reassessed by the CLT 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 risk completely. Therefore the Audit and Risk Committee, with the CLT, reassesses the Group's risk appetite each year with this in mind. The Audit and Risk Committee considers 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, twice a year. 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 impact of the risk crystallising. We assess these by considering the possible impact on the following areas:

- Financial;
- Operational;
- Reputational; and
- Legal/compliance.

5 Monitor and review

Management monitors progress against the principal risks. This has been shared with our internal auditors, BDO, to assist them form the internal audit plan for 2020. 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.

Principal risk analysis (including mitigating activities)

The processes and systems which support the risk management review

The ownership of the Alfa risk register sits with the Risk Officer. The risks are documented in our project and issue-tracking software tool which is used for all of our development work. Senior management assesses and monitors risks during the twice-yearly risk meetings. Dashboards within the software 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 interim and year-end processes. 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.

- A** Failure to retain or increase market share in our strategic target markets
- B** High customer concentration risk
- C** Socio-economic, 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 the 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
- I** Brexit and uncertainty surrounding trading arrangements after the transition period
- J** Pandemic outbreak in Alfa and/or customer geographies
- /// Acceptable risk appetite

Responsibilities

Board

- Defines the risk governance framework, risk culture and principles.
- Sets overall risk strategy and policy.
- Approves risk appetite.
- 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.

Risk Officer and CFO

- Responsible for collating updates, managing the risk register and presenting principal risks and uncertainties to the Company Leadership Team and Audit and Risk Committee.
- The Risk Officer reports to the CFO in relation to risk management matters.
- The CFO has responsibility for governance and risk management review.

CEO and CLT

- 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 Board in relation to risk profile, strategy and key controls.
- Review the sustainability of risk methodologies, metrics and policies.
- Assess major risk-related projects.
- Assess new commercial arrangements through activities of the Deal Committee.

Operational management

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

Risk assessment categories

Operational

Risks arising from people, processes, and systems, impacting upon efficient and effective operations or our ability to deliver on strategic priorities

- Strategy and leadership
- People – recruitment, retention, skillsets, wellbeing, health and safety
- Service delivery
- Operating geographies
- Product development, innovation and quality
- Sales and marketing
- Contractual and commercial terms
- Information technology, security and governance

Financial

Risks which might impact upon our ability to meet our financial expectations and obligations

- Liquidity and funding
- Foreign exchange volatility
- Credit or customer concentration
- Tax compliance
- Financial management and control

Reputational

Risks which may impact how our Alfa team members or stakeholders perceive us, or how they interact with us

- Cyber security
- Environment
- Ethics

Legal/compliance

Risks related to non-compliance with government and regulatory requirements in the jurisdictions in which we operate

- Ethics
- Corporate governance
- Laws and regulations

Risk appetite

The Board, assisted by the Audit and Risk Committee and CLT, assessed the Group's risks appetite in November 2018 for the categories above, and again in March 2020. This has been used to determine the appropriateness or effectiveness of the mitigating actions and controls in place or to be put in place.

Focus for 2020

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

- An exercise has started with our internal auditors, BDO, to review and assess our risk management processes, and to develop these further. This ensures that we remain up to date with the latest processes and advances in this area.
- Business Continuity and Disaster Recovery Planning – we have performed a number of scenario testing exercises. Our internal auditors have also performed a review to assess the strength of our procedures and responses.
- Cyber security and data protection – We have maintained our SOC II certification in 2019 and will continue to ensure we maintain this in 2020.
- Internal audits – we plan to perform reviews of financial controls, corporate governance and recruitment, retention, and talent management, amongst others.

Principal risks and uncertainties

Principal risks and uncertainties in more detail

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 that 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.

Our strategic priorities

- 1 Grow market share by maintaining leading-edge technology, increasing customer loyalty and winning new business
- 2 Develop our partner ecosystem to increase operational capacity and sales opportunities
- 3 Extend our best-in-class digital agenda
- 4 Establish Alfa Start as the leading solution for the volume market
- 5 Maintain a high-performance organisation with a culture of continuous improvement
- 6 Promote and grow value and develop resilience

Risk A – Failure to retain or increase market share in our strategic target markets

Link to strategic priorities

1 2 3 4 5 6

Risk movement: ✓
Reduced risk due to renewed focus on strategic target markets, and a healthy sales pipeline

Impact:
Major

Probability:
Possible

How it impacts us

- We may fail to assess our target markets: technological changes, customer requirements, capacity needs and competitors' strategies, including launching disruptive technologies, and therefore miss opportunities, or fail to win new contracts.
- We may fail to address significant changes 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, revenues or returns on investment.

What are we doing about it?

- We have refreshed our sales and business development approach, with a renewed focus on our strategic target markets, led by our CEO and regional business development leads.
- We have continued to invest in Alfa partnering, building a strong and growing network of professional services partner organisations. This is expanding our access to IT decision-makers.
- We have professional, experienced project teams, led by Client Account Directors, who focus on large-scale implementations and develop close relationships within the industries we serve.
- We have continued to focus on our digital offerings as an additional value-add to both new and existing customers to increase our sales potential.
- We assess all product investment projects through the Investment Committee (see page 80), which approves major development programmes, ensuring they meet our business objectives, internal commercial targets and the requirements of the market.
- Our Alfa hosting cloud platform is proving a compelling prospect for existing customers who are considering cloud-first strategies.

Risk B – High customer concentration risk

Link to strategic priorities

1 2 3 4 5 6

Risk movement: ✓
Reduced risk due to implementation successes in 2019, moving those customers into ODS

Impact:
Major

Probability:
Possible

How it impacts us

- We have significant customer-concentration risk due to the size of our software implementation projects, the duration of those projects and the relatively low percentage of recurring revenues from maintenance contracts. If one, or more, of our key customers pauses, or terminates, their implementation activities there is a risk of a material impact on revenue targets.

What are we doing about it?

- We continue to aim for alignment of key contractual terms across all new contracts to protect the Group, 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 licence revenues in advance.
- We have continued to invest in Alfa partnering, building a strong and growing network of professional services partner organisations. This increases our capacity to run concurrent implementations, with the aim of reducing our exposure to individual customer contracts.

Risk C – Socio-economic, geo-political risk

Link to strategic priorities

1 2 3 4 5 6

Risk movement: ✓
Reduced risk due to the implementation of the Brexit transition period, and conclusion of the 2019 UK general election. Brexit is also now shown as a separate risk – see Risk I.

Impact:
Major

Probability:
Unlikely

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, international trade uncertainties, 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.
- Brexit, particularly the uncertainty around the end of the transition period on 31 December 2020, has been given specific focus at 'Risk I'.
- Risks associated with Coronavirus ("Covid-19") are shown discretely at 'Risk J'.

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 cyclicity in trends affecting the asset finance industry.
- In times of uncertainty, regulation and focus on operational efficiency may increase and Alfa regularly reviews its 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 licence revenues in advance.

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

Link to strategic priorities



Risk movement: Increased risk due to intense competition in the engineering recruitment market

Impact:
Major

Probability:
Possible

How it impacts us

- Our business is heavily dependent on our people because 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 limit our ability to deliver implementations, maintain product quality and leading-edge functionality, manage customer relations and deliver on our strategic plan.
- As our global reach expands and opportunities arise in new regions, we may find it difficult to provide staff across geographically diverse customer sites. This has the potential to have an impact on our ability to deliver implementation services to our customers.

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 relevant roles in the industry and aim to be competitive, through base pay and, going forward, ideally through broader share ownership in our business.
- Employee engagement surveys are carried out every two months, and allow areas for improvement to be identified and acted upon.
- Annual performance management and career planning is carried out to provide for continuity of operations.
- We have continued to invest in Alfa partnering, building a strong and growing network of professional services partner organisations, with wide geographical coverage. This will enable us to decouple our future growth from employee numbers.
- We have an established presence in our key strategic markets in Europe and the USA. We have actively recruited in both continents in 2019, and this continues in 2020.
- We engage immigration and relocation experts to assist us in ensuring that we can place our staff in the locations where they are required by our customers.
- In 2019, we established:
 - An additional Technical Delivery team in our Texas office, to provide software engineering and architecture services to our global customers, including those in the USA; and
 - A 24/7 technical operations and Alfa Systems support capability, using a 'follow the sun' approach, with activities handing over to staff in different time-zones over a 24-hour period.
- We have established new subsidiary companies in Germany and France in order to improve service to our EU customers and staff.

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

Link to strategic priorities



Risk movement: Reduced risk due to implementation successes in 2019

Impact:
Major

Probability:
Possible

How it impacts us

- Our business is dependent on continued delivery success – our customers rely on Alfa Systems to operate at the core of their business. 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 implementation projects often involve a high degree of complexity and require a significant time investment from both Alfa and the customer. Lack of appropriately skilled resource from the customer side could prevent us from delivering 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 continued our investment in faster implementation processes, for both the auto finance and equipment finance markets. We have begun to reap the benefits, with newly-started implementation activities in both markets accelerating to full pace far more quickly than had previously been achievable.
- We have project teams who are experienced in supporting our customers through large-scale and complex implementations. We have developed flexibility within our workforce such that we are able to deploy team members to supplement the customer's resources when required. We continue to focus on expanding our partner network which will provide opportunities to supplement the effort required by our customers during the implementation phase.
- The Alfa user groups in the USA and Europe have continued this year, allowing knowledge sharing and a forum to gather customer feedback on existing projects as well as future requirements.
- Our development methodology primarily uses a four-weekly time box schedule – which serves to minimise surprises. Development is undertaken on a continuous basis of four-week sprints, with the aim of increasing efficacy of quality reviews and testing cycles.
- We have restructured our implementation leadership, with Client Account Directors leading an implementation community. They have established a community of best practice, focusing on continually improving our Alfa Delivery methodology, sharing experience across implementation projects, and recognising and re-using the best approaches.

Risk F – Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower the 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:

Major

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 roadmap, to respond to demand, could result in an inappropriate investment focus that 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 will continue to develop Alfa Systems based on requirements from our customers, and this continues to be our focus, ensuring we are focused on the needs of our markets.
- The USA and European Alfa user group forums actively influence the Alfa roadmap, with customer and market requirements being constantly assessed through active collaboration.
- Our one-product approach, which provides a common upgrade path for our customers, allows all customers to take advantage of new functionality.
- Alfa innovation and investment activities have been particularly active in 2019, with the Investment Committee meeting every four weeks to decide priorities and reassess budget allocations. This includes consideration of strategic initiatives like Alfa partnering and Alfa hosting, product improvements like refreshing the Alfa user interface, and initiatives to improve our software development processes.
- We keep our engineers up-to-date with technology trends, including attending and participating at technology conferences, and by researching and publishing materials on topics important to our markets, such as artificial intelligence and its applications in the asset finance industry.

Risk G – IT security and cyber risks

Link to strategic priorities

1 2 3 4 5 6

Risk movement: < >

Same

Impact:

Critical

Probability:

Unlikely

How it impacts us

- 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 on our own corporate network, a targeted attack on Alfa could adversely affect our customers', or future customers', perception of Alfa Systems. In addition, a security breach could impinge upon our ability to operate our business, including our ability to continue providing support to our customers.
- Our Alfa hosting offering stores our customers' data on third party cloud hosting platforms. A security breach in our Alfa hosting offering could result in compliance violations, identity theft, malware infections and diminished customer trust and loss of revenue.

What are we doing about it?

- Our internal IT and cyber security team monitors key security and cyber risks, assesses and monitors the control framework of our key technology suppliers and undertakes 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 maintained our SOC2 type II and our ISO 27001 compliance in 2019.
- Where we provide Alfa hosting services, using third party cloud hosting suppliers, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.
- Our customers perform thorough assessments of the security of the Alfa hosting platform during their system selection and implementation process, measuring our IT security and data protection processes and controls against their own, typically stringent, internal policies. These compliance checks sit alongside our own policies and procedures, and provide independent assurance for our customers that appropriate security controls are in place.

Risk H – Business interruption or continuity

Link to strategic priorities

1 2 3 4 5 6

Risk movement: < >

Same

Impact:

Major

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.
- Note that the risk that Coronavirus (Covid-19) poses to us, and our readiness for this, is given specific focus as "Risk J".

What are we doing about it?

- We have an established, detailed and tested incident management procedure and escalation process.
- 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.
- Where we provide Alfa hosting services, using third party cloud hosting suppliers, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.

Risk I – Brexit and the uncertainty surrounding trading arrangements after the transition period

Link to strategic priorities



Risk movement: NEW

Impact:
Major

Probability:
Possible

How it impacts us

There is continuing uncertainty surrounding the trade, immigration, legal and regulatory relationships between the UK and the EU, and between the UK and other regions once the transition period ends on 31 December 2020. It is possible that we will face:

- Difficulty recruiting staff from EU countries, reducing our recruitment market;
- Difficulty in retaining staff who originate from EU countries;
- Difficulties in providing consultancy staff for EU customers;
- Difficulties providing consultancy staff for USA and other regions, if trade agreements are not in place or are in transition periods;
- Enforced changes in trading relationships and regulatory regimes, impacting our commercial relationships, tax and accounting treatments; and
- Economic uncertainty, risk of downturn, and impact on our customers' and prospects' IT budgets.

What are we doing about it?

The steps being taken to protect against "Risk C – Socio-economic, geo-political risk" are relevant here. In addition, we are taking a variety of Brexit-specific steps:

- We have monitored the Brexit process as it has evolved, and will continue to do so during 2020, to identify actions we need to take.
- We have subsidiary German and French companies, and have an established presence in the EU through business development and continuing implementation and ODS activities.
- We are providing advice and support for our EU staff residing in the UK, including in respect of the process of applying for the right to stay in the UK after 20 June 2021.
- Our Alfa partner organisations have an established presence in the EU and the USA, extending our implementation capabilities in these regions.

Risk J – Pandemic outbreak in Alfa and/or customer geographies

Link to strategic priorities



Risk movement: NEW

Impact:
Major

Probability:
Almost certain

How it impacts us

- Coronavirus (Covid-19) was declared a pandemic by the World Health Organisation on 11 March 2020.
- We treat the health and wellbeing of our staff, their families and other stakeholders as of the utmost importance, and we respond to this risk, accordingly.
- Base- and worst-case scenarios anticipate significant infection levels at the peak of the virus outbreak. This could temporarily reduce the resource capacity of our business and our professional services fee-earning capacity, potentially resulting in deferred or lost revenue.
- Similarly, customers and potential customers may become temporarily resource-constrained, limiting their capacity to manage large-scale IT projects and run sales processes, respectively.
- Travel is being restricted by our own policy, customer policy and government policy, and this will temporarily reduce our ability to operate at some of our geographically diverse customer sites.
- Remote working relies on third party cloud-based services such as video calling and chat software. Such services may experience problems during peak remote working times, impacting the efficiency of our staff.
- We may experience a slowdown in supply for our IT equipment needs.

What are we doing about it?

- We have an established, and recently reviewed pandemic response plan, as part of our business continuity procedures.
- We have created a Coronavirus Incident Response Team (IRT), which is managing and coordinating our actions. This team is chaired by our Chief People Officer, and contains representatives from across our business units and geographies.
- The IRT monitors the World Health Organisation updates and advice, and takes action on that advice, on a daily basis. The team also monitors and acts upon government advice in each of our geographies.
- Guidance and advice is being communicated regularly to all of our employees. We also liaise with customer organisations to ensure that we abide by their policies, for example with respect to business travel.
- As part of our pandemic plan, we have instructed our staff to work remotely. Remote working is already an established practice in our organisation, with the majority of our staff, including all of our consultants and engineers, using laptops, remote connections and remote working tools. We tested the capacity and resilience of these tools before instructing staff to work remotely.
- Our essential customer services – Alfa support, Alfa hosting and Technical Operations – are run by globally-distributed teams, using cloud infrastructure, providing resilience against business continuity risks.
- We have been in contact with the providers of our key remote working tools who have confirmed that they have suitable business continuity and capacity planning in place.
- We have ensured that we have ordered sufficient stock of essential IT equipment, particularly laptops, for our staff for the remainder of 2020.

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 increase its relatively small market share in this space by:

- Building on its existing customer base, to ensure a diverse portfolio of customers whilst 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 2019, the Group generated profit before tax of £13.0 million and was cash-generative with net cash generated from operating activities amounting to £17.6 million. Taking into account the Group's current position and its principal risks and uncertainties as described on pages 40 to 43 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 8 to 13 and 30 to 31 are central to an understanding of its prospects. These inputs provide a framework for assessing the Group's prospects and viability.

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

- It reflects reasonable expectations in terms of the reliability and accuracy of operational forecasting models; and
- Projections looking out beyond 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.

The Group's prospects are assessed primarily through its annual planning process, led by the CEO with the CLT. 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 appropriately takes into account 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 includes the annual financial budget and an analysis of the risks which could prevent the plan being delivered. Detailed financial forecasts which include profit, cash flow and key financial ratios have been prepared for the three-year period to December 2022.

The first year of the financial forecasts forms the Group's 2020 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, including the possible impacts of Covid-19, as described in Principal risks and uncertainties on page 40.

In addition to this, the Board also considered the events which were disclosed in Trading Updates issued in 2018 and 2019, reflecting the postponement of an existing customer's implementation project, and a slower than expected conversion of the sales pipeline, respectively.

The Board have considered the Group's financial performance in 2019, the impact of the events in the Trading Updates, and the current assessment of the Covid-19 situation, and consider that the key factors which could impact the delivery of the Group's financial objectives are as follows:

- Pandemic causing projects to be delayed or cancelled;
- 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 market-leading 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 reflects the combination of all risk factors identified and is considered a 'worst case scenario'. The Directors consider that this scenario more than covers the potential impacts of Covid-19 including potentially delayed or cancelled projects, loss of customers and failure to win new work. Based on the current assessment of the Covid-19 situation and the limited effects on the business and commercial outlook to date, Scenario 3 is still considered extremely severe and has been prepared for the purpose of creating outcomes that have the ability to threaten the viability of the Group.

In the case of such a scenario crystallising the Company has many different levers it could 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 the contractual terms of the relevant actions.

Revenue and profitability are clearly affected in this alternative scenario, however based on the Group's existing cash reserves, combined with incremental cost reduction measures, the business would retain sufficient cash reserves to continue in operation throughout the three-year forecast period. After cost reductions of approximately £10-20 million per annum, the lowest cash balance modelled was £16.5 million.

Whilst it is acknowledged that there is a great deal of uncertainty regarding the future impacts of Covid-19, 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 2022.

1

Scenario 1 – No conversion of sales pipeline

Includes a rapid deterioration in pipeline and therefore no new customer wins in a 24-month period and pressure on existing customers in the face of an impending financial crisis impacting rate increases.

The level of recruitment and uplifts in salaries and personnel related spend are reduced in this scenario.

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.

Recruitment and other cost reduction plans consistent with Scenario 1.

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 24-month period, the termination of all significant maintenance customers, the termination of a significant ongoing implementation project and pausing of all ODS pipeline, including the economic impacts of a Pandemic.

In this worst case scenario, substantial cost reductions would be required, which have been modelled through paused recruitment and further headcount reductions, as well as cost reductions across areas other than research and development, sales and marketing.

John Miller
Interim Chief Financial Officer

“2019 was a challenging year for the Group, with revenue decreasing by £6.5 million from £71.0 million in 2018 to £64.5 million in 2019. Whilst revenue fell short of our budgets for the year, performance was in line with our revised expectations, as set out in our Trading Update issued on 16 September 2019.”

Group revenue

£64m

(2018: £71m)

Operating profit

£14m

(2018: £22m)

Adjusted EBIT margin¹

20%

(2018: 31%)

Cash generated from operations

£23m

(2018: £21m)

Operating free cash flow conversion¹

142%

(2018: 87%)

2019 was a challenging year for the Group, with revenue decreasing by £6.5 million from £71.0 million in 2018 to £64.5 million in 2019. Whilst we fell short of our budgets for the year, revenue was in line with our revised expectations, as set out in our Trading Update issued on 16 September 2019. Excluding the impacts of gains and losses on derivative financial instruments, this represented an annual decrease of £6.7 million in revenue from customers, comprising a £4.3 million decrease in software implementation revenue, a £0.5 million decrease in ODS revenue and a £1.9 million decrease in maintenance revenue.

The decline in turnover, coupled with an increase in the Group's cost base, ultimately led to operating profit margin decreasing to 21% in 2019 from 32% in 2018. Operating profits included £5.5 million of contractual non-recurring ODS revenue in 2019, of which £3.5 million was outside of the revenue guidance of £63-65 million provided in our Trading Update.

As of 1 January 2019, Alfa updated its accounting policies to adopt IFRS 16 "Leases". This new standard was adopted in accordance with the transition provisions in the standard and the cumulative effect of the initial application has been recognised at the date of transition. IFRS 16 requires the recognition of a right-of-use asset and

a lease liability at the start of the agreement, for all leases, except for short-term leases and leases of low-value assets. Alfa is not party to any material leases where it acts as a lessor, but has various lease contracts relating to property and motor vehicles, where it acts as the lessee. The adoption of IFRS 16 resulted in the recognition of right-of-use assets of £18.0 million and lease liabilities of £20.5 million as at 1 January 2019, with the difference being recorded against opening retained earnings. The full impact of the transition to IFRS 16 is explained in note 19 to the consolidated financial statements.

Excluding the impact of gains or losses on financial instruments and restating our 2018 revenue using 2019 exchange rates, our 2019 constant currency revenue decline was 11%, in comparison to an actual decline of 9%. Excluding the impact of gains and losses on financial instruments and using 2019 exchange rates, our 2018 revenue would have been £72.5 million. Additional information on the calculation of constant currency can be found on page 51.

Software implementation

Software implementation revenue decreased by £4.3 million, or by 14%, to £26.1 million for the year ended 31 December 2019 (2018: £30.4 million). This was predominantly due to the deferral of go-live dates on certain

(1) See "Key Financial Metrics" on page 35 for a reconciliation of Adjusted EBIT and operating free cash flow conversion.

Group results	2019 £'000s	2018 £'000s	Movement %
Revenue	64,480	71,038	(9%)
Implementation and support expenses	(18,103)	(18,924)	(4%)
Research and product development expenses	(15,189)	(16,341)	(7%)
Sales, general and administrative expenses	(18,056)	(13,457)	34%
Other operating income	577	66	774%
Operating profit	13,709	22,382	(39%)
Finance income	143	74	93%
Finance expense	(852)	-	-
Profit before taxation	13,000	22,456	(42%)
Taxation	(2,818)	(4,306)	(35%)
Profit for the financial year	10,182	18,150	(44%)

Revenue	2019 £'000s	2018 £'000s	Movement %
Software implementation	26,128	30,391	(14%)
ODS	23,460	23,920	(2%)
Maintenance	14,892	16,846	(12%)
Revenue from customers	64,480	71,157	(9%)
(Loss)/gain on derivative financial instruments	-	(119)	-
Group revenue from customers*	64,480	71,038	(9%)

* 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 contract, with £0.1 million of losses recorded against revenue in that year.

Software implementation revenue	2019 £'000s	2018 £'000s	Movement £'000s
New	8,839	36	8,803
Continuing	16,312	25,950	(9,638)
Completed	1,166	3,301	(2,135)
Paused	(189)	1,104	(1,293)
Software implementation revenue from customers	26,128	30,391	(4,263)

projects, increasing the overall length of those projects, which resulted in write-backs to software licence revenue in the year. Although this decreased software implementation revenue in 2019, it is expected that the overall project value will increase due to the increased work effort in future periods. Additionally, the application of IFRS 15 has required the Group to write-back £3.3 million of its licence revenue in order to establish a material right to use liability. This liability reflects discounts in respect of the right to use renewal payments that customers will be required to pay in future years. While this also contributed to decreased implementation revenue in 2019, the relevant revenue will be recognised over the four years following a project's go-live date.

One implementation project was completed late in 2019 and further services to this customer will be classified as ODS revenue. Revenue in the prior year included amounts from

the software implementation project that was paused midway through 2018.

These declines have been partially offset by £8.8 million of implementation revenue from the three new implementation customers in 2019. One of these new customers is one of the largest automotive finance providers in Germany. We had been carrying out pre-implementation work during 2018, and started implementation work from January 2019, under successive letters of engagement, before signing a full contract in November 2019. The second implementation is with one of the largest banks in South Africa, where we worked under successive letters of engagement, in advance of the finalisation of the related software and maintenance agreements in March 2020. Pre-implementation work began with this customer in April 2019, with implementation work starting in October 2019. The third customer addition during 2019 was Hampshire Trust Bank,

a fast-growing UK challenger bank where the Group launched its first Alfa Start implementation in the equipment finance market. It should be noted that the Group recognises pre-implementation revenue within its ODS revenue segment.

The number of implementation customers therefore increased to seven during 2019 (2018: four), one of which completed its implementation in late 2019. These customer numbers exclude the customer that paused its implementation project in mid-2018. This project had not restarted during the course of 2019.

In 2019, 61% of implementation revenue was denominated in US dollars (2018: 88%), 34% was denominated in Euros (2018: 12%) and 5% in GBP (2018: nil). As such, the Group's implementation revenue continued to be affected by the varying USD and Euro rates during the year.

We completed software implementation work in respect of an initial portfolio of contracts at a large US auto finance organisation in January 2020 and at Hampshire Trust Bank in March 2020, which was delivered in 19 weeks.

At the date of the preliminary announcement, one software implementation customer is due to complete its initial phase in mid-2020,

Geographical overview

On a regional basis, 44% of the Group's revenue is generated from US-based customers (2018: 47%), 29% from UK customers (2018: 32%), 20% from the Rest of Europe (2018: 17%) and 7% from the Rest of World (2018: 4%).

44%

Group revenue from
US-based customers

29%

Group revenue from
UK customers

20%

Group revenue from
Rest of Europe

7%

Group revenue from
Rest of World

Geographical split of revenue	2019 £'000s	2018 £'000s	Movement £'000s
UK	18,618	22,847	(4,229)
US	28,087	33,124	(5,037)
Rest of Europe	13,016	12,391	625
Rest of World	4,759	2,795	1,964
Revenue	64,480	71,157	(6,677)
(Loss)/gain on derivative financial instruments	-	(119)	119
Group revenue	64,480	71,038	(6,558)

one implementation customer is due to complete later in 2020, two customers have go-live dates scheduled for 2021 and one customer has its second portfolio go-live scheduled for 2022. We will continue to work closely with our customers, through the current uncertain economic conditions and we are actively managing our resource allocations to mitigate the effects of Covid-19-related disruption.

ODS revenue

ODS revenue decreased by 2% in 2019 to £23.5 million (2018: £23.9 million).

The ODS revenue from ongoing ODS customers decreased by £6.8 million to £13.1 million during 2019 (2018: £19.9 million). This decrease reflected the reduction in discretionary customer spend on optional upgrades and non-critical work, which we identified in our Trading Update and half-year results both published in September 2019. In addition, fewer customers transitioned from implementation to ODS than in 2018.

ODS revenue	2019 £'000s	2018 £'000s	Movement £'000s
New	2,321	-	2,321
Pre-implementation	2,438	960	1,478
Continuing	13,118	19,917	(6,799)
Completed or contractual non-recurring	5,583	3,043	2,540
ODS revenue from customers	23,460	23,920	(460)

This decline was offset by six new ODS projects, contributing £4.8 million of revenue, which included revenue from four new pre-implementation projects and two implementation customers who procured additional services, incremental to the services associated with their main implementation project.

Two contractual non-recurring revenue items totalling £5.5 million were recognised in 2019. The first of these amounting to £1.6 million, represented the amount due from a customer which exceeded the maximum number of contracts within the tier of its licence agreement. The second related to additional settlement amounts on right to use for Alfa Systems and maintenance contracts that were both terminated

UK

UK revenue decreased by £4.2 million, or by 19%, to £18.6 million for the year ended 31 December 2019 (2018: £22.8 million) primarily due to a reduction in customer spend on optional upgrades and non-critical work, driven by macroeconomic uncertainties, as explained in the Trading Update and half-year results, both published in September 2019.

In addition there was a decline in maintenance spend due to customers not renewing contracts, as referred to in the maintenance revenue paragraph, below.

This decline was offset by a year-on-year increase of £1.4 million in relation to contractual non-recurring settlement revenue from the customer which terminated its right to use Alfa Systems and maintenance contracts during the fourth quarter of 2018 and subsequently extended their termination period by an additional 12 months, from November 2019 through to October 2020, as noted below.

UK customers are predominately from the equipment sector, contributing 81% or £15.1 million to this revenue in 2019 (2018: 72%).

during the fourth quarter of 2018. The timing of the termination notice had been in line with expectations and resulted in the recognition, during 2018, of £2.5 million contractual non-recurring revenue covering the period until the expected termination date of the contract being October 2019. Prior year billings were wholly recognised in 2018 because the customer had no right of clawback on payments made. During 2019, the customer requested an extension to the termination period through to October 2020 and this resulted in the recognition, in 2019, of an additional £3.9 million of contractual non-recurring revenue. Again, there is no right of clawback, within the contractual amounts payable covering the extension period.

US

US revenue decreased by £5.0 million, or by 15%, to £28.1 million for the year ended 31 December 2019 (2018: £33.1 million). There was a reduction of £7.3 million in implementation revenue from existing clients. This was due to lower activity during the year; the deferral of go-live dates on certain projects, increasing the overall length of the projects, which in turn resulted in write-backs to software licence revenue in the period; and the write-back of certain amounts of licence revenue in order to establish a material right to use liability in accordance with IFRS 15. Additionally, the paused project from 2018 resulted in a year-on-year decreased revenue of £1.9 million. There was also a £0.5 million decline in ODS and maintenance revenue from US-based customers, primarily due to the reduction in discretionary customer spend on optional upgrades and non-critical work.

Offsetting this decline, the Group had new pre-implementation projects from US-based customers that contributed £0.8 million to revenue in 2019; contractual non-recurring licence revenue in 2019 of £1.6 million due to a US-based customer exceeding the maximum number of contracts in the tier of their licence

agreement; and £2.3 million of additional ODS revenue from two US-based implementation customers who procured additional services, incremental to the services associated with their main implementation project.

US revenue is predominately derived from automotive customers, contributing 98% of revenue (2018: 100%).

Rest of Europe

Rest of Europe ("RoE") revenue grew by 5% to £13.0 million (2018: £12.4 million) predominately driven by a £6.6 million increase to £7.6 million (2018: £1.0 million) from our large automotive finance provider customer, in Germany, which formally started its implementation project at the beginning of 2019. This increase was offset by declines in revenue from other European implementation customers of £4.2 million; and revenue from other European ODS customers of £1.8 million. These declines were for the same macro reasons as outlined above for our US-based implementation and ODS customers.

In 2019, RoE revenue was derived primarily from customers in the automotive sector, contributing 70% of this revenue (2018: 37%).

Rest of World

Rest of World ("RoW") revenue during 2019 was generated principally in South Africa, Australia and New Zealand.

RoW revenue grew by 70% to £4.8 million (2018: £2.8 million) predominately driven by increased revenue of £3.0 million generated from our new large South African bank customer, where we started pre-implementation work in April 2019, followed by formal implementation work from October 2019. This increase was offset by a £1.0 million decline in ODS revenue from our Australasian customers, primarily due to a reduction in discretionary customer spend on optional upgrades and non-critical work.

In 2019, RoW revenue was derived primarily from customers in the equipment sector, contributing 82% of this revenue (2018: 67%).

Maintenance

Maintenance revenue decreased by £1.9 million, or 12%, to £14.9 million (2018: £16.8 million), primarily due to a reduction of £2.5 million from customers who did not renew maintenance contracts, and £0.5 million reduction from the impact of a key customer which paused its maintenance contract in 2018. Of the customers not renewing their maintenance contracts, a decrease of £2.3 million relates to the customer which served its termination notice in the fourth quarter of 2018 and which has been referred to in more detail in the paragraph opposite.

These declines were offset by gains of £0.3 million through new maintenance revenue from an existing implementation customer which went live with the first phase of their implementation project, during the second half of 2019; and additional hosting revenue of £0.2 million, largely from three of the new implementation customers. Maintenance revenue from existing contracts grew by £0.6 million

in the year reflecting annual inflationary rate rises on the underlying existing customer base.

Operating profit

The Group's operating profit decreased by £8.7 million, or 39%, to £13.7 million in the year ended 31 December 2019, from £22.4 million in 2018, with the operating profit margin decreasing to 21% (2018: 32%). This decline predominantly reflects the decrease in revenue in 2019, coupled with an increase in the Group's cost base.

Implementation and Support ("I&S") expenses decreased by £0.8 million, or by 4%, to £18.1 million (2018: £18.9 million). I&S expenses are

predominately personnel costs, accounting for 77% of total activity costs (2018: 75%). In the year, average I&S headcount reduced slightly with average headcount of 108 (2018: 110), and a decrease in personnel-related costs of £0.1 million. In addition, there was a decrease in other costs of £0.7m.

Research and product development ("R&PD") expenses have fallen by £1.1 million, or 7%, to £15.2 million (2018: £16.3 million), however the total expenditure including amounts capitalised was £16.3 million (2018: £16.7 million), a decrease of £0.4 million or 3%. 96% of R&PD costs are personnel costs (2018: 89%).

Expenses by activity	2019 £'000s	2018 £'000s	Movement %
Implementation and support expenses	18,103	18,924	(4%)
Research and product development expenses	15,189	16,341	(7%)
Sales, general and administrative expenses	18,056	13,457	34%
Other operating income	(577)	(66)	774%
Total operating expenses	50,771	48,656	4%

Financial review continued

The key reason for the small decrease in R&PD costs is a decline in the number of engineers from 152 in 2018 to 134 in 2019, partially offset by increased remuneration following above inflation pay awards, in November 2019.

During 2019, our development efforts continued to focus on internal investment projects and we capitalised £1.1 million (2018: £0.4 million) of our costs in relation to:

- Continued investment in the digital capabilities of our product;
- Upgrades and improvements to usability and functionality of the Alfa Systems user interfaces;
- Investment in the functionality of the cloud-hosting platform offered by the Group;
- The adaptation of the existing Alfa Start technology to meet the requirements of the UK equipment finance market; and
- Specific functionality requested by existing clients for which the Group has invested time developing new modules and capabilities within Alfa Systems.

The increase in capitalised costs demonstrates our continued commitment to invest in our product with a number of components moving from research into a development phase in 2019.

Sales, general and administrative ("SG&A") expenses increased by £4.6 million, or by 34%, to £18.1 million (2018: £13.5 million). Depreciation and amortisation expenses were £2.8 million during 2019, an increase of £1.9 million from 2018, primarily in respect of the adoption of IFRS 16 from 1 January 2019, the new HR and finance system, which was capitalised in 2018, as well as increased computer hardware and internal development investments. Additionally, professional advisor costs increased by £1.5 million to £3.6 million during 2019 (2018: £2.1 million) due to increased legal fees, and advisor costs associated with the financial management improvement programme which started in the second half of 2019.

Profit after taxation

Profit after taxation decreased by £8.0 million, or by 44%, to £10.2 million (2018: £18.2 million). The effective rate of taxation in 2019 increased to 21.7%, (2018: 19.2%) primarily reflecting non-deductible expenses and higher tax rates outside of the UK.

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. Whilst 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 a 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.

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 EBIT margin are used by management to monitor performance because they illustrate the underlying performance of the business by adding back capitalised costs, net of relevant amortisation, which management believe is reflective of the underlying cost base and overall trading operations. The most directly comparable measure of Adjusted EBIT and Adjusted EBIT margin is 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.



Operating free cash flow conversion improved to 142% (2018: 87%), reflecting an increased focus on working capital management and the recovery of receivables where the related revenue was recognised in previous years.”

Constant currency – average exchange rates	2019	2018
USD	1.2771	1.3355
Euro	1.1407	1.1303
Swedish Krona	12.0708	11.5953
New Zealand Dollar	1.9379	1.9311
Australian Dollar	1.8365	1.7862

Key financial metrics	2019 £'000s	2018 £'000s	Movement %
Revenue – as reported	64,480	71,038	(9%)
Revenue – constant currency	64,480	72,503	(11%)
EBIT – as reported	13,709	22,382	(39%)
EBIT – constant currency	13,709	23,205	(41%)
Adjusted EBIT – as reported	12,727	21,975	(42%)
Adjusted EBIT – constant currency	12,727	22,798	(44%)

New customer revenue

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

Constant currency

We provide percentage increases or decreases in revenue and 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-pound sterling denominated revenue and/or expenses using the average monthly exchange rates of this year and applying them to the comparative year's results, excluding gains or losses on derivative financial instruments. The average rates are as shown in the table opposite.

Adjusted EBIT

Adjusted EBIT in 2019 is defined as profit from continuing operations before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets, with the Adjusted EBIT margin being Adjusted EBIT as a proportion of revenue. Adjusted EBIT decreased by £9.3 million, or 42%, to £12.7 million (2018: £22.0 million). Adjusted EBIT margin in 2019 decreased to 20% (2018: 31%), reflecting a decline in revenue of £6.5 million and an increase in costs of £2.7 million. Excluding the impacts of currency, Adjusted EBIT, on a constant currency basis, decreased by 44%.

Previously management defined Adjusted EBIT as profit from continuing operations before income taxes, finance income, pre-IPO share-based compensation and IPO-related expenses, with the Adjusted EBIT margin calculated as Adjusted EBIT as a proportion of revenue. In 2019, management updated this definition, because IPO share-based compensation and IPO-related expenses were only relevant to the year in which the Company undertook its IPO, being 2017. Management utilises this revised measure to monitor performance as it illustrates the underlying performance of the business by adding back capitalised costs, net of relevant amortisation, which management believe is reflective of the underlying cost base and overall trading operations.

	2019 £'000s	2018 £'000s
Adjusted EBIT		
Profit for the period	10,182	18,150
Adjusted for:		
Taxation	2,818	4,306
Finance income	(143)	(74)
Finance expense	852	–
Adjusted EBIT – 2018 definition	13,709	22,382
Capitalised development costs	(1,135)	(407)
Amortisation of capitalised development costs	153	–
Adjusted EBIT – 2019 definition	12,727	21,975
	2019 £'000s	2018 £'000s
Operating free cash flow generation		
Cash generated from operations	22,548	20,954
Adjusted for:		
Settlement of derivative financial instruments and margin calls	–	(108)
Capital expenditure	(2,076)	(1,638)
Total lease payments in respect of Right-of-Use Assets	(2,462)	–
Operating free cash flow	18,010	19,208
Adjusted EBIT – 2019 definition	12,727	21,975
Operating free cash flow conversion	142%	87%

Billings

These are amounts invoiced in year. This differs from revenue, as defined by IFRS 15, due to the deferral of customised licence revenue recognition during 2019, the release of deferred income in relation to maintenance agreements, the recognition of accrued income in relation to work in progress and certain contractual non-recurring amounts. Billings increased by £4.6 million, or 13%, to £71.1 million (2018: £66.5 million), which was £6.6 million more than revenue recognised in 2019.

Operating free cash flow conversion

Operating free cash flow conversion increased to 142% (2018: 87%), reflecting an increased focus on working capital management and the recovery of receivables where the related revenue was recognised in previous years.

Funding and liquidity

At 31 December 2019, the Group had cash reserves of £58.8 million (2018: £44.9 million). Cash balances were denominated predominately in Pounds Sterling, being 82% of the total cash and cash equivalents balance (2018: 46%).

Financial review continued

Net cash generated from operating activities

Net cash generated from operating activities increased by £2.6 million to £17.6 million during the year ended 31 December 2019 (2018: £15.0 million) primarily due to the increase in cash generated from operations of £1.6 million to £22.5 million, and a decrease in tax paid of £1.8 million.

The increase of £1.6 million in cash generated from operations was primarily due a positive movement in working capital of £8.0 million. Movements in working capital and other balance sheet items during 2019 resulted in a net cash inflow of £5.3 million (2018: £2.7 million outflow), as shown in the table presented on the page opposite. This positive movement was offset by the decrease of £6.4 million in operating profit, after non-cash items of depreciation, amortisation, share based payment charge and unrealised gains and losses on derivative instruments.

Trade and other receivables in 2019 generated an inflow of £2.5 million. This movement comprises a £0.6 million decrease in trade receivables due to an increased focus on cash management by the Group, and a decrease in accrued income of £1.9 million. Accrued income represents unbilled work in progress in relation to our ODS customers and certain non-recurring revenue items where there is a contractual agreement to invoice in the following year. Of the accrued income balance at 31 December 2019, 68% had been invoiced and 66% collected as at 31 March 2020.

The movement in contract liabilities relates to deferred licence fees and maintenance amounts. The inflow in 2019 was £3.1 million, due to:

- An increase in maintenance contract liabilities of £0.2 million primarily due to general inflationary increases in annual amounts chargeable, as well as one maintenance customer which commenced paying maintenance during 2019, when the first phase of their implementation project went live; and
- An increase in software implementation contract liabilities of £2.9 million as a result of, the deferral of go-live dates on certain projects, which increased the overall length of the projects resulting in write-backs to software licence revenue in the year, and the application of IFRS 15 which has required the Group to write-back certain amounts of its licence revenue, in order to establish a material right to use liability.

Cash flow	2019 £'000s	2018 £'000s
Cash generated from operations	22,548	20,954
Interest element on lease payments (IFRS 16)	(852)	–
Settlement of derivative financial instruments and margin calls	–	(108)
Income taxes paid	(4,074)	(5,846)
Net cash generated from operating activities	17,622	15,000
Net cash (used in) by investing activities	(1,933)	(1,564)
Cash used in financing activities	(1,610)	–
Effect of exchange rate changes	(162)	219
Movement in year	13,917	13,655
Cash and cash equivalents at the beginning of the year	44,922	31,267
Cash and cash equivalents at the end of the year	58,839	44,922

Movements in working capital and other balance sheet items	2019 £'000s	2018 £'000s
Movement in provisions	515	65
Movement in contract liabilities	3,110	(1,379)
Movement in working capital:		
Movement in trade and other receivables	2,532	(1,237)
Movement in trade and other payables and provisions (excluding derivative financial instruments and contract liabilities)	(858)	(179)
Movement in working capital and other balance sheet items	5,299	(2,730)

Net cash flows used in investing activities of £1.9 million in the year ended 31 December 2019 related to investment in internal systems and other computer equipment. We capitalised £1.1 million of development costs relating to internally generated intangible assets during 2019 (2018: £0.4 million).

Net cash outflows from financing activities related to the principal element of lease payments, following the adoption of IFRS 16. In addition, the interest element of the lease payments

has been included within the reconciliation from Operating profit to the net cash generated from operations in the year. Prior to the adoption of IFRS 16 on 1 January 2019, the payments made in respect of operating leases held by Alfa were included within Operating profit. The cash generated from operations has therefore increased because of the reclassification of cash flows under IFRS 16, even though there is no impact on the overall cash flows.

Currency hedging

The Group entered into US dollar forward contracts in 2016. These were fully settled by 31 December 2018. In 2019 there were no currency movements from these arrangements (2018: loss of £0.1m) and no further instruments were utilised.

Capital expenditure and contractual obligations

The Group's capital expenditure is primarily invested in the UK and related to £0.4 million of equipment (2018: £0.6 million), £0.6 million on the new HR and finance system (2018: £0.6 million) and capitalised development costs of £1.1 million (2018: £0.4m) for internally generated intangible assets.

Capital allocation

Alfa seeks to deliver high-quality visible earnings, future earnings growth and maintain a strong balance sheet. The Group's capital allocation policy includes the following elements aimed at supporting the achievement of strategic objectives:

- Reinvestment in people and technology; and
- Maintaining strong liquidity.

The Directors have not declared a dividend for 2019 (2018: nil), instead focussing on retaining the strong cash balance and continuing to invest in people and technology developments.

In making investment decisions regarding our people, the Directors considered the Group's financial performance and position as well as investor and analyst feedback; dialogue and feedback from employees, covering employee engagement and retention rates; requirements for training and professional development; and appropriate reward structures in the context of the current labour market. The allocation of capital towards our people will support the Group in achieving its strategic objective (5), to maintain a high-performance organisation with a culture of continuous improvement.

In making investment decisions to develop our technology, the Directors considered the Group's financial performance and position; the feedback and requirements of customers; the operational efficiency of the existing technology; and the efficacy and expected return on investment of certain development and enhancement work. The allocation of capital to technological development will support the delivery of our strategic objectives (1) to grow market share, (3) to extend our best in class digital agenda, and (6) to promote and grow value and develop resilience.

Distributions to shareholders

In 2019, there were no distributions to shareholders. No final dividend has been declared.

Related party transactions

The ultimate parent undertaking is CHP Software and Consulting Limited (the "Parent"). There was no trading between the Group and the Parent. There were no balances outstanding from, or to, the Parent at 31 December 2019 and 31 December 2018.

An arms-length transaction with Classic Technology Limited, a company in which the Chairman holds an interest, was undertaken, for the rental of property. These transactions amount to £0.04 million (2018: £0.04 million) with no outstanding receivable balances at the end of each reporting period.

Going concern

The Group continues to be 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 as well as the principal risks and uncertainties, including the impact of Covid-19, as set out on pages 40 to 43.

In line with FRC guidance issued on 26 March 2020, additional downside stress testing has been performed for a period of 12 months from the date of approval of the financial statements which demonstrates that, given the existing level of cash held by the Group, even in the most extreme downside conditions considered reasonably possible, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is a great deal of uncertainty regarding the future impacts of Covid-19, the Directors are satisfied that the Group remains well placed to manage its business risks successfully and therefore they have a reasonable expectation that the Group has 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.

Subsequent events

The Directors note that the outbreak of Covid-19 during early 2020 may have a significant impact on the Group and the environment in which it operates. However, these events are considered to be non-adjusting events after the reporting date, and accordingly no adjustments have been made to the financial performance and position of the Group as of the reporting date. The events have been considered within the assessment of going concern and viability, as set out above, in Note 1(a) to the consolidated financial statements and in the Directors' report.

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

John Miller

Interim Chief Financial Officer

23 April 2020

Environment, social and governance (ESG)

In 2019, we focused on two of our company values from a social and environmental perspective: *Create a positive impact and Make it better together*. We have aimed to relate all activities back to these values.

Our people are our key asset. In return for their commitment to provide a first-class service to our customers, we strive to be a great employer. Alongside supporting and promoting equality and diversity in the workplace, we are committed to helping our people grow both professionally and personally.

We pledge to carry out a comprehensive review of the total carbon emissions of Alfa's operations aiming to identify and implement strategies for reductions including investing in carbon offsetting initiatives to begin the process of bringing our emissions to net zero.

Summary of what we achieved in 2019

	Area	Commitment	2019 achievements
Our team	Diversity	To support and promote diversity across the whole company and to hold four internal events on these issues.	• Launch of Alfa Women's Community. • Alfa stand at Pride in London. • The Alfa Inclusion Community hosted events to address: – Diversity issues, including ageism; – Social background; – Unconscious bias; and – Mental health.
	Training	To provide opportunities to expand technical knowledge as well as soft skills and personal development.	• Delivered over 150 days of training internally. • 870 days of training attendance across the company. • 115 days spent on content creation and updating. • New courses created and existing courses refreshed.
	Culture	To create a great place to work – collaborating and sharing ideas, knowledge, expertise and networks.	• Alfa's values, purpose and vision published. • Continued to foster a collaborative and innovative environment via regular innovation afternoons and innovation days, hackathons and social responsibility events.
	Internal communications	To continue to provide transparent and clear communications.	• Commitment to communicate internally early and often to keep staff informed. • Quarterly company meetings at which company news delivered to and discussed by all staff globally. • Town Hall meetings. • Directors' Questions and Executive blogs. • Bi-monthly employee engagement surveys. • Daily communications on our company intranet.
Our communities	Our charities	To offer our time and expertise as well as financial donations.	• Improvement of our volunteering scheme to encourage more staff to participate. • Fundraising and volunteering initiatives for charities nominated by staff, representing a variety of causes. • Events included sponsored runs, cycles, and a clean-up of a gardening space, for people with disabilities, as well as individual fundraising efforts which Alfa matched.
	Our next generation	To offer support, advice and connections to young people who are just starting out in the business world.	• Employees engaged in a number of initiatives in 2019 to help inspire the next generation: – Volunteering with a charity which helps young people discover and realise their creative potential; – Establishing partnership with a local girls' youth club; and – Our internal graduate programme.
	Our customers	To listen actively to feedback, react and respond to it and always fulfil our promises.	• Four Alfa user group meetings took place in EMEA and North America, as well as separate working group sessions. • Customers actively running and hosting the user group meetings. • User experience research visits to a number of customers.
	Our suppliers	To work with suppliers who source ethically and whom we can trust to continue to do so.	• Focus on ensuring our suppliers practice sustainability.

Our team

Recruitment and retention

Alfa welcomes and considers all suitable applications for employment, irrespective of gender, race, ethnicity, religion, age, sexual orientation or disability. All employees are eligible to participate in our career development and promotion activities. Each employee has an annual pay rise and promotion meeting with senior company leadership. Support is provided for employees who become disabled, to continue in their employment, or to be retrained for other suitable roles.

Diversity and inclusion

Our approach to diversity and inclusion is a critical part of our business and culture. Our team, which speaks over 30 languages and comprises more than 50 nationalities, is more productive for embracing our rich mix of different perspectives.

There is regular engagement with the wider company through dedicated events, blogposts and internal forums. This level of interaction has fostered the development of a valuable platform for open communication at Alfa. Community representatives are active at each of our main locations worldwide, delivering coordinated events and facilitating discussion.

Our key objective in 2020 is to develop and execute a diversity plan, the central part of which is increasing diversity in our leadership team and the Board. Aside from leadership, a company-wide effort will be made to bolster the diversity of our recruitment, devise strategies for colleague-led support networks, and continue to foster our global platform through regular events.

As Alfa's diversity policy continues to mature, we will also seek to improve engagement with our people and monitor our positive impact across diverse communities.

Gender

In 2019, the Alfa Women's Community was formed. This body represents female staff and strives to achieve a progressive and inclusive working environment where all can thrive. The community also aims to provide support to people of any gender to address concerns of bias related to women, and, actively encourages gender diversity – not only within Alfa, but across the industry in which we operate.

Within Alfa globally, 29 per cent of our people are female (2018: 20%). Alongside our work to improve gender balance, we have continued our longstanding relationship with Women in Tech, an organisation which provides guidance and support to women either seeking to enter, or operating in, the technology sector. In 2019 we also ran career development sessions with a local girls' youth club, Karismatic Minds, and will further develop this partnership in 2020.

Our pay, diversity and inclusion strategy

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We are very proud of the work that we do at Alfa to create and support diverse and balanced teams throughout the organisation. As a new joiner to Alfa, I am inspired by the passion and drive of our employees in maintaining an inclusive working environment. Our pay gap numbers for 2019 have been heavily influenced by a number of senior management changes that took place at the beginning of the year. Subsequent recruitment at senior levels will redress this to some extent, and I am confident that our continued focus and long-term plans will enable us to create a diverse organisation that we are all proud of.”

Vicky Edwards
Chief People Officer

What we did this year and what we are going to do

Flexible working

We are gradually empowering our people to choose how, when and where they work to help support their personal and professional ambitions. We continue to encourage and allow flexible working patterns, for a number of reasons, including care responsibilities, hobbies and well-being. We continue to maintain a 100% record of employees returning to work after maternity and paternity leave.

Mentoring and Coaching

To continue the development of a female talent pipeline, we encourage and promote uptake of our career management scheme to all employees across the company. In 2019, we offered our female senior leaders access to an external coaching programme and this has continued into 2020.

Women's Community and Initiatives

In 2019, the company formed an internal Women's Community, which aims to support existing women employees, ensure a progressive and inclusive working environment and to provide female role models internally and within the wider community. The company has continued partnership with the PwC The Tech She Can® Charter, which works with companies on initiatives to increase the number of women working in technology roles in the UK. We have also formed a corporate partnership with the Women's Association which empowers women to overcome preconceived ideas of what women are able to do in the workplace.

Statutory Gender Pay Gap (GPG) Reporting

The gender pay gap is the measure of the difference in average pay between all men and women across an organisation, regardless of their role, level, length of service or location and any other differentiating factors. The gender pay gap is reported as a mean average and median average (midpoint) figure. The gender pay gap is different to the concept of equal pay which requires that women and men are paid the same for doing the same job. It is unlawful to pay people unequally on the basis of gender.

We have fewer than 250 employees in our largest trading subsidiary, Alfa Financial Software Limited, but we have compiled our GPG data, voluntarily, to continue our commitment to diversity across our Alfa team and best practice in corporate reporting. The analysis is based on data as at 5 April of each year and this report reflects the data collected and analysed as of 5 April 2019.

Pay Gap % – Employees

Gender Pay Gap	2019	2018	2019	2018
Statutory	Median Pay Gap	Median Pay Gap	Mean Pay Gap	Mean Pay Gap
Alfa	23.5%	14.6%	21.1%	13.1%
UK	17.3%	11.8%	16.2%	14.3%
Tech sector	13.7%	14.8%	10.5%	18.5%

*2019 data from ONS.

Percentage in pay quartiles – Employees

Pay quartiles – proportion of men and women in each pay quartile	2019 Men	2019 Women	2018 Men	2018 Women
1st (Lowest)	69%	31%	67%	33%
2nd	71%	29%	88%	12%
3rd	84%	16%	78%	22%
4th	84%	16%	81%	19%
All	77%	23%	75%	25%

Sponsorship

We continue to encourage more women into the technology industry through the organisation and sponsorship of women and STEM specific events, at university level.

Career Paths

We have continued to develop and evolve our career path structure to ensure employees across the organisation have appropriate support and development opportunities in their area of work.

Culture

Our culture is one of our greatest strengths and remains highly valued and appreciated by the whole Alfa team. It is a key factor in our consistently high rates of staff retention. Pivotal to this culture, is our commitment to promoting collaboration and innovation across all levels and roles within the company.

Every year, we hold a series of innovation afternoons to allow staff to participate in new ideas, initiatives and opportunities. For the first time in 2019, we ran a full innovation day across all locations, which proved to be a great success. Our annual hackathon also remains a hugely popular event and this year innovations included: Blockchain: a business case exercise; Alfa on a cluster of Raspberry Pis; and Alfa store front.

Our Events Team organises an engaging programme throughout the year, providing staff with opportunities to interact with people in the company they might not otherwise get a chance to meet. Events range from our annual summer party (to which families are also invited); social get-togethers; and educational meetings, including 'Talks in Moor', where inspirational people are invited to talk about their experiences and achievements. This year, speakers have included Paralympians, art therapists and our own Non-Executive Directors.

Our dedication to diversity and inclusion runs from the Board through the whole company. Staff across the company work hard to facilitate a safe and enjoyable working environment for all colleagues, enhancing morale and productivity.

Carbon emissions

We pledge to carry out a comprehensive review of the total carbon emissions of Alfa's operations, including flights, equipment and electrical output, aiming to identify and implement strategies for reduction. At the end of this process we will invest in carbon offsetting initiatives to begin the process of bringing our emissions to "net zero". We will do the necessary due diligence to ensure we are employing the most appropriate methodology to achieve this for a company of our size and distribution.

We will be launching internal information campaigns, including blog posts, to incentivise our employees to take both individual and group actions to reduce emissions. This may involve using alternative forms of transport to flying, and electing to utilise remote meeting software rather than travelling to meet face-to-face where possible. Our number one priority remains to deliver Alfa implementations on time and to the necessary standard, so individual discretion will be required.

	2019 tCO ₂ E	2018 tCO ₂ E
Usage of fuel and operation of buildings	143	153
Air travel	678	737
Total	821	890
Revenue (£ million)	64.5	71.0
Intensity ratio – tCO ₂ E per million of revenue	12.7	12.5

Learning and development

Alfa is passionate about maintaining a culture of continuous learning and development. We recognise that every employee is unique and, as such, adopt an approach which focuses on the individual. We have a rich library of training courses, from classroom-based courses in our standard curriculum, to bite-sized resources, that can be accessed on an ad hoc basis. In 2020, we will increase our investment in learning and development, demonstrating our commitment to personal development.

Managers and supervisors meet regularly with their teams to discuss personal and professional development. Alongside this, we encourage staff to spend five days per year on learning and development activities.

Our learning and development objectives for 2020 include:

- Grow our repository of learning and development resources;
- Work more closely with the business to ensure we are maximising our impact; and
- Increase senior levels of staff delivery of learning and development activities.

We have also introduced a range of tailored coaching programmes and support across the business. This includes those transitioning into leadership roles, particularly during their critical first six months, and for our most senior female leaders, focusing specifically on their personal development and progression within Alfa. We are continually working to improve our ability to coach people across the organisation.

Customers and suppliers

The user-group forums that we reinvigorated in 2018 went from strength-to-strength over the course of 2019. Three meetings of the EMEA user group took place, including a digital webinar hosted by one of our most valued customers. The session looked at the role Alfa played in that customer's digital transformation project, which successfully went live this year. One meeting of the US user group took place and we plan on increasing the frequency of the US user group meetings in 2020.

Working groups form an invaluable part of our user groups, providing a mechanism for specific topics to be discussed and agreed by the group as a whole. The formation of these groups has been as a result of both requests from the user groups themselves, and from Alfa, with the latter focused on getting feedback on our investment initiatives. This year we had two EMEA user group working groups, focusing on user experience improvements in Alfa Systems and the use of SONIA as the primary interest rate benchmark for sterling markets.

In 2019, we continued to train our team members involved with procurement and have strengthened controls around the selection and assessment of new suppliers. We operate responsibly as a customer and endeavour to pay our suppliers on a timely basis as detailed in our bi-annual Payment Practices Reporting.

Sustainability

2019 saw us significantly increase our ESG efforts, with staff across the company proactively seeking to reflect our core "Create a Positive Impact" value. We have expanded our ESG activities around the globe, with a new local ESG team being created in the Asia Pacific region and a number of inclusion-related breakfast sessions being co-ordinated globally. These teams and events not only showcase our commitment to communities in which we operate, but provide an invaluable platform for people to share their experiences and learn from others.

In acknowledging our increasing responsibility we have as a business, we have focussed our efforts on reducing our impact on our environment. We are pleased to say that membership of Alfa's Green Team increased almost fourfold, and we launched a number of Green initiatives. We also hosted a number of events on Green themes, including raising awareness of the United Nations Sustainable Development Goals.

We have been delighted to see staff committed to, and proactively progressing, our carbon offsetting efforts this year. From opting to travel to Germany by train rather than fly, to offsetting carbon emissions from flights, we are proud of the collective responsibility our people have shown. We will be supporting these efforts and more in 2020.

We also continued to devote time and energy to supporting initiatives in our local communities, providing resources and raising funds for organisations wherever we work:

- Fundraising: Alfa staff in the UK raised over £30,000 for charitable causes, including over £17,000 for our official charity partner, Alzheimer's Society;
- Matching contributions: Alfa matched money raised by staff for Alzheimer's Society at various activities held throughout the year, including the British 10K, Swim Serpentine, a month-long Alfa Bake Off competition and charity quizzes;

- Food banks: we held a number of food bank drives throughout the year in both the UK and the USA, repeating our popular Reverse Advent Calendar event in the run-up to Christmas in the UK. In the USA each of our offices and locations ran food bank initiatives throughout the summer;
- Thrive volunteering: Alfa staff spent two days restoring and maintaining a garden which provides opportunities for disabled people to improve their lives through gardening;
- Canal River Trust volunteering: Alfa staff spent an afternoon working with the Canal River Trust to clean up waterways in our local area;
- Nature garden volunteering: a team of Alfa staff designed, built and planted a nature garden for a local school, Mayfield Primary;
- Habitat for Humanity volunteering: Alfa staff volunteered with this organisation in Michigan which helps provide affordable housing. We volunteered at one of their 'restores' where donated furniture and building materials are repurposed;

Volunteering focus: Ministry of Stories

- Life Remodelled volunteering: Alfa staff volunteered in Detroit, Michigan as part of a project to renovate and beautify 300 city blocks in just six days;
- Greening of Detroit volunteering: Alfa staff volunteered with an environmental non-profit organisation to plant trees in Detroit, aiming to improve the quality of life in the community;
- Ministry of Stories volunteering: Alfa staff volunteered for Ministry of Stories, a local writing and mentoring centre which encourages young people to discover their own gift for writing;
- Pride in London: Alfa staff hosted a stand at Pride in London where we engaged with the community, spoke about diversity in tech and represented Alfa as a Global Diversity Champion;
- Young people's career development: Alfa staff in London ran career development sessions for local girl's youth club, Karismatic Minds. This is an organisation we hope to do more work with in 2020; and
- LGBT Allyship: we launched our Allyship campaign globally, encouraging staff to be an active friend or support to LGBT colleagues at Alfa.

Our ESG teams around the world have collaborated to produce an exciting and challenging set of objectives for 2020 and beyond. These include:

- Using the United Nations Sustainable Development Goals to inform all Alfa ESG ideas and efforts;
- Identifying and implementing strategies for our carbon-offsetting approach, to begin the process of bringing our emissions to net zero;
- Increasing volunteer uptake significantly across the company; and
- Widening the Alfa charity partner ecosystem, developing relationships with a number of new charity partners.

Our ESG work remains central to who we are as an organisation, and is a fundamental part of our culture.

We continued to partner with the Ministry of Stories in 2019 and this year one of our staff in London, Tony Palmer, took part as a volunteer writing mentor in the Speak Up Programme.

“

Speak Up guides young people to create a short speech and deliver it, on a subject they are passionate about. It was amazing to see the journey the young people went on, growing in confidence and finding a topic they really care about.

I was hugely honoured to attend the final presentation session where the children had an opportunity to deliver their speeches to an audience that included Ministry of Stories staff, volunteer mentors, MoS trustees, local poets and artists, and people from NGOs. Speeches were on topics such as racism, prejudice, and allyship; knife crime, the reasons young people fall into gangs; homelessness, community cohesion in Hoxton; sexism; global warming, fossil fuels, and deforestation; and misinformation and censorship online. And they were amazing.”

Engaging with our stakeholders

The Board recognises the importance of understanding the views of Alfa's key stakeholders. A range of mechanisms for engaging with these differing groups are detailed below, which ensure that their views and the matters set out in section 172 Companies Act 2006 in respect of the Directors' duty to promote the success of the Company for the benefit of its members as a whole, are considered as part of the Company's strategic decision-making.

Engagement with our shareholders and wider stakeholder groups plays a vital role in Alfa's business. Alfa's key stakeholders are set out below.

	How we engage	Stakeholders' key interests	How we are influenced by stakeholders	Relevance to decisions and strategy	Further information
Customers	The implementation phase of our projects can span from months to years and during this time we work in close partnership with our customers, actively seeking to understand their needs and expectations. Thereafter, we maintain contact with customers to ensure we can deliver their additional development and enhancement requirements. We 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 terms of where we should focus our efforts, the new features they would like to see developed and what our customers see as the key issues facing their industries. Members of our CLT have regular conversations with each of our key customers. Executive Directors are directly involved with customer senior management and report to the Board regularly on the status of customer implementations.	Timely and efficient implementation delivery. High quality, resilient and performant software. Availability of post-implementation development, upgrade and maintenance services. Ability of Alfa to adapt to and advise on changing market dynamics and regulations. Access to highly skilled and experienced project teams. Access to technical innovation and functional development.	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 mutually acceptable delivery approach. This combination enables us to provide highly functional software that is configured for the needs of each individual customer. Identifying our customers' needs, alongside changing market dynamics and regulations, allows us to identify opportunities for Company growth and to focus our product research and development such that it will produce innovative and functional solutions for the asset finance industry.	Building long-term relationships with our customers is key to our long-term success; maintaining leading-edge technology; increasing customer loyalty; and winning new business. Delivering high levels of customer satisfaction and innovative product solutions serves to enhance the reputation of Alfa in our marketplace and grow our existing customer base.	CEO business review pages 4 to 6 Our strategy pages 8 to 14 Market overview pages 15 to 21 Board Leadership and company purpose pages 69 to 72

	How we engage	Stakeholders' key interests	How we are influenced by stakeholders	Relevance to decisions and strategy	Further information
Employees	Regular Company and ad hoc Town Hall meetings which provide the opportunity for transparent and clear communications from senior management, as well as an opportunity for all staff to share views, learnings and innovative ideas. Investment in training and education starting from our graduate induction programme, through to identification and nurturing the potential leaders of the future. Bi-monthly internal employee pulse surveys which provide regular feedback to CLT and the Board. Informal communication across all grades of staff via our internal intranet site. Regular Q & A sessions with the CLT and Non-Executive Board Directors. Regular reporting to the Board on key HR initiatives, objectives and issues. The Company applied the 'alternative arrangement' approach to workforce engagement. This enabled the Board to increase their understanding of employee concerns and issues as part of the Board's decision process.	Career development and opportunities. Wellbeing. Training and development both in the technical aspects of their role and soft skills. Ability to engage with senior management, to share ideas and help contribute to the future success of the Company. Fair remuneration and working conditions. Recognition and reward.	Responses from the pulse surveys are reviewed and assessed to ensure senior management respond and take appropriate action and pulse survey trends are regularly reported and discussed by the Board. 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. Our back-office staff provide infrastructure support to enable our project and product teams to work effectively as well as ensuring the Company satisfies its legal and regulatory duties and creating conditions for the Alfa culture to thrive.	Our people are the bedrock of our business and we are focused on providing them with extensive experience to develop their skills. Staff development and training is key to our future success and ensuring staff retention. Leading product research and development are essential to 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 deliver this goal. The identification and development of future Alfa leadership team members is key to our success both in the medium and longer term. We aim to improve the flow of feedback and communications with employees. The Board reviews information on workforce demographics, diversity initiatives, talent acquisition updates on engagement levels and cultural initiatives.	Business model pages 30 to 31 Environment, social and governance, pages 54 to 61 People pages 22 to 23

Engaging with our stakeholders

	How we engage	Stakeholders' key interests	How we are influenced by stakeholders	Relevance to decisions and strategy	Further information
Community and the environment	We have an established global ESG team and a programme of activities to assist the communities in which we work. Details of our ESG programme are disclosed on pages 54 to 61. The Board endorses the encouragement of our employees to contribute 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 donation funding and active time working on approved charitable activities. Building relationships with organisations such as Women in Tech, which is focused on supporting women either seeking to enter, or operating in, the technology sector. We are committed to reducing the impact the Group has on the environment and actively encourage the reduction, recycling and re-using of waste across our offices.	Impact of the Group's activities on the wider community and environment. The Group's ESG agenda.	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. Employees are empowered to nominate and select local charities to support.	We aim to contribute positively to the communities and environments in which we operate. We believe Alfa has an important role to play in creating a positive impact on the health of the environment in which we live and operate. Positive actions in respect of the environment including waste and energy reduction are desirable, and are also of potential commercial benefit to Alfa.	Environment, social and governance, pages 54 to 61
	We engage with a small, carefully selected partner ecosystem of like-minded organisations, with global spread and complementary delivery capabilities. Our initial approach is to augment Alfa teams with partner staff, and work with systems integrator partners, whilst we retain ownership of the customer relationship and responsibility for project delivery. We continue to develop our partner training and learning programme, delivering a comprehensive training schedule including Alfa Systems training, our delivery methodology and simulation-based implementation workshops. Executive Directors are involved directly with partner senior management and provide regular updates to the Board on key partner developments and issues.	Access to leading-edge technology and consultancy proposition with established credentials. Experience and in-depth industry knowledge. Sustainable partnerships with long-term relationships and blue-chip customer lists.	Strategic alliances increase Alfa's operational capacity enabling the delivery of more implementations, as well as enhancing Alfa's ability to target new customers and markets. Our partners provide local language and market expertise. We access increased sales channel opportunities via partner relationships and the extended global reach and credibility they provide.	Our partnership programme is an important part of Alfa's long-term growth strategy. We aim to develop our partner ecosystem to increase Alfa's operational capacity and sales opportunities.	Partnership pages 26 to 27

Investors

How we engage	Stakeholders' key interests	How we are influenced by stakeholders	Relevance to decisions and strategy	Further information
Regular communications of half-year and full-year results. Stock Exchange announcements and press releases. Dedicated investor section on www.alfasystems.com Major investor and analyst calls and meetings (with Chairman, CEO and Interim CFO). Annual General Meeting and shareholder circulars. Formal investor/analyst feedback to the Board twice a year post half-year and full-year results. Availability of Senior Independent Director. Relationship Agreement in place with Controlling Shareholder to protect all members' interests.	Sustainable financial and operational performance. Strategic plans and execution. Share price growth Return on investment and/or capital growth. ESG issues.	Engagement with shareholders helps the Board understand their views and priorities. Shareholder feedback informs the Board's decision-making and influences long-term strategy.	We are committed to maintaining good communications with investors to maintain long-term shareholder support. We aim to create long-term sustainable value for shareholders.	Corporate governance report page 70

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Governance

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Additional information

Andrew Page
Chair of the Board
and Founder

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After a year of challenging trading conditions and a period of Board and senior management changes, we enter 2020 by strengthening the Board with the appointments of two additional non-executive directors and a new CFO, and with the Company Leadership Team and Business Development functions contributing materially to the current and longer-term prospects of Alfa.”

Board evolution and governance

As our journey as a public company continues, we remain committed to strengthening our governance and the appointments of Chris Sullivan and Steve Breach as independent Non-Executive Directors last summer was the first stage in building a balanced Board. In March 2020, we announced that Adrian Chamberlain and Charlotte de Metz will join the Board, as independent Non-Executive Directors, and Duncan Magrath will join the Board as Chief Financial Officer, after the release of our 2019 financial results. These appointments complete the refreshing and strengthening of your Board. Collectively, the Non-Executive Directors will bring a strong combination of skills and experience in asset finance and enterprise software, strategic planning, financial management and governance, and act as a supportive, but challenging, counsel to the Executive.

The changes to the Board that have taken place during the course of the year are detailed in the Directors' and Nomination Committee Reports. I take this opportunity to record my thanks in particular to Richard Longdon, Karen Slatford and Robin Taylor, our former Non-Executive Directors, who provided invaluable support and guidance throughout our transition from private to public company status.

Additionally, I thank David Stead for his contributions before he had to step down from the Board as a Non-Executive Director due to restrictions on his availability.

I also express my thanks to Vivienne MacLachlan who stood down as Chief Financial Officer in April 2019 and John Miller who has ably acted as Interim Chief Financial Officer since May 2019. I was delighted that we strengthened the Executive Director team further, with the appointment of Matthew White, as Chief Operating Officer, in October 2019.

Alongside the changes to the Board, a number of senior management changes were made during the year and a renewed Company Leadership Team (CLT) constituted. It was pleasing to be able to promote a number of experienced Alfa staff to that leadership group, and to see the CLT operating so effectively from the second half of 2019. In March 2020, we were delighted to welcome Vicky Edwards, as our new Chief People Officer.

Board oversight and monitoring

The Board has three sub-committees, being the Nomination Committee, the Audit and Risk Committee and the Remuneration Committee. A summary of each committee can be found on pages 82 to 104 with the membership, responsibilities and activities of each of

these committees documented in their respective reports. All committees are wholly comprised of independent Directors with the exception of the Nomination Committee, of which I am a member, but where the majority of members are independent and Chris Sullivan, our Senior Independent Director, chairs that committee.

In line with the requirements of the Corporate Governance Code, the Board conducts an evaluation of the Board, its committees and individual Directors, as explained further in this Governance report. The Independent Non-Executive Directors meet from time to time without the presence of the Executive Directors.

Compliance with the UK Corporate Governance Code 2018 (the “Code”)

The Directors consider that the Company has been compliant with the Code provisions throughout the year and to the date of this report, other than the exceptions laid out below:

Code Provision 3: Whilst having a full understanding of major shareholder issues raised during the year, the Committee chairs have not actively sought wider engagement from major shareholders on significant matters relating to their areas of responsibility, due to their limited time in the role but intend to do so during 2020.

Introducing the Non-Executive members of the Board and Chief Operating Officer

Chris Sullivan

Senior Independent
Non-Executive Director

Chris brings expertise in the asset finance industry, having spent nearly 30 years with the Lombard Group in a number of directorate roles including as CEO.

Steve Breach

Independent Non-Executive Director

Steve has 16 years' experience as Chief Financial Officer. Between 2010 and 2016, Steve was CFO of Tribal Group PLC, a leading international provider of student management software.

Code provision 9: As Chairman, I was not independent on appointment because I had previously been the Chief Executive Officer and I am the controlling shareholder. On listing, the Board unanimously supported, and continues to support, my appointment as Chairman to retain my skills and experience, and ensure continuity of service for customers and commercial partners.

Code provision 20: Karen Slatford and Robin Taylor considered it inappropriate to play a substantive role in the recruitment of their successors. As a result, I, as the remaining member of the Nomination Committee, supported by the CEO, Andrew Denton, with input and assistance from Karen Slatford and Robin Taylor, led the NED search process. An external search consultant, Norman Broadbent Executive Search Limited, was engaged to compile a list of candidates, to which was added a number of other candidates who had been recommended to the Company separately. Chris Sullivan was appointed, to the Board and then chaired the Nominations Committee, subsequently obtaining Board approval for the appointment of Steve Breach and David Stead.

Code provision 24: For the periods 27 April to 8 August 2019 and 7 December 2019 to the date of this report, the Audit and Risk Committee membership only had two independent directors pending the recruitment of additional Non-Executive Directors. On appointment, Adrian Chamberlain and Charlotte de Metz will join the Committee and this will bring the Audit and Risk Committee composition into compliance with this Code provision.

Code provision 32: For the periods 27 April to 8 August 2019 and 7 December 2019 to the date of this report, the Remuneration Committee membership only had two independent directors pending the recruitment of additional Non-Executive Directors. On appointment, Adrian Chamberlain and Charlotte de Metz will join the Committee and this will bring the Remuneration Committee composition into compliance with this Code provision.

Andrew Page

Executive Chairman

23 April 2020

Matthew White

Chief Operating Officer

Matthew has been a member of the Alfa team since 1999, with experience of software development and all aspects of systems implementation. He has had responsibility for most areas of the Company's operations at different times in his career, and as COO he leads project delivery, international operations and the HR function.

The Governance report key features

The Board acknowledges the importance of, and is committed to the principle of achieving and maintaining a high standard of corporate governance and promoting a positive culture within the Group. The following pages provide information on how we have applied the principles of good governance as set out in the UK Corporate Governance Code 2018.

We have used the following key areas to lay out the activities of 2019:

- A Board leadership and company purpose**
- B Divisions of responsibility**
- C Composition, succession and evaluation – Report of the Nomination Committee**
- D Audit, risk and internal controls – Report of the Audit and Risk Committee**
- E Remuneration – Report of the Remuneration Committee**

The UK Corporate Governance Code 2018 (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.

Governance area	Summary
Independence	Excluding the Chairman, who is not independent, at least half of our Board has been independent throughout the year. Our Senior Independent Director is Chris Sullivan.
Accountability	There is a clear separation of duties between the Chairman and CEO exists and all Directors stand for re-election annually.
Evaluation	An internal evaluation of the performance of the Board and its Committees has been carried out during the year.
Experience	The Directors have the requisite experience for sector, financial and governance.
Auditor independence	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 in connection with the Company's half-year results announcement.
Internal audit	The Company's outsourced internal audit provider, KPMG, resigned, in August 2019. In November 2019, we selected BDO to provide internal audit services. Details of the function and services received are set out in this report.
Remuneration	Our Directors' Remuneration Policy was approved at the AGM in April 2018 and will apply until 2021 when an updated policy will be re-submitted to shareholders for approval.

Board leadership and company purpose

This section considers the following areas:

1. Defining purpose and creating value
2. Establishment and review of effectiveness of internal controls
3. Engagement with shareholders
4. Shareholder agreement
5. Engagement with other stakeholders
 - Our workforce policies and practices
 - Investing in the Alfa team
 - Suppliers and modern slavery

1. 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.

During the year, the Company has continued to embed across the business, the purpose and values as set out in the Strategic report on pages 1 to 65 of this report.

Strategy (our strategy is our plan of action designed to build on our competitive advantages and achieve our purpose):
 The Board continues to monitor 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 and ensures we have the resources and the right people, in the right place operationally, to ensure we remain relevant to the markets in which we operate.

Objectives

1. Grow 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. Develop our partner ecosystem to increase operational capacity and sales opportunities – We will work with a select group of partners to increase our delivery capabilities whilst maintaining quality.
3. Extend our best-in-class digital agenda – We will remain a market leader for digital solutions in the asset finance sector.
4. Establish Alfa Start as the leading solution for the volume market – We will become a market leader in the volume market of the asset finance industry.
5. Maintain a high-performance organisation with a culture of continuous improvement – We will continue to offer a supportive, diverse and collaborative working environment and be considered to be an employer of choice.
6. Promote and grow value and develop resilience – We will deliver value to shareholders by building and extending long-term profitability in a cash-efficient manner.

The strategy and business model are set out in detail on pages 8 to 13 and 30 to 31 respectively.

The Board and CLT embed the Company's values across the business. In order to monitor whether our culture is and remains aligned with our values, the Company seeks feedback from customers and potential customers on how the values have been received and how they have been experienced during the sales process; and through the various stages of software implementations and provision of ODS services. The Board also assesses engagement with the wider Alfa team using a variety of methods including bi-monthly employee pulse surveys, which provide an opportunity for employees across the Group to share their thoughts, concerns, questions and ideas on an anonymous basis. The Company has strengthened its communications with employees through the introduction of staff Q & A sessions attended by the CLT and sometimes the Non-Executive Directors.

2. 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. The Board 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 36 to 43 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 CLT with oversight and monitoring by the Audit and Risk Committee. The internal control and risk management framework and systems continues to evolve through 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 for risk. The CLT reviews the major risks on a regular basis and these are presented to and considered by, the Audit and Risk Committee and full Board throughout the year. The CLT continues to look for opportunities to embed further 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 36 to 39 of the Strategic report. Significant developments in internal controls in 2018, primarily the implementation of a new HR and finance system, and the establishment of an Investment Committee laid a good foundation for further ongoing developments including expanding the functionality of the HR and Finance system which, in the medium term, will provide a more robust platform for the provision of management information, and the start of an improvement programme, focussed on the timely provision of financial and operational management information to the CLT and the Board. Further details of these developments are included on pages 92 to 93 of the Audit and Risk Committee Report.

A

In August 2019, KPMG resigned as internal audit service provider and in November 2019, BDO was selected as internal audit service provider. The Audit and Risk Committee approves the scope of BDO's work and receives regular reports of its investigations and findings, details of which are set out in the Audit and Risk Committee Report on page 93. This should also be read in conjunction with the principal risks and uncertainties facing Alfa, which are detailed on pages 40 to 43 to the Strategic 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 that operate across the Alfa business, which as noted above have continued to be strengthened during the year. As detailed on pages 92 and 93 of the Report of the Audit and Risk Committee, there were certain areas of control weakness during 2019 and additional controls have been added to address these challenges.

3. Engagement with shareholders

The Board is committed to maintaining open and transparent communications with both existing and potential shareholders based on a mutual understanding of the Company's objectives. This communication is supported 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 Interim 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 meetings with shareholders, which took the form of group meetings, one-to-one meetings, conference calls, site visits, the AGM and the announcement of the interim and annual results. The Board receives regular updates from its advisers on investors' and analysts' views after those meetings.

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;
- Longer term prospects for the Company;
- Current product investment and development; and
- Staff recruitment, retention and reward.

The Group's investor relations microsite investors.alfasystems.com is updated throughout the year, providing 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. Shareholders are able to contact the Company through the Company Secretary, at the Company's Registered Office, which is shown on the Directors' report on page 106.

The Senior Independent Director, Chris Sullivan, serves as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through other channels. He can be contacted via the Company Secretary.

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 Nomination, Audit and Risk and Remuneration Committees will also be able to answer any questions relating to the responsibilities of those committees. There have been no situations where 20 per cent or more of votes have been cast against any Board recommendation for a resolution.

The notice convening the 2020 AGM will be issued to the shareholders at least 20 working days in advance of the meeting. 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 as soon as practicable after the meeting.

4. Shareholder agreement

The relationship between the Board and the controlling shareholder of the Company ('the 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, 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 2019, or up to the date of this report.

Under the Relationship Agreement:

- Two Non-Executive Directors can be appointed to the Board for as long as the Controlling Shareholder holds 20% 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% or more but less than 20% 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 whilst Andrew Denton is a Director of the Company, 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 page 108 of the Directors' report.

5. Engagement with other stakeholders

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
- Our teams must deliver excellent customer service and innovative, yet tested and reliable technology.

One central policy in creating this environment and culture is Alfa's Ethics and Code of Conduct (the 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. Compliance with the policy maintains Alfa's reputation in the marketplace as well as our relationship with our colleagues, investors, customers and other stakeholders.

A

The Code of Conduct provides clear guidance to employees in respect of legal and ethical issues which 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 Code of Conduct, Alfa policies, and Alfa business practices;
- To report known, or potential, violations using a variety of alternate reporting channels;
- To cooperate with compliance investigations; and
- To complete all mandatory compliance education courses and requirements in a timely manner.

Further, the Code of Conduct outlines the additional expectations that Alfa has of its leaders which are to:

- Promote and support ethical behaviour and business practices;
- Act as a leadership model in terms of demonstrating the attributes outlined in the Code of Conduct;
- Ensure those employees who report to them, directly and indirectly, understand where and how to report violations under the Code of Conduct;
- Ensure that employees who report to them, directly and indirectly, complete all mandatory compliance education courses and other requirements in a timely manner;
- 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;
- Encourage employees to challenge and report questionable conduct; and
- Encourage open, honest, and confidential dialogue without retaliation.

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

- Seeking help and reporting violations of the Code of Conduct;

- Certain business practices to be adhered to (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 relationships with its employees (including diversity, harassment, health and safety and taxation).

To support the Code of Conduct 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; and
- Whistleblowing.

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

Whistleblowing

We recognise that our people are our strongest assets for detecting and avoiding 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. The Group's Whistleblowing Policy clearly explains to employees how they can raise concerns directly to the Group's Whistleblowing Officer. All whistleblowing cases are formally investigated by the Whistleblowing Officer and reported regularly to the Audit and Risk Committee 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 appropriate experience, may be appointed to help investigate issues that have been raised.

Share dealing code

Alfa has adopted a share dealing code which applies to all employees and provides further restrictions on the Company's Directors, its other PDMRs and certain persons deemed insiders. In accordance with the Market Abuse Regulation, the Directors and PDMRs have confirmed to the Company they 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 all new starters and the Alfa team on an ad hoc basis.

Investing in the Alfa team

The Board and Nomination Committee aim to ensure we identify the right talent in our business to support future growth. We provide training and development plans to support our team members as they progress their careers at Alfa.

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 empowered and encouraged to share innovative ideas and forward-looking thinking. Our staff are remunerated well and enjoy an excellent benefits package and identified high performers are eligible for discretionary Long-Term Incentive plan awards.

Our training – We have a strong learning and development programme which is aimed at enhancing the skills of our workforce. This begins with our intensive and structured graduate and software engineer induction training programme through to customised personal development programmes as our employees progress their careers with us. Our training is delivered via a variety of different channels in order to provide our employees with flexibility in satisfying their individual training and development needs. Examples of the learning 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 expanding technical knowledge, soft skills and wider personal development. We are proud to hold Silver Accreditation with Investors In People, demonstrating our commitment to developing our people, treating them well and providing strong leadership to the Group.

Talent management – Alfa supports its employees through its career management programme which is open to all grades across the Company. The aim of this initiative is to provide opportunities for our people to be mentored and supported as they progress through their career 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"), we encourage 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 our people are given the opportunity to share their views and ideas. In particular, our Hackathons provide a great example of the inspirational events that we run to encourage innovation and collaboration. More details on this are contained in the ESG section of the Strategic report on pages 54 to 61.

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

Division of responsibilities

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

The skills and experience of each of our Directors is detailed on pages 76 to 77 of this Governance Report. We consider that the Directors, both individually and collectively, have the broad 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. As previously mentioned, in 2020, the Company intends to strengthen the Board by the appointment of Adrian Chamberlain and Charlotte de Metz as Non-Executive Directors and Duncan Magrath as Chief

Financial Officer. On appointment, Adrian Chamberlain will assume the Chair of the Remuneration Committee.

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, and leading the CLT, 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 and contracting decisions in addition to his responsibilities for running an effective Board.

The division of responsibilities between our board members and interim CFO is set out below:

Role	Principal responsibilities	
Chairman Andrew Page	Manages and provides leadership to the Board. Acts as a direct liaison between the Board and management, working with the CEO to assist the flow of information. Ensures that the Directors have sufficient information to enable them to form appropriate judgements.	The Chairman develops and sets the agendas for Board meetings, working with the CEO and Company Secretary. Recommends an annual schedule of Board and Committee meetings. Ensures effective communications with shareholders and other stakeholders.
Chief Executive Officer Andrew Denton	Responsible for the day-to-day management of Alfa. Responsible for defining the strategy and guiding the CLT on its strategy execution, once this has been agreed by the Board. Creates a framework that optimises resource allocation to deliver strategic objectives over varying timeframes.	Ensures the successful delivery against plan and other key business objectives, allocating decision-making and responsibilities accordingly. Identifies and executes new business opportunities and assesses potential acquisitions and disposals. Manages the Group with reference to its risk profile in the context of the Board's risk appetite.
Chief Operating Officer Matthew White	Responsible for day-to-day operational activities. Responsible for software development. Responsible for systems implementation delivery. Responsible for delivery of HR resourcing and planning.	Develops key business operational model, monitoring performance against key performance indicators and ensuring adequate staffing recruitment to deliver development and systems implementation
Senior Independent Director Chris Sullivan	An Independent Non-Executive Director. Provides a sounding board for the Chairman and CEO.	Serves as an intermediary for the other Directors and shareholders when necessary. Is available to shareholders if they have concerns.
Non- Executive Directors Steve Breach Chris Sullivan	Provide constructive challenge to the Executive Directors. Help develop proposals on strategy. Scrutinise management's performance in meeting agreed goals and objectives. Monitor performance reports.	Satisfy themselves regarding the integrity of financial information, and that controls and risk management systems are robust and defensible. Determine appropriate levels of remuneration for Executive Directors. Appoint and remove Executive Directors as required and review succession planning.
Chief Financial Officer¹ John Miller (Interim)	Overall management of the financial risks of the Group. Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders.	Ensures effective financial compliance and control, while responding to regulatory developments, including financial reporting, effective allocation of capital, management of liquid resources, investor relations and corporate responsibility.

1. Interim CFO, though not a board member, attends Board meetings by invitation. Duncan Magrath, when appointed as CFO, will join the Main Board.

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 reference to matters such as skill, experience, knowledge, diversity;
- Review of Non-Executive Directors' required time commitment;
- Review results of the Board performance evaluation process; and
- Review all conflicts of interest.

Membership

Chris Sullivan (Chair)
Steve Breach
Andrew Page

Nomination Committee Report
pages 82 to 84

Audit and Risk Committee

Key objectives

Oversight of the Company'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 the Group's 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;
- Monitoring and review of internal and external audit; and
- Review of whistleblowing, fraud and compliance.

Membership

Steve Breach (Chair)
Chris Sullivan

Audit and Risk Committee Report
pages 85 to 93

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 UK Corporate Governance Code and Listing Rules);
- 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 payments.

Membership

Chris Sullivan (Chair)
Steve Breach

Remuneration Committee Report
pages 94 to 104

Board and Committee meetings and attendance (scheduled meetings attended)*

	Board	Audit and Risk	Remuneration	Nomination
Andrew Page (Chairman)	8/8	n/a	n/a	4/4
Chris Sullivan (appointed 18 July 2019) (i)	3/4	1/1	2/2	1/1
Steve Breach (appointed 9 August 2019)	4/4	3/3	3/3	1/1
Andrew Denton	8/8	n/a	n/a	n/a
Matthew White (appointed 9 October 2019)	2/2	n/a	n/a	n/a
Richard Longdon (resigned 26 April 2019) (ii)	0/2	0/1	0/1	0/2
Vivienne MacLachlan (resigned 26 April 2019)	2/2	n/a	n/a	n/a
Karen Slatford (resigned 26 September 2019) (iii)	5/6	4/4	2/2	3/4
David Stead (appointed 20 August 2019, resigned 6 December 2019)	3/3	2/2	2/2	1/1
Robin Taylor (resigned 26 September 2019) (iii)	5/6	4/4	2/2	3/4

(i) Chris Sullivan did not attend the Board meeting in August due to prior business commitments; (ii) Richard Longdon did not attend any meetings during 2019 due to prior commitments; (iii) At the request of the Chairman, Karen Slatford and Robin Taylor did not attend the Board and Nomination Committee meetings in September which recommended and appointed their successors.

(*) Includes formal scheduled meetings and excludes any strategy days or ad hoc conference calls or meetings.

A balanced mix of experience and expertise

1. Andrew Page Executive Chairman

Appointment to the Board May 2017
Committees • Nomination Committee
Meeting attendance ⁽¹⁾ 8/8
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 April 2017
Committees N/A
Meeting attendance ⁽¹⁾ 8/8
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. Matthew White Chief Operating Officer

Appointment to the Board October 2019
Committees N/A
Meeting attendance ⁽¹⁾ 2/2
Other appointments N/A
Past roles Various roles at Alfa having joined in 1999
Relevant experience Considerable senior management experience in software development and all aspects of systems implementation and delivery.

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

4. Chris Sullivan

Senior Independent
Non-Executive Director

Appointment to the Board

July 2019

Committees

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

Meeting attendance ⁽¹⁾

3/4

Other appointments

- Chairman Westminster Abbey Investment Committee
- Non-Executive Director The Goodwood Estate Company
- Senior Independent Director DWF Group PLC

Past roles

Chief Executive Corporate & Investment Banking, Santander UK
Deputy Group Chief Executive RBS Group plc

Relevant experience

Extensive experience of corporate, investment and retail banking and asset financing together with general management and listed company experience.

5. Steve Breach

Independent
Non-Executive Director

Appointment to the Board

August 2019

Committees

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

Meeting attendance ⁽¹⁾

4/4

Other appointments

- Adviser to a number of private companies.

Past roles

Chief Financial Officer Tribal Group PLC

Various CFO roles

Corporate finance adviser at EY

Relevant experience

Extensive experience in corporate finance advice to technology businesses as well as holding various CFO roles.

Fellow of the Institute of Chartered Accountants in England and Wales.

Changes to the board in 2019

The appointments of Chris Sullivan and Steve Breach as Non-Executive Directors provides your Board with a strong combination of skills and experience in asset finance and enterprise software, financial management and governance. The Executive Director team was also strengthened with the appointment of Matthew White as Chief Operating Officer.

Company Leadership Team

1. Andrew Denton Chief Executive Officer

Date joined Alfa
August 1995

Member of Deal Committee
Y

Member of Investment Committee
Y

Relevant Experience/ Previous Roles
Andrew joined the Company in 1995 and the Board in 2003 as Sales and Marketing Director. He was made COO in 2010 and CEO in 2016. Andrew is also director and joint founder of the Leasing Foundation, an organisation that supports the finance industry through charitable activities, research and development.

2. Matthew White Chief Operating Officer

Date joined Alfa
June 1999

Member of Deal Committee
Y

Member of Investment Committee
Y

Relevant Experience/ Previous Roles
Matthew is accountable for Alfa's technology platform and project delivery. Matthew joined as a graduate in 1999, starting in software development and continuing into systems implementation and project management. He took responsibility for operations of the Company, before leading Alfa's IPO in 2017.

3. John Miller Interim Chief Financial Officer

Date joined Alfa
May 2019

Member of Deal Committee
Y

Member of Investment Committee
Y

Relevant Experience/ Previous Roles
John is a Fellow of the Institute of Chartered Accountants and brings extensive C-suite level finance and operating experience for listed and private equity-owned technology and professional services companies. He has fulfilled various Finance Director and CFO roles.

4. Vicky Edwards Chief People Officer

Date joined Alfa
March 2020

Member of Deal Committee
N

Member of Investment Committee
N

Relevant Experience/ Previous Roles
Vicky joined Alfa in March 2020, bringing 26 years of experience in consultancy businesses. A commercially focused HR leader, Vicky has held leadership roles across HR, commercial and operations functions, as well as C-suite level positions in the professional services, technology and energy sectors.

5. Richard Raistrick
Chief International Officer

Date joined Alfa
May 1995

Member of Deal Committee
N

Member of Investment Committee
N

**Relevant Experience/
Previous Roles**

Richard is responsible for project delivery of some of Alfa's largest customers. He has carried out consultancy and project management engagements around the globe, and has worked in the asset finance sector since 1995.

6. Richard Dewire
Chief Revenue Officer

Date joined Alfa
January 2001

Member of Deal Committee
Y

Member of Investment Committee
Y

**Relevant Experience/
Previous Roles**

Richard has 19 years in the asset finance industry and an in-depth knowledge of Alfa Systems through many years of implementation, with extensive knowledge of Alfa's sales and commercial process. He was previously Director of Strategy and Investment.

7. Andrew Flegg
Chief Technology Officer

Date joined Alfa
February 2005

Member of Deal Committee
N

Member of Investment Committee
Y

**Relevant Experience/
Previous Roles**

Andrew brings 35 years of programming experience, with over 25 years in commercial software development and 15 in the asset finance industry. He was previously Alfa's Global Director of Platforms, covering internal IT systems, cloud, information security and solution architecture.

8. James Paul
Chief Delivery Officer

Date joined Alfa
September 1999

Member of Deal Committee
Y

Member of Investment Committee
N

**Relevant Experience/
Previous Roles**

James is accountable for all EMEA implementations and takes global responsibility for support, resourcing and partnering. He has 20 years' experience implementing in asset finance for organisations of all sizes.

Company Secretary

The Company Secretary acts as Secretary to the Board and each of the Nomination, Audit and Risk, 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.

In March 2020 Charlotte Caulfield joined as Company Secretary of the Company, while Hazeland Company Secretarial Support Limited resigned on 23 March 2020 having succeeded Prism CoSec Limited who resigned on 26 September 2019. We are grateful to Mark Henson of Hazeland and Simon Maynard of Prism for their support and counsel over their time advising the Company.

Summary of Matters Reserved for the Board

Area	
Corporate strategy	Review and approve overall strategy and business objectives. Review and approve all take-over offers.
Capital structure	Approve any share issues (except under 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.
Finance	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.
Risk management	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 overall levels of insurance coverage for the Company including Directors' and Officers' cover.
Corporate governance	Approve statement that Non-Executive Directors are independent. Undertake a formal review of performance of the Company in relation to the Corporate Governance Code, collective effectiveness of Board and committees and effectiveness of individual Directors.
Expenditure	Amounts in excess of £1m of capital or operating expenditure outside approved budget. All class 1 or 2 transactions and any acquisitions or disposals in excess of £25 million. New material borrowing facilities. All related party transactions.
Shareholder communication	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.
Succession planning	Succession plans for Board and CLT, including selecting a Chairman, CEO and appointing a Senior Independent Non-Executive Director. Appointment of the Company Secretary.

What we focused on in 2019

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

- Strategy;
- Performance of the business both financially and operationally;
- Financial statements, announcements and other financial reporting matters including the trading update issued on 16 September 2019;
- Budgets and long term plans;
- Shareholder feedback and reports from brokers and analysts;
- Risk management;
- Financial management, forecast performance, governance and controls;
- People – succession, diversity and talent management;
- Remuneration;
- Group policy reviews (Health and Safety, Whistleblowing, Code of Conduct etc.);
- Regulatory updates;
- Sales pipeline and business development;
- Board sub-committee Terms of Reference; and
- Evaluation of Board effectiveness.

Company Leadership Team

During 2019, a new Company Leadership Team (CLT) was constituted and we took the opportunity to promote a number of staff with deep understanding of their functional areas. The CLT has a combined total of 124 years of Alfa service. We have supplemented this core Alfa and industry experience with selective external recruitment and, in March 2020, we were delighted to welcome Vicky Edwards as our new Chief People Officer. Further details of the CLT can be found at pages 78 to 79.

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 also monitors emerging technology risks and opportunities. The Investment Committee is chaired by the CEO.

Deal Committee

In early 2020, the CEO created a Deal Committee, to be chaired by the Chief Revenue Officer. The Committee provides scrutiny over commercial activity, including:

- Establishment of standard guidelines in financial and key contractual terms;
- Review of deals that may fall outside of these guidelines; and
- Review of key commercial deal terms.

C

Composition, succession and evaluation

Board evaluation

The Board recognises the benefit of a full evaluation of its performance and believes it provides fresh insight and objectivity to its Committees and Directors, enabling it to improve its leadership, effectiveness and focus. During the year the evaluation was conducted as described below:

Evaluation process

- The scope of the evaluation was previously agreed between the Chairman and Company Secretary, including 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 areas for improvement.
- The Company Secretary presented the findings and recommendations to the Board. The report was then discussed and where appropriate relevant actions were agreed.

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, and consider 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 Company Leadership Team members around the direction and values of the organisation and the decision-making process;
- Board's understanding of the strategy and developing culture;
- Adequacy of agendas and meetings scheduled;
- Training and development; and
- Shareholder and stakeholder communications.

Despite a number of changes to the Board during the year and challenges experienced in the control environment detailed in the Audit and Risk Committee report on pages 92 and 93, the overall results of this year's evaluation were nevertheless positive and concluded that the Board and committees were well run and continued to operate effectively.

All Directors have been advised of the time required to fulfil the role prior to appointment and have confirmed they can make the required commitment. The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to Company business.

Outputs from this year's internal evaluation

The evaluation identified a number of key strengths of the Board including:

- Following the refreshment of the Board, a strong focus on effective leadership with a common purpose and independent mindset;
- Board relationships have significantly improved, with Non-Executive Directors working well with management and the Board working more effectively; and
- A healthy diversity of perspectives and an increasing sense of team.

The review explored potential longer-term challenges and suggested ways that the Board might build on its current strengths to ensure it remained effective as it progressed through a period of change.

Key themes included:

- Continue to provide strong leadership through a culture of collaboration, transparency, open communication and cooperation. Increase CLT exposure to the Board and wider employee engagement focus;
- Strategy setting to form an integral part of the Board's calendar with consideration of institutional investor expectations and other stakeholders including wider workforce engagement. Ensure that the Board agenda allows sufficient time and visibility of longer-term strategic perspectives;
- Maintain focus on improving the quality of information and increased communication channels with other stakeholders, including employee engagement; and
- Full consideration of succession planning for the Board and members of the CLT with diversity being addressed and included in the succession review to be carried out by the Nomination Committee.

C

Chris Sullivan
Chair of the
Nomination
Committee

Membership of the Committee

	Scheduled meetings attended	Appointed	Resigned
Chris Sullivan* (Chair)	1/1	July 2019	
Steve Breach*	1/1	August 2019	
Andrew Page	4/4	May 2017	
David Stead*	1/1	August 2019	December 2019
Richard Longdon (Chair)* ⁽ⁱ⁾	0/2	May 2017	April 2019
Karen Slatford* ⁽ⁱⁱ⁾	3/4	May 2017	September 2019
Robin Taylor* ⁽ⁱⁱ⁾	3/4	May 2017	September 2019

(i) Richard Longdon did not attend the meetings due to prior commitments; (ii) At the request of the Chairman, Karen Slatford and Robin Taylor did not attend the meeting in September due to the recommendation of their successors.

*denotes independent member under the Code.

The Committee generally meets formally three times a year with additional ad hoc conference calls and meetings as required.

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

The Company Secretary acts as Secretary to the Committee, and by invitation, the meetings of the Committee may be attended by some or all of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Chief People Officer.

“

The appointments of Adrian Chamberlain, Charlotte de Metz and Duncan Magrath, will complete the refreshing and strengthening of your Board. The Non-Executive Directors have a strong combination of appropriate skills, and knowledge to support and challenge the Executive Directors, with experience of the asset finance and enterprise software sector, strategic planning, financial management and corporate governance.”

Introduction

I am pleased to introduce the Nomination Committee (the “Committee”) Report for 2019 which summarises our key activities during the year. 2019 was a year of transition, as the founding Non-Executive Directors and Chief Financial Officer, who were appointed at the time of the Company’s listing on the London Stock Exchange in May 2017, stepped down, during the course of the year. Additionally, David Stead found he was not able to commit sufficient time to Alfa and chose to step down from the Board in December 2019. Matthew White, Chief Operating Officer, was promoted to the Board as an Executive Director in October 2019 and the Board will be strengthened further after the release of the Company’s 2019 financial results with the recently announced appointments of Adrian Chamberlain and Charlotte de Metz as additional independent directors and Duncan Magrath as Chief Financial Officer. The Committee is confident that we have a strong combination of appropriate skills, experience and knowledge to support and challenge the Executive Directors, in the future.

Role of the Committee

The role of the Committee is set out in the Committee’s Terms of Reference, which were reviewed and amended during the year. The Terms of Reference are available on the Company’s website at investors.alfasystems.com.

The main areas of the Committee’s responsibilities are:

- To review the structure, size and composition of the Board and its committees and ensure that the procedures for appointing Directors are formal, rigorous, transparent, objective, merit-based and has regard for diversity (including gender, nationality and experience);
- The consideration and recommendation of Board candidates who are appropriate for appointment as Executive and Non-Executive Directors, in order to maintain an appropriate balance of skills and experience on the Board and to ensure progressive refreshing of the Board;

- To consider succession planning for the Board and senior management immediately below Board level; and
- To carry out annual performance evaluations of the Committee.

Main activities during 2019

- Non-Executive Director succession planning and recruitment;
- Evaluation of directors (all of whom are proposed for re-election at the AGM);
- CFO recruitment process;
- Reviewing Board and CLT structure; and
- Recommending the appointment of Matthew White, Chief Operating Officer, as an Executive Director to the Board.

On the recommendation of the Committee and in line with the Code, all 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 using an external search firm. Consideration is given to ensure that proposed appointees are appropriately qualified and that the balance of skills, knowledge and experience on the Board is maintained. If discussions relate to the appointment of a Chairman, I, as Senior Independent Director, will lead the recruitment process. When the Committee has found a suitable candidate, the Chair of the Committee makes a proposal to the whole Board, which retains responsibility for all such appointments. In the recruitment of Non-Executive Directors during the year, an external recruitment agency, Norman Broadbent Executive Search Limited, which has no other connection to the Company or its Directors, was engaged to compile a list of candidates to which was added a number of other candidates who had been recommended to the Company separately. A similar process has taken place in recruiting the two additional Non-Executive Directors whose appointments were announced in March 2020. Another external recruitment agency, FDU Group Limited, which has no other connection to the Company or its Directors, ran the search process which culminated in the selection of Duncan Magrath as our Chief Financial Officer Designate.

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 regularly reviewing 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.

We have the following composition of male to female representation, as at 2 March 2020:

	Male	Male %	Female	Female %
Board	5	100	0	0
Company Leadership Team	6	86	1	14
Company Leadership Team direct reports	16	76	5	24
Company wide	224	70	94	30

Following the publication of the 2019 financial results, and the appointment of Adrian Chamberlain, Charlotte de Metz and Duncan Magrath, the Board will have 87.5% male representation and 12.5% female representation.

The Committee notes the recommendations of the Hampton Alexander Review on gender and the Parker Review on ethnic diversity. It is part of the Committee's remit when making new Board appointments to consider the importance of diversity on the Board, including gender and ethnicity. This is considered in conjunction with experience and qualifications in relation to the balance of the Board and its Committees.

Succession planning

The Committee has oversight of succession plans for the Directors, as well as having regard to the Company's senior management structure and employees identified by management with the 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.

C

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 CLT members. The induction programme will continue to be reviewed and updated on a regular basis.

For professional ongoing development, the Board receives presentations relevant to the Company's business and updates on any changes to markets, or regulations, 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 Committee is confident that Board 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 were no external appointments in relation to the Executive Directors during 2019, with the exception of Vivienne Maclachlan who was appointed as a Non-Executive director of Tungsten Corporation PLC on 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 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 reappointment of Directors is subject to their continuing 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 2020 AGM continue to benefit the Board and the members are invited to support their re-election.

Non-Executive Directors are appointed initially for three years and Non-Executive Directors may, subject to Board approval, remain in office for a period of up to six years, or two terms in office, with discretion for the Board to extend the term for one further three-year term, to a maximum of nine years.

Annual evaluation

The performance of the Committee has been assessed by way of an internal process whereby the Chair and Company Secretary carried out a Committee evaluation through an electronic questionnaire. The results of this report were subsequently discussed and areas identified to develop the effectiveness of the Committee further.

Focus for 2020

Board membership and succession will continue to be high on the agenda moving into 2020 and in particular finalising the appointments, to the Board, of Duncan Magrath as Chief Financial Officer and Adrian Chamberlain and Charlotte de Metz as additional Non-Executive Directors. The Committee will also monitor the effectiveness of recent appointments to the Board and take an active interest in the succession planning and future leader identification processes for those immediately below Board level, sitting on the CLT, as well as monitoring progress on diversity to ensure that any succession plans incorporate an appropriate balance and diversity of skills and experience.

Chris Sullivan

Chair, Nomination Committee

23 April 2020

D Audit, Risk and Internal Controls

Steve Breach
Independent
Director and Chair
of the Audit and Risk
Committee

Membership and Organisation of the Committee

The table below details the Committee members and their attendance at meetings during 2019:

	Scheduled meetings attended	Appointed to Committee	Resigned
Steve Breach (Chair)	3/3	August 2019	N/a
Chris Sullivan	1/1	September 2019	N/a
Richard Longdon ⁽ⁱ⁾	0/1	May 2017	April 2019
Karen Slatford	4/4	May 2017	September 2019
David Stead	2/2	August 2019	December 2019
Robin Taylor (Chair)	4/4	May 2017	September 2019

(i) Richard Longdon did not attend the meeting due to prior commitments.

The Committee's members are all Independent Non-Executive Directors.

“

Alfa is making good progress at embedding new financial processes and systems which will enhance financial management in the coming years.”

Introduction

I am pleased to present this Audit and Risk Committee Report, for the year ended 31 December 2019, which summarises the Committee's activities in the year, as well as setting out expected key areas of focus for 2020. This is our first report since I took over as Chair of the Committee and I would like to thank Karen Slatford, Richard Longdon and David Stead, for their work on the Committee, and to Robin Taylor, as Chair.

During 2019, the Company experienced challenges arising from significant personnel changes amongst its senior leadership team, as well as difficult trading conditions. Throughout this period, the Committee's primary focus has been to maintain the integrity and transparency of the Company's external financial reporting. In particular, we have spent significant time assessing the application of IFRS 15 "Revenue from Contracts with Customers", alongside careful review of the Company's risk management framework, internal controls and management information systems. The Company's financial management improvement programme, which was instigated in 2019 with clear short-term and medium-term objectives, will continue into 2020. Further details of the areas of weakness and the Group's overall response to these challenges are shown on pages 92 to 93.

Members' skills and experience are documented on pages 76 to 77. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience and that, as a whole, its members have experience of the asset finance and enterprise software sector and corporate governance.

By invitation, the meetings of the Committee may be attended by the Chairman, the CEO, the CFO and the COO. The Company's external auditor and its internal audit services provider are also present at all Committee meetings, to ensure full communication of matters as they relate to their respective responsibilities. At the end of each Committee meeting, Committee members have the opportunity to meet with the external auditors (and, where appropriate, the internal auditors) for a private discussion regarding the audit process and relationship with management. The Company Secretary acts as Secretary to the Committee.

D

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, regulations and accounting standards;
- Monitoring the integrity of the Company's financial statements;
- Reviewing and challenging the application of accounting policies, including estimates and judgements made by management, and the clarity and completeness of disclosures;
- Monitoring the effectiveness of the Company's internal financial controls and risk management systems;
- Reviewing and assessing the internal audit function, including approval of any appointments, review of internal audit plans and findings and recommendations; and
- Overseeing the relationship with the external auditor, including a review of its independence and audit effectiveness.

Further details on the Committee's roles and responsibilities can be found in our Terms of Reference, which were revised in 2019, on our website, at investors.alfasystems.com.

Meetings

The Committee generally meets at least four times during a year. The Committee operates to a forward agenda linked to the financial calendar which ensures that the responsibilities and duties of the Committee are discharged in accordance within the Terms of Reference and the requirements of the UK Corporate Governance Code.

Additional agenda items, or meetings, may be added during the financial year, as required, and to address changes in the business, or changes to regulation. During 2019, such items involved progress on the financial management improvement programme, review of progress and plans for the deployment of new business systems and changes to the UK Corporate Governance Code.

The Committee is satisfied that it receives sufficient information and has access to relevant management personnel to allow the Committee members to engage in an informed debate during Committee meetings. The Committee notes that the quality and timeliness of management information reporting is improving under the financial management improvement programme and will continue to develop during 2020.

Principal activities of the Committee

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

Date	Focus
February 2019	Review of the 2018 Annual Report, full year results statement and presentation including: • Review of key accounting judgements including the application of IFRS 15 "Revenue from Contracts with Customers". • Review of principal risks and uncertainties affecting the Company. • Assessment of going concern and long-term viability statement. • Reviewing the 2018 Annual Report to ensure it was fair, balanced and understandable. • Review of the report by the external auditor in relation to the 2018 Annual Report. • Review of the internal audit plan for 2019. • Review of the business systems deployment programme. • Review of non-audit services.
May 2019	• Assessment of the effectiveness of external audit. • Review of the internal auditors' report on internal controls. • Review of the accounting policy manual. • Review of principal risks and uncertainties affecting the Company. • Progress review of the business systems deployment programme. • Review of the whistleblowing policy and incident reporting. • Review of the anti-bribery policy and procedures. • Review of the Committee terms of reference.
August and September 2019	• Review of the 2019 half-year results statement and presentation. • Review of key accounting judgements including the application of IFRS 15 "Revenue from Contracts with Customers" and capitalisation of development costs. • Going concern review. • Review of corporate governance compliance. • Review of the report by the external auditor in relation to the 2019 half-year results. • Review of principal risks and uncertainties affecting the Company. • Consideration of approach to internal audit following the resignation of the previous internal audit provider. • Progress review of the business systems deployment programme. • Review and approval of non-audit services.
December 2019	• Assessment of progress with the financial management improvement programme. • Review and approval of the external audit plan for full year results. • Approval of the external auditor's fee for 2019. • Approval of the 2019/2020 revised internal audit plan. • Review of the output of a risk workshop and consideration of learning points regarding risk management processes. • In-depth review of the business systems deployment programme. • Review and approval of updates to the Committee's Terms of Reference. • Consideration and approval of the Committee's work plan for 2020. • Review and update of the policy regarding external auditor independence. • Review and update of the whistleblowing policy.

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 all Board members having access to copies of the Committee minutes and papers.

D

Key matters considered in relation to the consolidated financial statements

The Committee receives drafts of the Annual Report and consolidated financial statements and the half-year results on a timely basis, to enable sufficient review, challenge and discussion of key judgements, the narrative and disclosures before being recommended to the Board. 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 on subsequent pages. During the year, the Committee again 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 continuing 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 net material adjustments were required.

After reviewing the presentations and reports from management and consulting where necessary with the external auditors, the Committee is satisfied that the consolidated financial statements appropriately address the critical judgements and key estimates in respect of both the amounts reported and related disclosures.

Revenue recognition

The Group's operations include complex software implementation programmes and service activities.

The delivery of these contracts typically extends over more than one reporting period, and often the original project plans are amended, as the implementation progresses. In recognising revenue, management has to apply a number of judgements to allocate the overall transaction price across the multiple performance obligations that have been identified within these projects.

Due to the structure of the Group's licence and maintenance contractual arrangements, there are times when one-off licence uplift or maintenance / right to use termination payments are received. The revenue recognition of such items mirrors any underlying performance obligations of the Group, whilst taking into account the existence of any contractual right of clawback.

Assessment

The Group applies IFRS 15 "Revenue from Contracts with Customers" in the calculation of its revenue recognition and associated accounting policies.

Prior to the IFRS 15 transition date, 1 January 2018, a detailed review was carried out of the terms and conditions of each contract, in both the software implementation and ODS segments, as well as all continuing maintenance contracts. This detailed 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 each 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 ended 31 December 2019, management continued to review the terms and conditions of both new and existing contracts, on a basis consistent with that described above, in order to identify any new performance obligations to be considered.

Following the review of contracts outlined, above, management has concluded that the Group's contracts contain distinct performance obligations as set out 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 comprises delivery of the related software licence and also any work to change the underlying code. Management estimates the total revenue relating to these services at the start of a contract, and this is recognised on a percentage-of-completion basis. Development services are valued using the residual method as there is no stand-alone selling price which is observable because each project is customised. In addition each contract may contain an expectation to deliver multiple separate instances of the customised licence which may form separate groups of distinct performance obligations.
- 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 licence 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 determines the value of the development services during the software implementation period and the remaining expected customer life.
- The periodic maintenance and right to use Alfa Systems relates to the ongoing support and right to use the Alfa System over a customer's life. The transaction price relating to the periodic maintenance is recognised throughout the period, as the services are delivered. The transaction price, relating to the periodic right to use Alfa Systems, is recognised over the period if there is a right of clawback by the customer, or in full when there is a right of collection, if there is no right of clawback.
- Certain of the Group's implementation and service contracts include a subscription payment mechanism. This represents a monthly fee charged to the customer covering the following performance obligations; the provision of monthly hosting services; the monthly periodic right to use Alfa Systems and; the provision of monthly maintenance services (when this becomes applicable to the customer). The monthly payments are recognised as revenue in the period to which they relate. This reflects the underlying performance obligations of the Group and termination rights of the customer.

The key judgements are in relation to the assessment of whether there are multiple performance obligations, specifically the efforts within the implementation process which relate to activities that could be delivered by a third party and therefore represent a stand-alone performance obligation, distinct from the efforts to develop a customised licence, or right to use. The key estimates are the estimated time to complete the implementation project, including both implementation and development time, and the stand-alone selling price of an implementation day rate.

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

Action and outcome

The Committee reviewed in detail, with the external auditors, management's analysis of IFRS 15, as applied to key customer contracts during 2019.

The auditors reviewed the approach to revenue recognition and challenged the basis of key assumptions.

The Committee 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 price for the various performance obligations, specifically the determination of what constitutes customisation effort, the estimation of the time to complete and the determination of 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.

D

Development costs

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

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

Assessment

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

During 2019 the Group has capitalised internally generated costs incurred in the following areas of product development:

- Upgrades and significant improvement work to the usability and functionality of the Alfa Systems user interfaces. Additional work is planned in this area, during 2020, following which such capabilities will be made available for use to existing and new customers;
- Specific functionality requested by existing customers for which the Group has invested time developing new modules and capabilities within Alfa Systems. Such capabilities include developing the functionality of Alfa Systems to operate in the wholesale leasing market and to comply with the requirements of specific regulations applicable to the asset leasing market. Additional work is planned on these modules and capabilities, during 2020, following which such capabilities will be made available for use to existing and new customers;
- Investment in the functionality of the cloud-hosting platform offered by the Group, to its new and existing customers, to provide more security, scalability, simplification and capacity. This increases significantly the number and size of production environments the Group is able to host. Additional work is planned in this area, during 2020, focused particularly around testing new functionality, following which such capabilities will be made available for use to existing and new customers;
- The adaptation of the existing Alfa Start technology to meet the requirements of the UK equipment finance market and to provide a ready-to-deploy repeatable subscription license model. This new functionality was completed prior to the end of 2019 and has been successfully implemented for the first time in March 2020; and
- Continued investment in its digital capabilities. This investment includes both internally generated costs as well as externally acquired technical assistance. Such capabilities are available for sale to existing and new customers.

Action and outcome

The Committee reviewed and discussed with management and the external auditor whether development costs met the capitalisation criteria under IAS 38 and is satisfied that such expenditure, with the exception of that relating to those items capitalised during the year, should be expensed.

The Committee has reviewed and is satisfied with the judgements applied by management in determining the value of the development costs capitalised during the year. These judgements have also been discussed with the external auditor.

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

Alfa uses APMs which are not specifically defined by IFRS, being Adjusted EBIT and Adjusted EBIT margin, to show the impact on earnings before the capitalisation (and related amortisation) of development costs, in order to present clearly the underlying costs and results of the Group.

Additionally, Alfa uses Constant currency revenue growth to show the underlying growth of revenues excluding the effects of currency, and Operational cash flow conversion to show the conversion of Adjusted EBIT to cash.

Assessment

These APMs are not specifically defined by IFRS but are utilised by management to monitor performance as the data provided illustrates the underlying performance of the business including underlying cost base and overall trading operations.

These APMs are defined and reconciled, to the nearest equivalent IFRS measure, in the Key Financial Metrics section of the Financial review, on pages 46 to 53 of this Annual Report.

Action and outcome

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 are not given undue prominence and that the reconciliations provided are presented in a clear manner.

Newly applicable accounting standards – Accounting for Leases

IFRS 16 “Leases” took effect for periods beginning on or after 1 January 2019. Alfa has both property and car leases for which the accounting treatment must comply with IFRS 16.

Management has implemented IFRS 16 “Leases” using the “cumulative catch up approach” as if IFRS 16 had been applied since the start date of the relevant lease. Under this approach, the difference between the Right-of-Use Asset and the Lease Liability, as at the date of transition, is accounted for as an adjustment to the Group’s opening retained earnings.

Assessment

In assessing the impact of IFRS 16, management assessed each of the lease contracts the Group had in place, as at 31 December 2018, to determine whether or not each contract met the definition of a lease, under IFRS 16. In those instances where management considered the definition had been met, and the Group is the lessee, management determined both the value of the Lease Liability and the Right-of-Use Asset that was recognised as at 1 January 2019. Management has also assessed new lease contracts entered into during the year, as well as any rent reviews, or lease extensions, applicable to any existing leases, against the requirements of IFRS 16.

In carrying out these calculations, management made judgements about certain parameters including the discount rate and, in certain cases, whether a break clause will be exercised. Management has also separately assessed the terms and conditions of any lease contracts it has where the Group is the lessor.

The IFRS 16 lease accounting policy and details around the Group’s transition to IFRS 16 are set out in note 19 to the consolidated financial statements.

Action and outcome

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

Going concern and viability statement

The Directors must satisfy themselves regarding the Group’s long-term viability and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due, for the foreseeable future.

Assessment

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 2018 Annual Report.

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

Action and outcome

The Committee reviewed management’s 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 2020 budget and also the high level plans for 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, including the impact of Covid-19, as disclosed on pages 40 to 43 in the Strategic report.

The Committee discussed and challenged the downside scenarios modelled as part of the viability statement as disclosed on pages 44 to 45 in the Strategic report, the funding headroom available and the feasibility of mitigating actions and the speed of implementation of any cost-saving measures following management decision making. The Committee noted in particular that Scenario 3 includes the possible impacts of Covid-19.

The Committee noted 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 2019 financial statements. In line with the guidance issued by the FRC, on 26 March 2020, the Committee considered the additional downside stress testing performed by management.

Following this evaluation and analysis, the Committee was satisfied with the judgements made and that the continued use of the going concern basis was appropriate and the viability statement was prepared appropriately.

D

1. Assessment of the Annual Report

The Committee has undertaken a careful review to ensure the contents of this 2019 Annual Report, when taken as a whole, are fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's consolidated position, performance, business model and strategy. In forming its opinion and recommendation to the Board in respect of the above matters, the Committee assessed the following:

Fair

- Is the narrative, presentation or information materially complete?
- 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 narrative and presentation even-handed?
- Is the Strategic report consistent with the financial statements?
- 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

- Is the narrative cohesive, and is it written simply and transparently?
- Are the important messages highlighted and presented consistently and prominently?
- Will a shareholder understand the market in which Alfa operates and how it generates value?

Following the Committee's review and recommendation, the Directors confirmed that the 2019 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.

2. 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 dealt with appropriately. 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 whistleblowing 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, other than as described below.

Overview of the internal control environment

The following key elements summarise 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 information:

- An appropriate organisational structure with clear lines of responsibility;
- A comprehensive annual process for strategic and business planning;
- 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; and
- An appropriate risk management process complemented by a suitable internal audit function.

Internal control efficacy during 2019

The majority of Alfa's controls operated as intended during the year. However, Alfa's transition from private to public company status has led to challenges as the Company's corporate governance structures were tested by the impact of personnel changes during 2019. The Directors consider that the following matters represented areas of weakness during 2019.

Timeliness of management information

Steps have been taken to streamline the production of monthly management information and simplify the application of IFRS 15, which ultimately will improve the timeliness of reporting. The initial phase of these developments has been completed and further improvements will continue during 2020. The Company is also in the process of expanding the functionality of the finance and HR system (Workday) which, in the medium-term, will provide a more robust platform for the provision of management information.

Forecasting accuracy

The nature of Alfa's business, which typically includes a number of individually significant new customer software contracts, alongside a small number of large software delivery contracts, makes it inherently difficult to forecast over the short term because the timing of contract sign-off and customer programme milestones may change beyond the Group's control.

Steps are being taken to improve forecasting processes, particularly with regard to timing and value of sales pipeline and opportunities. Increased management scrutiny is focussed on expected resource allocation. Feedback is provided to budget holders regarding forecasting accuracy, with a view to enhancing the quality of budgeted information prepared for management and the Board.

Overall response to these challenges

In order to address the challenges faced by the Group during 2019, additional controls were implemented during the period and further control enhancements are in progress. Work programmes are continuing to ensure that the Board has the information, time and resources it needs in order to function more effectively. As announced in the Company's 2019 interim results announcement, a finance improvement programme has been instigated, under the leadership of John Miller. This has focussed, initially, on the timely provision of financial and operational management information to management and the Board. Assisted by external input from Grant Thornton, the initial phase of the project encompassed three workstreams which were completed in early 2020:

- A detailed review of accounting for IFRS 15 revenue recognition to ensure clarity on its application and process improvements;
- Development of an improved budgeting and forecasting process and five-year forecasting model; and
- Development of an enhanced monthly management reporting pack.

Risk management process

Alfa recognises that effectively managing risk is integral to allowing the Group to deliver on its strategy. Management monitors and manages risk utilising a five-step process throughout the business, as discussed in more detail on pages 36 to 39 in the Strategic report. Additionally, the Committee has reviewed, and will continue to review, the risk register a minimum of twice annually and assess the actions taken by management to manage and mitigate identified risks.

During 2019, the Board also undertook a risk workshop facilitated by the internal auditor. This process enabled management and the Board to take a fresh look at the risks faced by the business now and in the future, and to test that the existing risk management process continued to identify key risks requiring management attention.

The Group's principal risks and uncertainties are described on pages 40 to 43 in the Strategic report.

Internal audit

The Group has an internal audit function resourced by an external provider. The internal audit function reports jointly to the Chair of the Audit and Risk Committee and the CFO. The Board, acting through the Committee, has directed the work of the internal audit function towards those areas of the business that are considered to be of higher risk. The Committee approves a rolling audit programme, ensuring that significant areas of the business are independently reviewed over a suitable period. The effectiveness of the internal audit function is reviewed by the Committee.

Until August 2019, the internal audit function was delivered by KPMG. BDO was selected to deliver internal audit services in November 2019. Their focus will be to provide a number of assurance reviews including key financial and operational risk areas all agreed in advance with the Committee. Recent internal audit work includes the following areas of focus:

- Core financial controls;
- Risk management processes;
- Contract management review and new business acceptance; and
- Business continuity.

3. 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. Committee approval is required for all projects with an expected cost in excess of £10,000. The Group's auditors are Deloitte LLP, and they were appointed, as statutory auditor to the Group, on 5 May 2017, for the year ended 31 December 2017. They were re-appointed by shareholders for the 31 December 2019 period on 26 April 2019 and the Committee has recommended to the Board that a resolution be prepared and presented to shareholders to reappoint Deloitte LLP for the 2020 financial year. The audit partner is Richard Howe, and he has been the partner on the engagement since 2016. There were no non-audit fees paid to the Group's auditors in 2019 other than for interim review 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. Deloitte has confirmed its independence to the Committee on a regular basis during the year under review.

4. Effectiveness of the external auditor

The Committee has reviewed the quality of the audit plan and related reports for the 2019 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 occurred in 2017 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.

5. Performance of the Audit and Risk Committee

The performance of the Committee during 2019 has been assessed through an internal process where the Chair and Company Secretary carried out a Committee evaluation through an electronic questionnaire. The results of this report were reviewed by the Committee and areas identified to develop the effectiveness of the Committee further.

6. Focus for 2020

In 2020, the Committee will continue to monitor closely the finance improvement programme, seeking continued enhancement to the timeliness and efficiency of production of insightful management information, with increasing use of new systems, allied to improved forecasting of future performance.

Steve Breach

Chair, Audit and Risk Committee

23 April 2020

E Remuneration

Chris Sullivan
Senior Independent
Director and Chair of
the Remuneration
Committee

Membership of the Committee

The Committee generally meets at least three times a year. Attendance by the Committee members at these meetings is shown below:

	Scheduled meetings attended	Member since
Chris Sullivan (Chair) Senior Independent Non-Executive Director	2/2	September 2019
Steve Breach Independent Non-Executive Director	3/3	August 2019
David Stead Independent Non-Executive Director	2/2	August 2019 – December 2019
Karen Slatford Independent Non-Executive Director	2/2	May 2017 – September 2019
Robin Taylor Independent Non-Executive Director	2/2	May 2017 – September 2019
Richard Longdon Independent Non-Executive Director ⁽ⁱ⁾	0/1	May 2017 – April 2019

(i) Richard Longdon did not attend the meeting February due to prior commitments.

The Committee's members are all independent Non-Executive Directors.

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The Committee continues to monitor the various elements of the remuneration paid to Executive Directors to ensure salary is at an appropriate level and there is the opportunity to receive variable remuneration if stretching business targets are met.”

Introduction

I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2019, which covers the Company's remuneration policy and practice. This is our first report since I took over as Chair of the Committee and I would like to thank Karen Slatford and David Stead for their work on the Committee and as Chair, and to Richard Longdon and Robin Taylor for their contributions to the Committee's work in 2019 and before.

The Remuneration Policy, which was approved by shareholders at the AGM in 2018, remains in place and there are no proposals to amend it for the coming year. An updated policy will be brought back to shareholders at the AGM in 2021. The policy incentivises and motivates the leadership team to deliver long-term shareholder value by achieving 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. During 2019, LTIP awards were made to selected employees below senior management level, based on performance.

The report is presented in two parts. The Annual Statement sets out an overview of 2019 activities. Secondly, the Annual Report on Remuneration, on pages 96 to 100, sets out how we will be implementing our policy for 2020, together with the details of remuneration outturns for 2019. We also provide a summary of the Remuneration Policy on pages 101 to 103, which remains unchanged, and was set out in full in our 2017 Annual Report.

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 the CLT. The Committee also has oversight of wider workforce remuneration and approves the annual bonus pool and salary increase budget. The Committee's full Terms of Reference can be viewed at investors.alfasystems.com. The Executive Directors and other CLT members may attend, by invitation but will not be present when their own remuneration is discussed.

Principal activities in 2019

During 2019, the Committee's principal activities were as follows:

- Approved the remuneration for Matthew White, following his appointment to the Board;
- Approved a revised remuneration structure for Senior Management below Board level;
- Reviewed the annual bonus targets for the Executive Directors for the financial year 2019 and measured performance against them;
- Agreed the structure of annual bonus targets and quantum for the Executive Directors and CLT for the financial year 2020;
- Approved LTIP awards to employees under the Long Term Incentive Plan (LTIP);
- Incorporated the revised UK Corporate Governance Code into the Committee's policies and procedures; 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.

The Remuneration Committee oversees the implementation of this policy and seeks to ensure that the Executive Directors are rewarded fairly for the Group's performance over the short, medium and long-term. In line with best practice, the Committee has decided that a significant proportion of potential total remuneration should be performance-related. The Committee notes that the Executive Chairman and Chief Executive Officer hold, directly or indirectly, a significant shareholding in the Company. Therefore, to date, the Committee has granted LTIP awards to key individuals below Board level. The Committee intends to make LTIP awards in the future, including to other Executive Directors and the CLT.

During 2019, the Executive Chairman's salary was unchanged at £374,448 per annum; the CEO's salary was unchanged at £321,912 per annum; the CFO's salary, up to the time of her departure, was unchanged at £220,000 per annum; and the salary for the COO, on his appointment to the Board, was £220,000 per annum. No salary increases are proposed for the existing Executive Directors, in 2020.

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

The Executive Chairman and the CEO have separately advised the Committee that because they have a significant shareholding in the Company, they wish to waive their eligibility for a bonus in respect of the performance year 2019 and for any LTIP award for the performance period beginning January 2020. Shareholders will be aware that the Executive Chairman and CEO also waived any entitlement for the performance years 2017 and 2018. The Committee places on record its thanks to the Executive Chairman and the CEO for waiving their bonus and LTIP entitlements which helps the Committee broaden share ownership to selected Company employees.

Focus for 2020

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

- Assessment of Company performance against the 2020 budget and determination of bonus awards;
- Approval of performance conditions and awards under the Company's Long-Term Incentive Plan for 2020;
- Approval of bonus performance measures and targets for 2021;
- 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 best practice; and
- Remuneration for Duncan Magrath on his appointment as Chief Financial Officer.

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 FTSE small cap levels.

Resolutions at the AGM

Shareholders will have an advisory vote on the Annual Report on Remuneration at the Annual General Meeting. I look forward to your support.

Chris Sullivan

Chair, Remuneration Committee

23 April 2020

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The 2017 Annual Report sets out, in full, the Directors' Remuneration Policy, which was proposed and approved at the AGM in April 2018. A summary is included on pages 101 to 103. This 2019 Directors' Remuneration Report sets out how the Directors' Remuneration Policy of the Company has been applied and how the Committee intends to apply the policy in 2020. An advisory shareholder resolution, to approve this report, will be proposed at the 2020 AGM.

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 2019 and 2018, respectively. It should be noted that remuneration is only included from the point the Director was appointed to a director role.

The following table shows the aggregate emoluments in the year ended 31 December 2019:

£'000s	Salary and fees ⁽ⁱ⁾	Benefits ⁽ⁱⁱ⁾	Annual bonus ⁽ⁱⁱⁱ⁾	Long-term incentives ^(iv)	Pension ^(v)	Total
Executive						
Andrew Page	374	14	–	–	–	388
Andrew Denton	322	16	–	–	–	338
Matthew White (from 9th October 2019)	50	2	–	–	3	55
Vivienne Maclachlan (up to 26th April 2019)	310 ^(vi)	2	–	–	29	341
Non-Executive						
Chris Sullivan (from 18th July 2019)	30	–	–	–	–	30
Steve Breach (from 9th August 2019)	45 ^(vii)	–	–	–	–	45
David Stead (from 20th August 2019 to 6th December 2019)	20	–	–	–	–	20
Karen Slatford (to 26th September 2019)	48	–	–	–	–	48
Robin Taylor (to 26th September 2019)	48	–	–	–	–	48
Richard Longdon (to 26th April 2019)	21	–	–	–	–	21

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

£'000s	Salary and fees ⁽ⁱ⁾	Benefits ⁽ⁱⁱ⁾	Annual bonus ⁽ⁱⁱⁱ⁾	Long-term incentives ^(iv)	Pension ^(v)	Total
Executive						
Andrew Page	374	64	–	–	–	439
Andrew Denton	322	16	–	–	–	338
Vivienne Maclachlan	220	8	–	–	22	250
Non-Executive						
Karen Slatford	65	–	–	–	–	65
Robin Taylor	65	–	–	–	–	65
Richard Longdon	65	–	–	–	–	65

- (i) Annual salary and fees – corresponds to amounts receivable during the relevant financial year, either as base salary for executives, or fees for non-executives.
- (ii) Benefits – corresponds to the taxable value of benefits receivable during the relevant financial year and principally include company car (or cash equivalent), life assurance and permanent health insurance, and accommodation in the case of the Executive Chairman during 2018.
- (iii) Annual bonus – corresponds to the amount earned in respect of the relevant financial year. Details of 2019 targets are set out on page 97. The Executive Chairman and the CEO waived any eligibility for a bonus in both 2019 and 2018. The COO was included in a separate Company-wide bonus arrangement before his appointment to the Board and any award under this scheme, prior to his appointment to the Board, has been excluded from the table, above.
- (iv) 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 to Executive Directors in respect of the 2019 and 2018 performance years. As no long-term incentive awards were made, no amount was attributable to share price.
- (v) Pension – corresponds to the amount contributed to defined contribution pension plans. Vivienne Maclachlan was eligible for a pension contribution worth 10% of salary. Matthew White is eligible for a pension contribution of up to 6% of salary on the same basis as the wider UK workforce. Andrew Page and Andrew Denton have opted out of the pension scheme.
- (vi) Included in Salary and fees paid to Vivienne Maclachlan was an additional payment of £220,000 in lieu of her contractual 12 months' notice period, plus pension of £22,000 included within Pension.
- (vii) Steve Breach's fees include £19,578 of additional fees for specific additional advice October to December 2019 on the finance remediation plans. This was a short-term arrangement which is not expected to recur in 2020.

2019 annual bonus

The 2019 annual bonus performance measures were selected to reflect the Company's annual and long-term objectives and its financial and strategic priorities, as appropriate. Performance targets are set to be stretching, taking into account a range of reference points, including the Company's budget and third party analyst forecasts, as well as the Group's strategic priorities.

In respect of the annual bonus, the following measures were approved by the Committee:

- Revenue for the year;
- Adjusted EBIT margin, being operating profit excluding certain non-recurring and non-cash exceptional items as a ratio of revenue;
- Operating 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 Executive Chairman and CEO have waived their entitlement to a bonus for the 2019 performance year. Having stood down from office before the end of the financial year, Vivienne Maclachlan was not eligible for a bonus in respect of the 2019 performance year. Matthew White did not participate in the Executive Director bonus scheme for 2019.

The table below shows the bonus outturn relating to each measure. No bonus pay-out was awarded in respect to the 2019 performance year.

Measure	Threshold	Maximum	2019 Bonus Pay-out
Revenue	95%	105%	nil
Adjusted EBIT margin	90%	110%	nil
Operating free cash flow conversion	80%	120%	nil
Staff retention	80%	100%	nil
Total			nil

Statement of Directors' shareholding and scheme interests (audited information)

As at 31 December 2019:

	Shareholding as a % of salary (target/% achieved) ⁽¹⁾	Shares owned outright at 31 December 2019	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	–	–
Matthew White	151%	276,184	552,368	–
Chris Sullivan	n/a	–	–	–
Steve Breach	n/a	6,009	–	–

No LTIPs were exercised during the year and there were no unexercised vested shares held at 31 December 2019.

As at 31 December 2018:

	Shareholding as a % of salary (target/% achieved) ⁽¹⁾	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	6,163	–	–

(1) Calculated as base salary divided by absolute number of shares held at 31 December by the share price at 31 December 2019 and 29 December 2018 respectively.

The Executive Chairman and Chief Executive Officer have significant direct, or indirect shareholdings, in the Company. The Remuneration Committee has adopted formal shareholding guidelines to encourage Executive Directors to build, or maintain, a shareholding in the Company (excluding shares held conditionally under any incentive arrangements). The required shareholding is 200% of base salary on a gross basis. The Committee is currently developing a post-employment shareholding policy for implementation during 2020.

E

Payments for loss of office (audited information)

There were no payments for loss of office during the year.

Payments to past directors (audited information)

As disclosed at the time of her departure, Vivienne Maclachlan received a payment in lieu of her contractual 12 months' notice of £220,000, plus her contractual pension contributions of £22,000 in a series of payments between May 2019 and August 2019. No other payments were made to her.

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 2019 and up to the date of this report, none of the Executive Directors who held office during the year under review held external appointments for which they received a fee, other than Vivienne Maclachlan who was appointed as a Non-Executive Director of Tungsten Corporation PLC on 11 February 2019.

Fees for the Non-Executive Directors

The fees were agreed on appointment and have remained unchanged since that time. A summary of current fees is shown below:

£'000s	Basic fees	Audit and Risk Chair	Remuneration Chair	Senior Independent Director
Chris Sullivan	-	-	-	65
Steve Breach	55	10	-	-

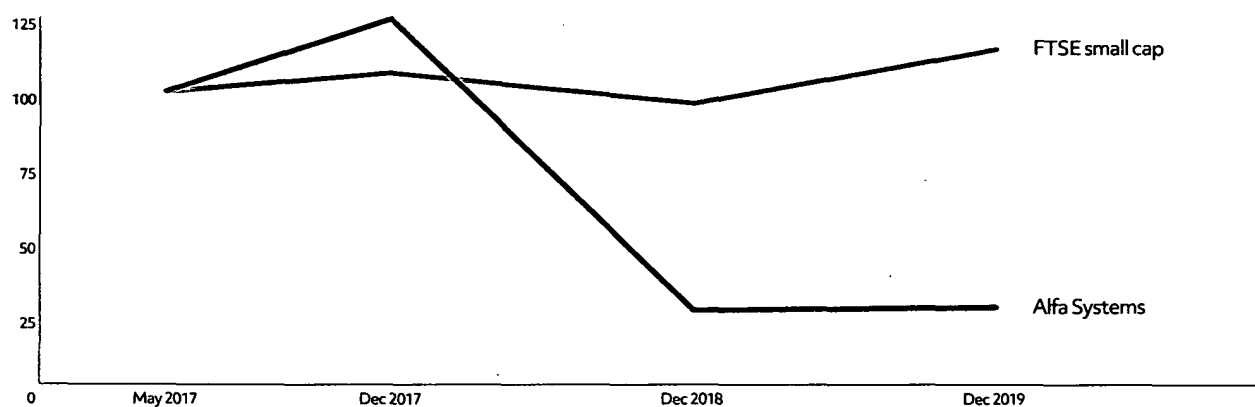
There is no additional fee payable to the Chair of the Nomination Committee.

All the Non-Executive Directors have letters of appointment, with the Company, for an initial three year term, subject to annual re-appointment at the AGM. The appointment letters for the Non-Executive Directors provide that no compensation is payable upon termination. Letters of appointment are available for inspection at the Company's Registered Office. Details of the appointment terms of the Non-Executive Directors are as follows:

	Start of current term	Expiry of initial term
Chris Sullivan	18 July 2019	17 July 2022
Steve Breach	9 August 2019	8 August 2022

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 small cap 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. As Alfa is a constituent member of the FTSE small cap, the Committee considers that it is the appropriate index for comparative purposes. This graph has been calculated in accordance with the Directors' Remuneration Reporting Regulations and shows total shareholder return from the date of listing to 31 December 2019.

Total shareholder return (For the period from 26 May 2017 to 31 December 2019)

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 listing to 2019:

	% change in base salary	% change in bonus earned	% change in benefits
CEO	2019: 0% 2018: 0% 2017: 0%	2019: 0% 2018: 0% 2017: 0%	2019: 0% 2018: (42%) 2017: 87%
Alfa employees	2019: (3%) 2018: 1% 2017: 2%	2019: (13%) 2018: (37%) 2017: (33%)	2019: (42%) 2018: 22% 2017: (11%)

CEO Pay Ratio

Although Alfa had fewer than 250 UK employees in the year under review, the Company has elected to publish the CEO pay ratio because we believe this reporting is a valuable step towards improving corporate remuneration transparency.

The methodology adopted for calculating the ratio was 'Option A' which entailed calculating the total full-time equivalent (FTE) pay and benefits for all UK employees on the December 2019 payroll. Employees were then ranked based on their FTE remuneration from low to high in order to identify those whose remuneration placed them at the 25th, 50th (median) and 75th percentile points. The CEO's single total figure of remuneration (STFR) was then measured against these percentiles, to produce the three pay ratios.

Option A was chosen because it was deemed to be the most statistically accurate method for this reporting purpose. Having reviewed the analysis, the Company believes the median pay ratio to be consistent with the Company's general employee pay, reward and progression policies. The Company carries out bi-annual salary reviews and annual reviews of benefits packages. Salary awards are made with reference to the outputs of annual industry benchmarking exercises. The Company did not omit any components of pay and benefits from the calculations.

Year	Method	25th percentile (lower quartile)	Pay ratio 50th percentile (median)	75th percentile (upper quartile)
2019	A	5.7:1	4.4:1	3.2:1
£'000s		Y25 25th percentile	Y50 50th percentile	Y75 75th percentile
Total remuneration		59.0	76.2	106.3
Salary only		57.1	71.2	95.7

The following table shows the CEO's remuneration for 2019, 2018 and 2017.

Year	CEO single figure of remuneration	Annual bonus pay-out (as a % of maximum opportunity) ⁽¹⁾	LTIP vesting (as a % of maximum opportunity) ⁽²⁾
2019	£338,129	0	0
2018	£337,944	0	0
2017	£349,478	0	0

(1) The CEO waived any eligibility for a bonus in 2019, 2018 and 2017.

(2) No long-term incentive awards were made to Executive Directors in respect of the 2019, 2018 and 2017 performance years.

Relative importance of spend on pay

The following table illustrates Alfa's spend on pay for all employees in the Group in 2018 and 2019.

£'000s	2019	2018	% change
Employee costs (note 5 to the consolidated financial statements)	37,483	38,217	(2%)
Average number of employees (note 5 to the consolidated financial statements)	313	327	(4%)
Revenue (consolidated income statement)	64,480	71,038	(9%)
Adjusted EBIT (see note 2 to the consolidated financial statements)	12,727	21,975	(42%)

E

Implementation of the Remuneration Policy in 2020**2020 Executive Directors' base salary**

The table below shows the salaries for the Executive Directors as at 1 January 2020 in comparison to base salary at 31 December 2018:

£'000s	1 January 2020	31 December 2018	% change
Andrew Page	374	374	0
Andrew Denton	322	322	0
Matthew White	220	-	-

Salaries for Executive Directors are reviewed, each year taking into account the Remuneration Policy approved at the 2018 AGM. No increases to salaries are proposed for 2020.

Pension

Matthew White receives a pension contribution of up to 6% of base salary, on the same terms as the wider UK workforce. Andrew Page and Andrew Denton have opted out of the pension scheme.

2020 Annual bonus and LTIP

For the performance year 2020, the Committee has decided to limit the maximum bonus potential to 100% salary for all Executive Directors. A decision on the maximum potential for 2021 will be taken during the course of 2020.

The following measures have been selected for the 2020 annual bonus performance year:

- Earnings before Interest and Tax (EBIT) (30% of bonus);
- Revenue (30% of bonus);
- Free cash flow conversion (15% of bonus); and
- Personal performance (25% 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 (subject to the minimum EBIT target being achieved), although as described earlier, the final determination is made by the Committee taking all available factors into account. The targets are:

- EBIT: 85% to 120% target;
- Revenue: 95% to 105% target;
- Free cash flow conversion: 80% to 120% target; and
- Personal performance: 0% to 100% target.

The detailed bonus targets for the coming year are considered to be commercially sensitive. However, the Committee will provide an appropriate explanation of the bonus outcomes in the 2020 Directors' Remuneration Report.

The Committee has agreed the following measures for the LTIP, with an equal weighting applied to each measure:

- Relative Total shareholder return (TSR); and
- Earnings per share (EPS).

The comparator group for the TSR is the FTSE small cap, excluding investment trusts. Median performance over the 3-year performance period will result in 25% vesting, with 100% 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. As in previous years, the Executive Chairman and CEO have waived any eligibility to an LTIP award during 2020.

2020 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:

Base fee	£55,000
Additional fee for chairing Audit and Risk Committee or Remuneration Committee (subject to maximum fees £65,000)	£10,000
Fee for the Senior Independent Director (including chairing committees)	£65,000

There is no additional fee for chairing the Nomination Committee. There is no Committee member supplementary fee.

Summary of the Directors' remuneration policy

The Directors' Remuneration Policy was approved at the 2018 AGM on 24 April 2018 and has 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 Company's Annual Report and Accounts 2017, which is available on our website.

Component – Base Salary

Purpose and link to strategy	Provides a set level of remuneration sufficient to attract and retain Executives with the appropriate experience and expertise.
Operation	The Committee takes into account a number of factors when setting and reviewing salaries, including: • scope and responsibility of the role; • any changes to the scope or size of the role; • the skills and experience of the individual; • salary levels for similar roles within appropriate comparators; and • value of the remuneration package as a whole.
Maximum opportunity	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.
Performance measures	n/a

Component – Benefits

Purpose and link to strategy	Provides benefits sufficient to attract and retain Executives with the appropriate experience and expertise.
Operation	Executive Directors are entitled to the following benefits: • life assurance; • income protection insurance; • private medical insurance; and • car allowance. Executive Directors are also eligible to participate in all-employee share schemes on the same basis as other staff.
Maximum opportunity	The Committee recognises the need to maintain suitable flexibility in the benefits provided to attract and retain personnel to deliver the Company's strategy. The maximum payable 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.
Performance measures	n/a

Component – Pensions

Purpose and link to strategy	Provides pension contributions sufficient to attract and retain Executives with the appropriate experience and expertise.
Operation	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.
Maximum opportunity	10% of salary per annum.
Performance measures	n/a

Summary of the Directors' remuneration policy continued

Component – Annual bonus

Purpose and link to strategy	Variable remuneration that rewards the achievement of annual financial, operational and individual objectives linked to the Company's strategy.
Operation	Objectives are set annually to deliver the Company's strategic goals. At the end of the year, the Committee meets to review performance against the agreed objectives and determines pay-out levels. 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.
Maximum opportunity	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.
Performance measures	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 will be assessed against specific personal and strategic objectives. The Committee reserves the right to make an award of a different amount if it believes the calculated bonus outcome is not a fair reflection of Company performance. 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.

Component – Long term incentive plan

Purpose and link to strategy	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.
Operation	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.
Maximum opportunity	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.
Performance measures	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 the performance measures if it believes the calculated 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”)

Purpose and link to strategy	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.
Operation	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.
Maximum opportunity	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.
Performance measures	No CSOP awards to Executive Directors have been made. Details are included only for the purposes of full disclosure.

Component – Share Incentive Plan (“SIP”)

Purpose and link to strategy	An all-employee plan designed to encourage share ownership.
Operation	The Company has established a SIP in which the Executive Directors are eligible to participate as required for HMRC approval.
Maximum opportunity	Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.
Performance measures	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”)

Purpose and link to strategy	An all-employee plan designed to encourage share ownership for US employees
Operation	The Company operates a share purchase plan where US employees are eligible to participate.
Maximum opportunity	Participation in the ESPP is subject to the maximum permitted by the relevant terms.
Performance measures	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 to Executive Directors are subject to Malus and Clawback provisions. The Committee may, at its absolute discretion, determine to reduce the number of shares to which an award or option relates, or cancel the award, 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:

- 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);
- 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;
- If the Executive Director's actions have caused the Group company and/or the participant's business unit reputational damage;
- 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; and
- There have been overpayments to the Executive Director due to material Exceptional write-offs.

Executive Directors' service contracts

The Executive Chairman and CEO entered into service contracts effective from 15 May 2017. The COO entered into a new service contract effective from 9 October 2019. All Executive Directors have rolling contracts terminable by either party on six months' notice in the case of the Executive Chairman and the COO and by either party on 12 months' notice for the CEO. 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. The Executive Chairman and CEO 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 COO will be entitled to receive a payment equal to six months' of his 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 COO 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

Purpose and link to strategy	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.
Operation	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.
Maximum opportunity	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
Performance measures	n/a

Appointment of external advisors

Mercer Kepler, Tapestry Global Compliance LLP and Skyfall Consulting Limited have acted as external advisors to the Committee, during the year, to provide independent support and information as required. None of the advisers has any other connection with the Company or its Executive Directors. Mercer Kepler's fees for 2019 amounted to £nil; Tapestry Global Compliance LLP fees were £21,792 and Skyfall Consulting Limited received fees of £9,420.

Statement of shareholding voting

The Directors' Remuneration Report was approved by shareholders at the 2019 AGM. The Directors' Remuneration Policy was approved at the 2018 AGM. The votes cast were as follows:

£'000s	For	Against	Votes withheld
Directors' Remuneration Report (2019 AGM)	99.99%	0.01%	14,032,868
Directors' Remuneration Policy (2018 AGM)	99.78%	0.22%	16,744,191

For and on behalf of the Board

Chris Sullivan

Chair, Remuneration Committee

23 April 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 102.

Under 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 Company and of the profit or loss of the Company for that period.

In preparing the parent company 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 Financial Reporting Standard 102 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

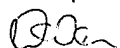
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 23 April 2020 and is signed on its behalf by:



Andrew Denton
Chief Executive Officer

23 April 2020

Statutory information

The Directors of Alfa present their report and the audited financial statements for the year ended 31 December 2019. 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 (DTR) Rule 4.

Additional information which is incorporated by reference into this Directors' report can be located reference the table on the right:

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.

Subsidiaries and branches outside of the UK

The Group has subsidiaries in the United States of America, France, Germany, Australia and New Zealand and a subsidiary of the Company is registered as a branch of an overseas company in South Africa. Further details of these can be found in note 15(b) to the accounts on pages 143 to 144.

Contracts of significance

We have no contracts deemed significant other than the Relationship Agreement between the Company and the Controlling Shareholder, as detailed on page 108.

Research and development

The Group continued to invest in product research and development throughout the year. The Strategic report, specifically the Financial review on pages 49 to 50, sets out the research and product development expensed and £1.1 million was capitalised as internally generated intangible assets during the year ended 31 December 2019, as disclosed in note 4 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 CEO updates. Teams are consulted regularly on a wide range of matters affecting their current and future interests. We have established share ownership schemes for use throughout the Company and intend to use them to broaden share ownership across the Company.

Further information on team engagement, as monitored by our internal employee surveys, is included in the ESG Report on pages 54 to 61. Details of the Group's employee share plans are contained in the Remuneration Report.

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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
Chris Sullivan	18 July 2019	n/a
Steve Breach	9 August 2019	n/a
Andrew Denton	6 April 2017	n/a
Matthew White	9 October 2019	n/a
Richard Longdon	5 May 2017	26 April 2019
Vivienne MacLachlan	4 May 2017	26 April 2019
Karen Slatford	15 May 2017	26 September 2019
David Stead	20 August 2019	6 December 2019
Robin Taylor	5 May 2017	26 September 2019

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 its right to appoint directors are set out in the Directors' report on page 108.

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 investors.alfasystems.com/corporate-governance.

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 page 97. Since the end of the financial year and to 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 Directors' & 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 2019 and 23 April 2020, 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 4 of the Company financial statements.

There have been no movements in the Company's issued share capital since 31 December 2019 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 market abuse 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.

Each of the Executive Directors, and the senior executives (each, a "Restricted Shareholder") at the time of listing agreed, for a period of one year following Admission 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, for most of the Restricted Shareholders, was 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 2019 AGM, the Company was generally and unconditionally authorised by its shareholders to purchase in the market up to 10% of the ordinary shares of the Company (30,000,000 ordinary shares).

As at 31 December 2019, 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 2020 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 are:

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 not represented 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 the Agreement 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 2019 was £10.2 million (FY18: £18.2 million). The results are discussed in greater detail in the Financial review on pages 46 to 53.

No dividends have been paid in or proposed for the financial year ended 31 December 2019.

Significant Shareholdings at 31 December 2019 and 1 April 2020 (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% or more of the issued ordinary share capital of the Company:

Name of shareholder	No. of ordinary shares at 31 December 2019	% of issued share capital	No. of ordinary shares at 1 April 2020	% of issued share capital at 1 April 2020	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	13,814,424	4.60	Direct
Aberforth Partners	13,273,591	4.42	13,322,591	4.44	Direct

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 agreement, 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% 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.

Political donations

The Group made no political donations and incurred no political expenditure during the year (FY18: nil). It remains the Company's policy not to make political donations or to incur political expenditure.

At the 2019 AGM, the Directors were generally and unconditionally authorised by the Company's shareholders to make limited political donations up to £50,000, 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 2019.

Going concern

The Group continues to be 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 as well as the principal risks and uncertainties, including the impact of Covid-19 as set out on pages 40 to 43.

In line with FRC guidance issued on 26 March 2020, additional downside stress testing has been performed for a period of 12 months from the date of approval of the financial statements which demonstrates that, given the existing level of cash held by the Group, even in the most extreme downside conditions considered reasonably possible, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is considerable uncertainty regarding the future impacts of Covid-19, the Directors are satisfied that the Group remains well placed to manage its business risks successfully and therefore they have a reasonable expectation that the Group has 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, which also includes consideration of the impact of Covid-19, is set out in the Strategic report on pages 44 to 45.

Corporate governance statement

The Company's statement on corporate governance can be found in the Governance report on pages 66 and 67 to this report. The Governance report forms part of this Directors' report and is incorporated by cross reference.

Annual General Meeting (AGM)

The venue, date and time of the 2020 AGM, along with the resolutions to be proposed for approval by shareholders will be communicated in due course.

Disclosure of information to the auditor

Each of the Directors of the Company at the date the Directors' report is approved confirms that:

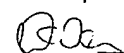
- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that 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 and Risk Committee and in accordance with section 489 of the Companies Act of 2006, a resolution to reappoint it will be put to the 2020 AGM.

Board approval of the Annual Report

The Strategic report, Corporate governance statement and the Governance report were approved by the Board on 23 April 2020 and signed on its behalf by:



Andrew Denton
Chief Executive Officer

23 April 2020

Report on the audit of the financial statements

1. 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 2019 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 19 to the consolidated financial statements; and
- the notes 1 to 12 to the company 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).

2. 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. The non-audit services provided to the group and parent company for the year are disclosed in note 18 to the financial statements. 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • revenue recognition; • capitalisation of development costs; and • going concern – Covid-19. Within this report, key audit matters are identified as follows: ⚠ Newly identified ⬆ Increased level of risk ↔ Similar level of risk ⬇ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £0.65 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	We have identified a new key audit matter in relation to going concern and the impact of Covid-19 on the group. In all other respects our approach remained consistent with the previous year.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. 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 the Covid-19 pandemic and 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. 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 36-43 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 45 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 44 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. 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.

5.1. Revenue recognition

Key audit matter description

Total group revenue recognised for the year ended 31 December 2019 was £64.5 million (2018: £71.0 million).

We have focused our work on the potential inappropriate recognition of revenue where there is:

- risk of incorrect identification of the different performance obligations;
- risk that the transaction price is incorrectly allocated to the different performance obligations; and
- recognition of out of period items, contract modifications and the timing of 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. There are also judgements in respect of the timing of recognition of contract modifications or other out of period items.

We consider the key estimates to be in respect of the standalone selling price of a customised licence in the material right calculations and the allocation of time spent between development and implementation days.

Further details are included in the revenue note 3.1 and critical accounting estimates and judgements note 3.2 to the consolidated financial statements and the Audit and Risk Committee Report on page 89.

Independent auditor's report to the members of Alfa Financial Software Holdings PLC continued

How the scope of our audit responded to the key audit matter	In response to this key audit matter, we performed the following procedures: • Obtained an understanding of controls regarding revenue recognition; • Reviewed trends in monthly revenue recognised by customer to identify any large deviations from expectations; • Performed a customer circularisation during the year and at the year end to obtain confirmation over completeness of the contracts in place and the completeness of any side agreements; • Reviewed a sample of new and key ongoing contracts to determine whether revenue has been appropriately recognised in terms of allocating transaction price to different performance obligations; • Held discussions with the project managers to check for completeness of contracts and other contractual arrangements outside the usual terms and/or any contract modifications; • Reviewed minutes of meetings and Project Finance Review Reports to assess whether the accounting treatment is consistent with the commercial substance of the agreements and assessed revenue contracts for completeness; • Made enquiries of project managers by challenging their estimates of the projected costs to complete through assessing historical accuracy, including the allocation of effort between 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; • Tested a sample of accrued and deferred income amounts for valuation and accuracy respectively; and • Reviewed the disclosures in the financial statements to evaluate whether: 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 are disclosed along with appropriate sensitivity analysis.
Key observations	We identified immaterial uncorrected differences in judgement included within management's allocation of the transaction price to different performance obligations, the allocation of time between implementation and development activity, and on the timing of recognition of items relating to post go-live contract modifications. From the procedures performed, we are satisfied that the amounts recorded and the associated disclosures are appropriate.

5.2. Capitalisation of development costs

Key audit matter description	The group expends time in research and product development work in relation to the enhancement of its product. In total internally generated software costs of £1.1m (2018: £0.4m) were capitalised during 2019. 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. 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. 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. Further details are included in the critical accounting estimates and judgements note 10(c) and operating profit note 4.1 to the consolidated financial statements and the Audit and Risk Committee Report on page 90.
How the scope of our audit responded to the key audit matter	In response to this key audit matter, we performed the following procedures: • Obtained an understanding of the controls surrounding the classification of development costs and the assessment of these costs against IAS 38; • 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; • 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; • Reviewed minutes of the company's Investment Committee during the year; • Performed tests of details on the allocation and valuation of costs capitalised by testing both the associated third party and employee salary costs; • Performed procedures to assess whether the timesheet data inputs included are complete and accurate; • Performed procedures over the allocation of central Product Engineering team time in order to assess whether the time has been appropriately allocated to customer projects; and • Reviewed both the numerical and narrative disclosures in the financial statements to assess whether there is a fair and balanced presentation of the development costs incurred which is consistent with the accounting judgements applied.
Key observations	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 amounts recorded and the associated disclosures are appropriate.

5.3. Going concern – Covid-19 ⓘ

Key audit matter description	Covid-19 presents considerable uncertainty and may have a significant impact on the group. There has been focus and time spent by both management and the audit team with judgement required to assess the impact on going concern, considering the key assumptions within the group's forecasts, the level of uncertainty inherent in the group's markets and operations, the group's cash reserves of £58.8m at 31 December 2019 (2018: £44.9m) and the nature and extent of any mitigating actions which could be taken by management if required. Management considered business resilience and continuity plans, financial modelling and stress testing of liquidity and financial resources of the group. The downside scenarios considered non-conversion of sales pipeline, the termination of a significant implementation project and the majority of maintenance customers, and the cessation of all ongoing development and services ("ODS") work from June 2020. Further details are included in the Strategic report on page 45, the Audit and Risk Committee report on page 91 and note 1(a) to the financial statements.
How the scope of our audit responded to the key audit matter	In response to this key audit matter, we performed the following procedures: • Obtained an understanding of management's process for assessing the impact on the group posed by Covid-19; • Evaluated the assessment in the context of the uncertainty and risks to the business including stress test modelling and the group's liquidity; • Performed additional stress testing of management's forecasts including reverse-stress testing; • Considered whether the judgement taken by management that Covid-19 is a non-adjusting subsequent event is appropriate; and • Assessed the disclosures in the financial statements against applicable accounting standards and evaluated the consistency of the disclosures with our knowledge of the group.
Key observations	From the procedures performed we concur with management, based on the evidence available and the cash reserves held by the group, that it is reasonable to adopt the going concern basis. We consider the disclosures presented in the financial statements to be appropriate.

6. Our application of materiality

6.1. 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
Materiality	2019: £0.65 million 2018: £1.10 million	2019: £0.64 million 2018: £1.08 million
Basis for determining materiality	2019: Circa 5% of profit before taxation. This is the same basis as in the prior period.	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.
Rationale for the benchmark applied	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 to base materiality for users of the financial statements.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 2019 audit (2018: 60%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and whether we were able to rely on controls (refer to Audit and Risk Committee report on pages 92 – 93);
- the level of turnover of management and key accounting personnel (refer to the Business review on page 5 and the Audit and Risk Committee report on page 85); and
- the history of misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.03m (2018: £0.06m), 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.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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 (2018: seven) 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 (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 and our scoping remained consistent with the prior year.

The total revenue for the components audited together with those on which specific audit procedures were performed represented 100% (2018: 100%) of the group's revenue. The component materiality ranged from 37% to 51% of group materiality totalling £0.24 million to £0.33 million (2018: £0.44 million to £0.99 million).

7.2. Our consideration of the control environment

We obtained an understanding of general IT controls over the group's core IT systems. We did not plan to rely on IT controls during our audit due to the timing of when new modules of the group's IT systems were implemented during the year. We adopted a fully substantive audit approach due to the control weaknesses outlined on pages 92 – 93 of the Audit and Risk Committee Report.

8. 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.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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 and non-compliance with laws and regulations 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. This description forms part of our auditor's report.

11. 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.

11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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 of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and capitalisation of development costs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation; and tax legislation.

11.2. 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 related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 and 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 internal 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.

12. 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 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.

13. Matters on which we are required to report by exception

13.1. 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.

13.2. 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.

14. Other matters

14.1. 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 three years, covering the year ending 31 December 2017 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. 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

23 April 2020



Consolidated statement of profit or loss and comprehensive income
for the years ended 31 December

£'000s	Note	2019	2018
Continuing operations			
Revenue	2/3	64,480	71,038
Implementation and support expenses	4/5	(18,103)	(18,924)
Research and product development expenses	4/5	(15,189)	(16,341)
Sales, general and administrative expenses	4/5/6	(18,056)	(13,457)
Other operating income		577	66
Operating profit		13,709	22,382
Finance income	7	143	74
Finance expense	7/19(d)	(852)	-
Profit before taxation		13,000	22,456
Taxation	8	(2,818)	(4,306)
Profit for the financial year		10,182	18,150
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translation of foreign operations	11(b)	(350)	376
Other comprehensive (expense)/income, net of tax		(350)	376
Total comprehensive income for the period		9,832	18,526
Earnings per share (in pence) for profit attributable to the ordinary equity holders of the company			
Basic	17	3.5	6.3
Diluted	17	3.4	6.1
Weighted average no. of shares – basic	17	290,554,694	285,962,898
Weighted average no. of shares – diluted	17	298,812,270	300,000,000

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

At, 1 January 2019, the Company adopted IFRS 16 'Leases'. 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'. The accounting standard has been applied retrospectively, in line with the guidelines of the standard, and consequently the comparatives have not been restated but the impact of the adoption of the new standard has been recorded directly to the opening equity balance of the 2019 financial year. See note 19 for the details on the first time application of this standard.

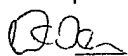
Consolidated statement of financial position

As at 31 December

£'000s	Note	2019	2018
Assets			
Non-current assets			
Goodwill	10(b)	24,737	24,737
Other intangible assets	10(c)	2,255	1,203
Deferred tax assets	10(d)	596	8
Property, plant and equipment	10(a)	1,166	1,455
Right-of-use lease assets	19(d)	16,402	-
Total non-current assets		45,156	27,403
Current assets			
Trade and other receivables	9(a)	4,050	4,651
Accrued income	9(b)/16	7,214	9,162
Prepayments	9(b)	1,613	1,452
Other receivables	9(b)	1,020	947
Cash and cash equivalents	9(c)	58,839	44,922
Total current assets		72,736	61,134
Total assets		117,892	88,537
Liabilities and equity			
Current liabilities			
Trade and other payables	9(d)	5,884	7,588
Corporation tax	9(d)	1,355	2,448
Lease liabilities	19(d)	1,672	-
Contract liabilities – software implementation	3(e)/16	4,581	1,662
Contract liabilities – deferred maintenance	3(e)	4,060	3,772
Total current liabilities		17,552	15,470
Non-current liabilities			
Lease liabilities	19(d)	17,330	-
Provisions for other liabilities	9(d)	667	152
Total non-current liabilities		17,997	152
Total liabilities		35,549	15,622
Capital and reserves			
Ordinary shares	11(a)	300	300
Translation reserve	11(b)	26	376
Retained earnings		82,017	72,239
Total equity		82,343	72,915
Total liabilities and equity		117,892	88,537

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 117 to 150 were approved and authorised for issue by the Board of Directors on 23 April 2020 and signed on its behalf.



Andrew Denton
Chief Executive Officer



Matthew White
Chief Operating Officer

Alfa Financial Software Holdings PLC – Registered number 10713517

Consolidated statement of changes in equity

£'000s	Note	Share capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2018		300	–	53,821	54,121
Profit for the financial year		–	–	18,150	18,150
Other comprehensive income		–	376	–	376
Total comprehensive income for the year		–	376	18,150	18,526
Employee share schemes – value of employee services	6	–	–	268	268
Balance as at 31 December 2018		300	376	72,239	72,915
Effect of initial application of IFRS 16	19(d)	–	–	(1,459)	(1,459)
Deferred tax impact of initial application of IFRS 16		–	–	419	419
Adjusted balance at 1 January 2019		300	376	71,199	71,875
Profit for the financial year		–	–	10,182	10,182
Other comprehensive expense		–	(350)	–	(350)
Total comprehensive (expense)/income for the year		–	(350)	10,182	9,832
Employee share schemes – value of employee services	6	–	–	636	636
Balance as at 31 December 2019		300	26	82,017	82,343

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	2019	2018
Operating profit		13,709	22,382
Adjustments:			
Depreciation	10(a)/19(d)	2,388	623
Amortisation	10(c)	428	253
Employee share scheme charge	6	724	305
Loss on disposal of property, plant and equipment		-	2
Unrealised loss on derivative financial instruments	2(a)/9(e)	-	119
Movement in provisions	9(d)	515	65
Movement in contract liabilities	9(d)	3,110	(1,379)
Movement in working capital:			
Movement in trade and other receivables	9(a)	2,532	(1,237)
Movement in trade and other payables (excluding derivative financial instruments and contract liabilities)	9(d)	(858)	(179)
Cash generated from operations		22,548	20,954
Interest element on lease payments	7/19(d)	(852)	-
Settlement of derivative financial instruments and margin calls		-	(108)
Income taxes paid	8	(4,074)	(5,846)
Net cash generated from operating activities		17,622	15,000
Cash flows from investing activities			
Payments for property, plant and equipment	10(a)	(376)	(622)
Payments for software intangible assets	10(c)	(565)	(609)
Payments for software development costs	10(c)	(1,135)	(407)
Interest received	7	143	74
Net cash (used in)/generated by investing activities		(1,933)	(1,564)
Cash flows from financing activities			
Principal element on lease payments	19(d)	(1,610)	-
Cash used in financing activities		(1,610)	-
Net increase in cash		14,079	13,436
Cash and cash equivalents at the beginning of the year	9(c)	44,922	31,267
Effect of exchange rate changes		(162)	219
Cash and cash equivalents at the end of the year	9(c)	58,839	44,922

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. 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 are not disclosed in the other notes below. 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 (Alfa) 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 number is 10713517.

These financial statements were authorised for issue by the Directors on 23 April 2020. All press releases, financial reports and other information are available on our website in the Investor Relations section at 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 Australasia.

1(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 ("IFRIC") as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS.

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 financial statements are prepared on the going concern basis. The Group continues to be cash-generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. Within the ordinary course of business, 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 going concern assessment also takes into account the principal risks and the other matters discussed in connection with the viability statement, which include the impact of Covid-19. 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.

In line with FRC guidance issued on 26 March 2020, additional downside stress testing has been performed which demonstrates that, even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is a great deal of uncertainty surrounding the future impacts of Covid-19, the directors consider 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

In the current year, the Group has applied a new International Financial Reporting Standards and a new International Financial Reporting Interpretations issued by the International Accounting Standards Board that are effective for an annual period that begins on or after 1 January 2019, being IFRS 16 'Leases' and IFRIC '23 Uncertainty over Income Tax Treatments'.

IFRS 16 Leases

In the current year, Alfa updated its accounting policies as a result of adopting IFRS 16 'Leases'. 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'. See note 19 for the details on the first time application.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The Group has determined its accounting tax position to be consistent with the tax treatment used and planned to be used in its income tax filings without any material impact on the current or prior period recognition of tax charges or any related accounts.

1. Summary of significant accounting policies continued

New standards, amendments and interpretations not yet adopted

There are no new 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.

1(b) Principles of consolidation

The accounting policy and list of subsidiaries consolidated are contained in note 15(b).

1(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as disclosed in note 2.

1(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 1.2271 in 2019 (2018: 1.3355). The closing rate for the US dollar used was 1.3186 in 2019 (2018: 1.2736).
- (iv) **Group companies** – the results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
 - 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.

1(e) Revenue recognition

The accounting policies for the Group's revenue from contracts with customers are explained in note 3.

1(f) Income tax

The accounting policies for income tax and deferred tax are explained in note 8 and 10(d).

1(g) Leases

Due to the adoption of IFRS 16 in the current year, the accounting policy for operating leases in 2019 is explained in note 19. Prior year accounting policy for operating lease is disclosed in note 14 (b).

1(h) Impairment of assets

The accounting policy for impairment of long-life 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.

1(i) Cash and cash equivalents

The accounting policy for cash and cash equivalents is explained in note 9(c).

1(j) Trade receivables

The accounting policy for trade receivables is explained in note 9(a).

1(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).

1(l) Derivative financial instruments

The accounting policy for derivative financial instruments is explained in note 9(e). Hedge accounting has not been applied.

1(m) Property, plant and equipment

The accounting policy for property, plant and equipment is explained in note 10(a).

1(n) Goodwill and other intangible assets

The accounting policies for goodwill and other intangibles, including the amortisation methods and periods, are explained in note 10(b) and 10(c) respectively.

Research and development which does not meet the criteria set out in note 10(c) is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

1(o) Trade and other payables

The accounting policy for trade and other payables is explained in note 9(d).

1(p) Provisions

The accounting policy for provisions is explained in note 9(d).

1(q) Employee benefits

Short term obligations – See accounting policy in note 5.

Long-term benefits – See accounting policy in note 5.

Pension obligations – See accounting policy in note 5.

Employee share scheme expense – See accounting policy in note 6.

1(r) Equity

The accounting policies for ordinary shares and other reserves are explained in note 11.

1(s) Earnings per share

The accounting policies for basic, diluted and adjusted earnings per share are explained in note 17.

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 being Software implementation, Ongoing development and services ("ODS") and Maintenance.

(i) **Software implementation projects** – An implementation process contains three types of billing streams, being the recognition of a licence, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from a few months to several years depending on the complexity of the implementation and the size of customer.

The licence element is generally invoiced and collected at the beginning of the project and the licence 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.

(ii) **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.

(iii) **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 estimates in relation to revenue recognition.

2. Segments and principal activities continued

2.2 Adjusted EBIT: The CODM analyses the financial performance of the business on this adjusted profit measure. Adjusted EBIT is not a measure defined by IFRS. The most directly comparable IFRS measure to Adjusted EBIT is operating profit for the relevant period.

Adjusted EBIT is defined as profit from continuing operations before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by adding back costs which management believes are reflective of the underlying cost base and overall trading operations.

Previously management defined Adjusted EBIT as profit from continuing operations before income taxes, finance income, pre-IPO share-based compensation and IPO-related expenses, with the Adjusted EBIT margin calculated as Adjusted EBIT as a proportion of revenue. In 2019, management updated this definition, because IPO share-based compensation and IPO-related expenses were only relevant to 2017, the year in which the Company undertook its IPO.

Management uses Adjusted EBIT 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.

2(a) Revenue by type

The Group assesses revenue by type of project, being Software implementation, ODS and Maintenance, as summarised below:

£'000s	2019	2018
Software implementation	26,128	30,391
ODS	23,460	23,920
Maintenance	14,892	16,846
Operating revenue	64,480	71,157
(Loss) on derivative financial instruments	-	(119)
Total revenue	64,480	71,038

2(b) EBIT and Adjusted EBIT

The following tables reconcile profit for the period attributable to equity holders to EBIT and Adjusted EBIT for the periods presented:

£'000s	2019	2018
Profit for the year	10,182	18,150
Adjusted for:		
Taxation	2,818	4,306
Finance income	(143)	(74)
Finance expense	852	-
EBIT	13,709	22,382
Adjusted for:		
Capitalised development costs ¹	(1,135)	(407)
Amortisation of capitalised development costs	153	-
Adjusted EBIT	12,727	21,975

¹ Capitalised salary costs and third party partner costs relating to the capitalisation of internally generated assets in both 2018 and 2019.

2(c) Non-current assets geographical information

Non-current assets (other than financial instruments and deferred tax assets) attributable to each geographical market:

£'000s	2019	2018
UK	44,276	27,096
USA	220	269
Rest of World	64	30
Total non-current assets (other than financial instruments and deferred tax assets)	44,560	27,395

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 licences, 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 that the following separate performance obligations exist within its revenue contracts. Any one contract may include a single performance obligation or a combination of those listed below:

- (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 licence 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 because 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 licence 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 over which the services are delivered.
- (vi) **Subscription amounts** – Certain of the Group's implementation and service contracts include a subscription payment mechanism. This represents a monthly fee charged to the customer covering the following performance obligations: the provision of monthly hosting services; the monthly periodic right to use Alfa Systems and; the provision of monthly maintenance services (when this becomes applicable to the customer). The monthly payments are recognised as revenue in the period to which they relate. This reflects the underlying performance obligations of the Group and termination rights of the customer.

3. Revenue from contracts with customers continued

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 licence, implementation and development revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. In addition, the Group is also required to make an assessment as to whether each contract contains an expectation to deliver multiple separate instances of the customised licence which may form separate groups of distinct performance obligations. In doing the above, 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 judgement is required in determining which efforts relate to the implementation process and which efforts could be determined to be development 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 constitutes core implementation work.

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 the implementation day rate decreased by 5%, this would result in a cumulative increase to revenue of £0.8 million in 2019.

Other 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 each project and on an ongoing basis including at each consolidated statement of financial position date. 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 2019, if the Group's estimates of development days to complete increased by 20% in relation to ongoing software implementation projects, this would result in development services revenue decreasing by £0.2 million in 2019.

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. There are no unrealised gains or losses on derivative financial instruments recognised in the year ended 31 December 2019 (2018: £0.1 million of unrealised losses).

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	2019	2018
Customer A	20%	21%
Customer B	13%	10%
Customer C	12%	1%
Customer D	9%	13%

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:

2019 – £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	17,926	–	17,926
At a point in time – fixed price	–	5,534	–	5,534
Over time – time and materials	26,033	–	–	26,033
Over time – fixed price	95	–	14,892	14,987
Total revenue	26,128	23,460	14,892	64,480

2018 – £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	21,459	–	21,459
At a point in time – fixed price	–	2,461	–	2,461
Over time – time and materials	30,391	–	–	30,391
Over time – fixed price	–	–	16,846	16,846
Total revenue²	30,391	23,920	16,846	71,157

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 licence is sold or the service is as follows:

£'000s	2019	2018
UK	18,618	22,847
USA	28,087	33,124
Rest of Europe	13,016	12,391
Rest of World	4,759	2,795
Total revenue²	64,480	71,157

3(d) Revenue by currency – Revenue by contractual currency is as follows:

£'000s	2019	2018
GBP	21,644	23,608
USD	29,398	36,532
Euro	9,429	5,830
Other	4,009	5,187
Total revenue²	64,480	71,157

² Revenue from customers is presented before 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.

3(e) Assets and liabilities from contracts with customers

£'000s	2019	2018
Contract liabilities – deferred licence	4,581	1,662
Contract liabilities – deferred maintenance	4,060	3,772
	8,641	5,434

4. Operating profit

Operating profit is calculated after items such as personnel costs (including training and recruitment), the cost of software not capitalised, research and development costs and other infrastructure expenses.

Implementation and support 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 customer where it is linked to specific customer projects, such as initial software implementations or customisation of the software to the customer's requirements. 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), where capitalised development costs are 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.'

4. Operating profit continued

The following items have been included in arriving at operating profit:

£'000s	2019	2018
Personnel costs ³	32,586	34,795
Training and recruitment	1,027	516
Other personnel related expenses	3,234	2,639
Advertising, sponsorship and marketing expenses	566	822
Depreciation and amortisation (note 10(a), 10(c), 19(d))	2,816	876
Property costs	1,449	2,750
Travel costs ³	2,100	2,254
IT expenses	1,586	1,498
Professional advisor costs ³	3,589	1,844
Insurance	232	216
Foreign currency differences	269	(523)
Employee share schemes (note 6)	636	268
Other	1,258	767

A further split by nature is set out below:

£'000s	2019	2018
Personnel costs ³	14,003	14,100
Travel costs ³	2,100	2,254
IT expenses	1,468	1,213
Overhead allocation	532	1,357
Implementation and support expenses	18,103	18,924
Personnel costs	14,558	14,509
Overhead allocation	631	1,832
Research and product development expenses	15,189	16,341
Personnel costs ³	8,286	8,825
Advertising, sponsorship and marketing expenses	566	822
Professional advisor costs ³	3,589	2,128
Depreciation (note 10(a))	2,388	623
Amortisation (note 10(d))	428	253
Foreign currency differences	269	(523)
Employee share schemes (note 6)	636	268
Overhead allocation	1,894	1,061
Sales, general and administrative expenses	18,056	13,457

3 Following a detailed review during 2019 of the nature of expenses, management made changes to the groupings of the line items disclosed under operating expense. This was done in order to better reflect the nature of the expenses. In order to keep comparatives in line with current year disclosure, the 2018 figures have been amended as follows: £1.6 million 'Travel cost' was reallocated to 'Personnel expenses' and (£0.2) million relating to capitalised salary costs was reallocated from 'Professional advisor costs' to 'Personnel costs'. Total expenses have not changed.

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 Group 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	2019	2018
Wages, salaries and short-term benefits ⁴	27,687	29,681
Training and recruitment	1,027	516
Social security	4,013	4,322
Post-employment benefits	2,575	2,094
Other employee expenses	1,545	1,336
Employee share schemes	636	268
Total personnel costs	37,483	38,217

4 Following a detailed review during 2019 of the nature of expenses, management made changes to the groupings of the line items disclosed under operating expense. This was done in order to better reflect the nature of the expenses. In order to keep comparatives in line with current year disclosure, the 2018 figures have been amended as follows: £1.6 million 'Travel cost' was reallocated to 'Personnel expenses' and (£0.2) million relating to capitalised salary costs was reallocated from 'Professional advisor costs' to 'Personnel costs'. Total expenses have not changed.

Average monthly number of people employed (including Directors)	2019	2018
UK	236	235
US	61	72
RoW	16	20
Total average monthly number of people employed	313	327

Average monthly number of people employed (including Directors)	2019	2018
Implementation and support	108	110
Research and product development	134	152
Sales, general and administrative	71	65
Total average monthly number of people employed	313	327

6. Employee share schemes

Employee share schemes are schemes in which the Group receives 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 awards granted is measured using an options valuation model where required, taking into account the terms and conditions upon which the awards were granted and is charged to the consolidated statement of profit or loss and comprehensive income 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 2014/2015 pre-IPO plan, and the Company LTIP plan, under which LTIPs were granted in October 2018 and November 2019.

£'000s	2019	2018
Employee share schemes – value of services	636	268
Expense in relation to fair value of social security liability on employee share schemes	88	37
Total cost of employee share schemes	724	305

	Year of grant	Vesting date	2019 Number of shares	2018 Number of shares
Company LTIP plan	2019	1 November 2022	1,205,036	–
Company LTIP plan	2018	1 June 2021	1,474,225	1,733,375
2014/2015 pre-IPO plan	2014/2015	4 annual tranches from 1 June 2018	3,803,689	11,627,878

Number of shares	2019 LTIP awards	2018 LTIP awards		2014/2015 pre-IPO plan	
	2019	2019	2018	2019	2018
Issued and outstanding at the beginning of the year	–	1,733,375	–	11,627,878	16,744,191
Granted during the year	1,205,036	–	1,745,250	–	–
Vested during the year	–	–	–	(4,206,093)	(4,867,716)
Forfeited during the year	–	(259,150)	(11,875)	(3,618,096)	(248,597)
Issued and outstanding at the end of the year	1,205,036	1,474,225	1,733,375	3,803,689	11,627,878

6. Employee share schemes continued

2019 LTIP awards – Conditional awards over ordinary shares in Alfa were granted, on 1 November 2019, to selected employees in accordance with the Company's Long-Term Incentive Plan approved by shareholders at the Annual General Meeting on 24 April 2018. Shares in the Company will be 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 2019 LTIP awards – The 2019 LTIP awards have been valued using the grant date share price as a proxy for fair value, adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the LTIP scheme, other than awardees must be employed by the Group at the time of vesting, and as such no performance conditions are included in the fair value calculations. The grant date share price used, which was £0.834, was calculated as the average market price in the five working days before the grant of these conditional awards. Assumptions used in calculating the fair value include: no dividends are expected to be paid on the shares over the three-year vesting period; and the expected attrition rate of those eligible employees over the remainder of the vesting period is estimated to be 16.32%.

2018 LTIP awards – Conditional awards over ordinary shares in Alfa were granted on 31 May 2018 to selected employees in accordance with the Company's Long-Term Incentive Plan approved by shareholders at the Annual General Meeting on 24 April 2018. Shares in the Company will be 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 awards – The 2018 LTIP awards have been valued using the grant date share price as a proxy for fair value, adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the LTIP scheme, other than awardees must be employed by the Group at the time of vesting, and as such no performance conditions are included in the fair value calculations. The market price of the shares at the award date, which was £1.43, is the weighted average fair value of these conditional awards at the measurement date. Assumptions used in calculating the fair value include: no dividends are expected to be paid on the shares over the three-year vesting period; and the expected attrition rate of those eligible employees over the vesting period is estimated to be 15.38%.

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 was recognised in full in the year ended 31 December 2017.

7. Finance income and expense

Finance income is recognised on short term bank deposits as earned.

Finance expense is recognised on lease liabilities see note 19 for detail.

£'000s	2019	2018
Finance income		
Interest income on cash or short-term bank deposits	143	74

£'000s	2019	2018
Finance expense		
Interest on lease liabilities	(852)	–

8. Income tax expense

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. 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 and its subsidiaries 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 profits 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 for the year

£'000s	2019	2018
Current tax		
Current tax on profit for the year	2,159	3,800
Adjustment in respect of prior years	(23)	(73)
Foreign tax on profit of subsidiaries for the current year	851	605
Current tax	2,987	4,332
Deferred tax		
Origination and reversal of temporary differences	(189)	(29)
Adjustment in respect of prior years	-	3
Effect of changes in tax rates	20	-
Deferred tax	(169)	(26)
Total tax charge in the year	2,818	4,306

The effective tax rate for the year is higher (2018: higher) than the standard rate of corporation tax in the UK. The effective tax rate for the year ended 31 December 2019 was 21.7% (2018: 19.2%). The differences are explained below:

Analysis of charge for the year

£'000s	2019	2018
Profit on ordinary activities before taxation	13,000	22,456
Profit on ordinary activities at the standard rate of corporation tax	2,470	4,267
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	274	84
Expenses not deductible for tax purposes	260	51
Income not taxable for tax purposes	(1)	(26)
Share-based payments	(152)	-
Adjustment in respect of prior years	(23)	(70)
Impact of tax rate changes	20	-
Other	(30)	-
Total tax charge for the year	2,818	4,306

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 liabilities (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	2019	2018
Financial assets at amortised cost			
Trade receivables	9(a)	4,050	4,651
Other financial assets at amortised cost	9(b)	9,847	11,561
Cash and cash equivalents	9(c)	58,839	44,922
Total financial assets		72,736	61,134
Financial liabilities at amortised cost			
Trade and other payables	9(d)	5,884	7,588
Contract liabilities	16	8,641	5,434
Total financial liabilities		14,525	13,022

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

Recognition and derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost;
- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both:

- The entity's business model for managing the financial asset;
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables (note 9 (a)) and cash and cash equivalents (note 9 (c)) fall into this category of financial instruments.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

The category also contains equity investments. The Group accounts for investments at FVTPL and did not make the irrevocable election to account for investments in subsidiaries and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at fair value through other comprehensive income (FVOCI)

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- They are held under a business model whose objective it is 'hold to collect' the associated cash flows and sell; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

Impairment of financial assets

Under IFRS 9 the requirements are to use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1');
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'); and
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

During the current period result of the above was immaterial and no impairment recognised.

9.3 Financial liabilities – The Group's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

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; and
- 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 licences sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days of invoice date 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 Group considers information developed internally or obtained from external sources that indicates that a debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group) as an indication that a financial asset is not recoverable.

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 consolidated statement of profit or loss and comprehensive income within other expenses and subsequent recoveries are credited to 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	2019	2018
Trade receivables	4,050	4,651
Provision for impairment	–	–
Trade receivables – net	4,050	4,651

Ageing of trade receivables

Ageing of net trade receivables £'000s	2019	2018
Less than 30 days	3,641	3,976
Past due 31-90 days	152	643
Past due 91+ days	257	32
Trade receivables – net	4,050	4,651

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	2019	2018
GBP	1,319	1,109
USD	2,073	2,993
Other	658	549
Trade receivables – net	4,050	4,651

Trade receivables due from significant customers – Customers with revenue accounting for more than 10% of total revenue have outstanding trade receivables as follows:

£'000s	2019	2018
Customer A	737	2,228
Customer B	353	542
Customer C	–	–
Customer D	–	–

As at issuance of these financial statements, all 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	2019	2018
Accrued income	7,214	9,162
Prepayments	1,613	1,452
Other receivables	1,020	947
Total other receivables held at amortised cost	9,847	11,561

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 licence amounts.

Accrued income decreased by £1.9 million. The current year balance represents unbilled work in progress in relation to our ODS customers and £3.5m of certain non-recurring revenue items where there is contractual agreement to invoice in 2020. As at 31 March 2020 68% of the accrued income balance had been invoiced and 66% had been received.

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	2019	2018
Cash at bank and in hand	58,839	44,922
Cash and cash equivalents	58,839	44,922

Currency of cash and cash equivalents

£'000s	2019	2018
GBP	48,222	20,882
USD	5,730	16,877
SEK	82	206
AUD	2,335	1,813
Euro	2,105	4,751
Other	365	393
Cash and cash equivalents	58,839	44,922

9. Financial assets and liabilities continued

9(d) Current and non-current liabilities

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. As the total carrying amount is due within the next 12 months from the consolidated statement of financial position 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	2019	2018
Trade payables	5,884	7,588
Corporation tax	1,355	2,448
Contract liabilities – software implementation	4,581	1,662
Contract liabilities – deferred maintenance	4,060	3,772
Lease liabilities (note 19(d))	19,002	–
Provisions for other liabilities	667	152
Total current and non-current liabilities	35,549	15,622
Less non-current portion	(17,997)	(152)
Total current liabilities	17,552	15,470

See note 8 for further information on corporation tax liabilities.

See note 3 and 16 for further information on contract liabilities.

£'000s	Provision for other liabilities
At 1 January 2018	87
Provided in the period	65
At 31 December 2018	152
Provided in the period	515
At 31 December 2019	667

9(e) Derivative financial instruments

9.10 Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured 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 outstanding at 31 December 2019 (2018: nil). 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 tax balances (note 10(d)).
- Accounting policies; and
- Information about determining the fair value of the assets and liabilities, including judgements and estimation of 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:	2 – 5 years
Motor vehicles:	10 years

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 consolidated statement of profit or loss and comprehensive income as incurred. Any gains or losses on disposals are recognised within 'Sales, general and administrative expenses' in the consolidated statement of profit or loss and comprehensive income unless otherwise specified.

10.2 Impairment of finite life non-financial assets – Finite life 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
Cost				
At 1 January 2018	1,041	2,511	40	3,592
Additions	95	527	–	622
Disposals	(1)	(254)	–	(255)
Foreign exchange	12	75	–	87
At 31 December 2018	1,147	2,859	40	4,046
Depreciation				
At 1 January 2018	389	1,709	31	2,129
Charge for the year	121	494	8	623
Disposals	(1)	(252)	–	(253)
Foreign exchange	13	79	–	92
At 31 December 2018	522	2,030	39	2,591
Net book value				
At 31 December 2018	625	829	1	1,455
Cost				
At 1 January 2019	1,147	2,859	40	4,046
Additions	4	372	–	376
Foreign exchange	67	(54)	–	13
At 31 December 2019	1,218	3,177	40	4,435
Depreciation				
At 1 January 2019	522	2,030	39	2,591
Charge for the year	107	565	1	673
Foreign exchange	25	(20)	–	5
At 31 December 2019	654	2,575	40	3,269
Net book value				
At 31 December 2019	564	602	–	1,166

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 quarterly. Minimum lease payments receivable on these sub-leases of property are as follows:

£'000s	2019	2018
Within one year	427	427
Later than one year but not later than 5 years	473	900
Later than 5 years	-	-
Total sub-lease payments receivable	900	1,327

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	2019	2018
Cost		
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 from financial budgets and forecasts for a three-year period using a discount rate of 12%. Cash flows beyond these periods have been extrapolated using a steady 2% average growth rate in both the US and Europe. 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 discount rate used reflects the Group's pre-tax weighted average cost of capital (WACC), as adjusted for region specific risks and other factors as required by IFRS.

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, including 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 of the specific development. 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. See note 10(c) for disclosure of development costs which have met the criteria of IAS 38.

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: licence period or 10 years as applicable

Internally generated software: 3 – 5 years

10(c) Other intangible assets

£'000s	Computer software	Internally generated software	Total
Cost			
At 1 January 2018	-	-	-
Additions	1,049	407	1,456
At 31 December 2018	1,049	407	1,456
Depreciation			
At 1 January 2018	-	-	-
Charge for the year	253	-	253
At 31 December 2018	253	-	253
Net book value			
At 31 December 2018	796	407	1,203
Cost			
At 1 January 2019	1,049	407	1,456
Additions	345	1,135	1,480
At 31 December 2019	1,394	1,542	2,936
Depreciation			
At 1 January 2019	253	-	253
Charge for the period	275	153	428
At 31 December 2019	528	153	681
Net book value			
At 31 December 2019	866	1,389	2,255

Significant movement in other intangible assets – During 2019, Alfa developed new internally generated software at a cost of £1.1 million. This software will be amortised over 3 to 5 years.

Critical judgements in applying the Group's accounting policies

Internally generated software development – Assessing whether a project meets the criteria of IAS 38 – The 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, the 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 £15.2 million (2018: £16.3 million) and there was £1.07 million capitalised personnel costs in the year (2018: £0.2m) and £0.1 million of capitalised external agency costs (2018: £0.2m).

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	2019	2018
Balance as at 1 January	8	(17)
Adjustments in respect of prior period	419	(1)
Deferred income taxes recognised in the consolidated statement of profit or loss and comprehensive income	169	26
Balance as at 31 December	596	8
Consisting of:		
Depreciation in excess of capital allowances	359	(22)
Other timing differences	237	30
Balance as at 31 December	596	8

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 £8.9 million at 31 December 2019 (2018: £7.6 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.

Issued and fully paid	2019		2018	
	Shares	£'000s	Shares	£'000s
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 2019.

11(b) Other reserves

Cumulative translation reserve £'000s	2019	2018
At 1 January	376	–
Currency translation of subsidiaries	(350)	376
At 31 December	26	376

Exchange differences arising on translation of the foreign controlled entity are recognised in OCI and accumulated in a separate reserve within equity. The cumulative amounts would be reclassified to profit or loss if the net investment is disposed of.

12. Critical judgements and estimates

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.

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 – Assigning the transaction value to performance obligations (note 3)
- Other sources of estimation uncertainty – Revenue recognition – Percentage of completion estimate (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 licence 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 dollars. Operating costs are influenced by the currencies of the countries where the Group's subsidiaries are based and pounds sterling and the US dollar are the currencies in which most operating costs are denominated.

The split by currency in relation to trade receivables is set out in note 9(a).

The group's exposure to foreign currency risk in relation to revenue is set out in note 3.

During the current period the Group has not entered into or utilised any form of hedging against foreign currency exposure. All instruments were settled as of 31 December 2018. The notional principal amounts of the outstanding commercial foreign exchange contracts at 31 December 2019 was nil (2018: nil).

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2019 would impact revenue and operating profit (excluding share-based payments) by 5% and (14%) 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.

(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 a 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.

13. Financial risk management continued

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 licences 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 licence 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 2019 or 31 December 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 2019 and 31 December 2018 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 2019				
	Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
Trade and other payables	5,884	-	-	-	-
Provisions	-	-	400	125	142

£'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

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

In the current year, Alfa has updated its accounting policies as a result of adopting IFRS 16 'Leases'. This new standard supersedes IAS 17 'Leases'. The Group has applied IFRS 16 'Leases' from 1 January 2019 and, in accordance with the transition provisions in the standard, has recognised the cumulative effect of initially applying the new standard at that date. The comparatives for the prior twelve-month period have not been restated, under the specific transitional provisions in the standard, and are presented under IAS 17. The amounts disclosed in this note below relate specifically only to the comparatives. Refer to note 19 to see the impact of the adoption of IFRS 16 from 1 January 2019.

Under IAS 17, where a significant portion of the risks and rewards of ownership are retained by the lessor, leases 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 statement of profit or loss and comprehensive income, 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 in 2018. Future operating lease payments, in respect of non-cancellable leases, are set out below at the applicable dates:

£'000s	2018
Within one year	2,465
Later than one year but not later than 5 years	9,306
Later than 5 years	7,856

14(c) Events occurring after the reporting period

The Directors note that the outbreak of Coronavirus (Covid-19) during early 2020 may have a significant impact on the Group and the environment in which it operates. This is discussed in more detail within the Strategic report and Directors' report. However these events are considered to be non-adjusting events after the reporting date, and accordingly no adjustments have been made to the financial performance and position of the Group as of the reporting date. The events have been considered within the assessment of going concern and viability, as set out in Note 1(a) and in the Directors' report.

There have been no other reportable subsequent events.

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, subsidiaries 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 each subsidiary's principal place of business.

15. Related parties continued

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 2019	Held by Group 2019	Held by Company 2018	Held by Group 2018
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 Germany	Software and services	–	100%	–	100%

Alfa Financial Software GmbH was established in 2017 and has started trading in 2019.

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 2019 and 2018 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 (2018: £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

Key management compensation (including Directors)

£'000s	2019	2018
Wages, salaries and short-term benefits	2,428	1,651
Social security	223	229
Post-employment benefits	61	63
Share-based payments	19	–
Total key management compensation	2,731	1,943

15(e) Directors

Aggregate Director compensation

£'000s	2019	2018
Aggregate emoluments	1,305	1,366
Post-employment benefits	32	22
Total aggregate director compensation	1,337	1,388

For further details on Directors' remuneration, see the Report on Directors' Remuneration in the Governance section of the Annual Report. Key management includes Directors and members of the Company Leadership Team.

16. Offsetting assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 2019 and 31 December 2018.

2019 £000's	Gross amounts	Gross amounts offset in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Financial assets			
Accrued income	15,763	(8,549)	7,214
Financial liabilities			
Contract liabilities – software implementation	(13,130)	8,549	(4,581)
2018 £000's	Gross amounts	Gross amounts offset in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Financial assets			
Accrued income	12,301	(3,139)	9,162
Financial liabilities			
Contract liabilities – software implementation	(4,801)	3,139	(1,662)

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, 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.

	2019	2018
Profit attributable to equity holders of Alfa (£'000s)	10,182	18,150
Weighted average number of shares outstanding during the year	290,554,694	285,962,898
Basic earnings per share (pence per share)	3.5	6.3
Weighted average number of shares outstanding including potentially dilutive shares	298,812,270	300,000,000
Diluted earnings per share (pence per share)	3.4	6.1

18. Auditor's remuneration

The Group obtained the following services from the Group's auditor as detailed below:

£'000s	2019	2018
Audit of the consolidated financial statements	165	117
Audit fees relating to prior year	48	-
Audit of subsidiaries	150	108
Total audit fees	363	225
Audit-related assurance fees	135	77
Total assurance fees	498	302
Non-audit services	-	-
Total audit and non-audit related services	498	302

19. IFRS 16

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied, from 1 January 2019.

In the current year, Alfa has updated its accounting policies as a result of adopting IFRS 16 'Leases'. 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'.

The Group has applied IFRS 16 'Leases' from 1 January 2019 and, in accordance with the transition provisions in the standard, has recognised the cumulative effect of initially applying the new standard at that date. Comparatives for the prior twelve-month period have not been restated, under the specific transitional provisions in the standard. Alfa 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'.

IFRS 16 introduces new or amended requirements with respect to lease accounting, along with significant changes to lessee accounting by removing the distinction between operating and finance leases. The standard requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. The Group does have various lease contracts relating to property and motor vehicles, where it acts as the lessee.

Details of Alfa's accounting policies under IFRS 16 are set out below, followed by a description of the financial impact of adopting IFRS 16.

19(a) The Group's leasing activities and how these are accounted for

Alfa enters into lease contracts in respect of various properties and motor vehicles. These rental contracts are typically made for fixed periods of two to 10 years, and sometimes have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In accordance with IFRS 16, leases are recognised as right-of-use assets with corresponding liabilities, at the date at which the leased asset is available for use by Alfa. These assets and liabilities are initially measured on a present value basis (as set out in more detail below), with each subsequent lease payment allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Alfa assesses whether a contract is, or contains a lease, at inception of the contract, or at the point of transition to IFRS 16 if this was later than the commencement date of the lease. The Group recognises right-of-use assets and corresponding lease liabilities, with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months, or fewer) and leases of low-value assets. For these leases, the Group recognises the lease payments as an expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liabilities comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liabilities are presented as a separate line in the consolidated statement of financial position. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liabilities (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed, or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index, or rate, or a change in expected payment under a guaranteed residual value. In these cases, the lease liabilities are re-measured by discounting the revised lease payments, using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liabilities are re-measured by discounting the revised lease payments using a revised discount rate.

During the period, one of the Group's property leases was subject to a market review of the lease payment. As a result, the right-of-use assets and corresponding lease liabilities were re-measured and increased by £0.01 million to reflect the present value of the additional lease payments to be paid over the remaining lease term.

The right-of-use assets comprise:

- The initial measurement of the corresponding lease liabilities;
- Lease payments made at, or before, the commencement day;
- Any initial direct costs; and
- Restoration cost.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses (if applicable). They are depreciated from the commencement date of the lease and over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects an expectation that the Group will exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Currently, the Group does not have any leases that include a purchase option, or transfer ownership of the underlying asset.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, there have been no changes in such assessments.

Variable rents that do not depend on an index, or rate, are not included in the measurement of the lease liabilities and the right-of-use assets. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as an expense in the consolidated statement of profit or loss and comprehensive income.

19(b) Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restating the comparative information. In respect of those leases that the Group previously treated as operating leases, the Group has:

- Recognised the lease liabilities as the present value of the remaining lease payments, discounted using the borrowing rate at the date of initial application; and
- Elected to measure its right-of-use assets using the approach set out in IFRS 16.C8(b)(i) to calculate the carrying value as if the Standard had applied at the lease commencement date, but discounted using the borrowing rate at the date of initial application.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 4.43%.

The Group does not recognise leases under 12 months or leases of low-value assets on the consolidated statement of financial position.

19. IFRS 16 continued

19(c) Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into, or modified, before 1 January 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- 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 assets 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.

19(d) Financial impact of applying IFRS 16

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The main changes are detailed below:

- All leases (except as noted above) are now recognised as right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments as described above;
- Extension options (or periods after termination options) are included in the lease term if the lease is reasonably certain to be extended (or not terminated).
- Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis;
- Right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application;
- The Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and comprehensive income, whereas, under IAS 17, operating leases previously gave rise to a straight-line expense included in operating expenses; and
- The Group separates the total amount of cash paid for leases that are on the consolidated statement of financial position into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17, operating lease payments were presented as operating cash outflows.

In addition, IFRS 16 requires changes with respect to the accounting for assets formerly held under a finance lease. The main difference between IFRS 16 and IAS 17 is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liabilities only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements at 31 December 2019, because the Group did not have any assets formerly held under finance leases at the date of transition.

The following table sets out the impact on the statement of financial position at 1 January 2019:

£'000	31 December 2018	Impact of IFRS 16	Adjusted 1 January 2019
Non-current assets			
Property plant and equipment	1,455	–	1,455
Right-of-use assets	–	17,990	17,990
Other non-current assets	25,948	–	25,948
Total non-current assets	27,403	17,990	45,393
Current assets			
Total current assets	61,134	70	61,204
Total assets	88,537	18,060	106,597
Current liabilities			
Lease liabilities	–	1,478	1,478
Other current liabilities	15,470	(961)	14,509
Total current liabilities	15,470	517	15,987
Non-current liabilities			
Lease liabilities	–	19,002	19,002
Other non-current liabilities	152	–	152
Total non-current liabilities	152	19,002	19,154
Total liabilities	15,622	19,519	35,141
Shareholders' equity	72,915	(1,459)	71,456
Total liabilities and equity	88,537	18,060	106,597

Of the total right-of-use assets of £18.0 million recognised at 1 January 2019, £17.9 million related to leases of property and £0.1 million to leases of motor vehicles.

At the date of transition, Alfa had no finance leases recognised. The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

£'000s	
Operating lease commitments disclosed under IAS 17 at 31 December 2018	19,627
Short-term and low-value lease commitments straight-line expensed under IFRS 16	(41)
Payments due in periods covered by extension options that are included in the lease term	6,652
Operating lease commitments recognised on adoption of IFRS 16	26,238
Discounted using the incremental borrowing rate at 1 January 2019	20,480
Finance lease liabilities recognised under IAS 17 at 31 December 2018	–
Lease liabilities recognised at 1 January 2019	20,480

The following table sets out the reconciliation of the lease liabilities from the 1 January 2019 to the amount disclosed at 31 December 2019:

£'000s	2019
Lease liabilities recognised at 1 January 2019	20,480
Additions	132
Disposals	–
Interest charge	852
Payments made on lease liabilities	(2,462)
At 31 December 2019	19,002

19. IFRS 16 continued

The following table sets out the reconciliation of the right-of-use assets from the 1 January 2019 to the amount disclosed at 31 December 2019:

£'000s	Motor vehicles	Property	Total
Cost			
Adjusted opening balance at 1 January 2019:	92	17,898	17,990
Additions	128	4	132
Foreign exchange	(8)	3	(5)
At 31 December 2019	212	17,905	18,117
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	(67)	(1,648)	(1,715)
At 31 December 2019	(67)	(1,648)	(1,715)
Net book value	145	16,257	16,402

In terms of the consolidated statement of profit or loss and comprehensive income impact, the application of IFRS 16 resulted in a decrease in rental expenses and an increase in depreciation and interest expense compared to IAS 17. The Group recognised the following amounts in the consolidated statement of profit or loss and comprehensive income in relation to leases under IFRS 16:

£'000	2019
Depreciation	(1,715)
Interest expense	(852)
Short-term lease expense	(47)
Low-value lease expense	-

If IFRS 16 had been applied from 1 January 2018, it would have increased operating profit by £0.4 million and decreased profit before taxation by £0.5 million for the year ended 31 December 2018. Operating cash flows would have been higher by £1.4 million for the full year ended 31 December 2018, because cash payments for the principal portion of the lease liabilities are classified within financing activities. Only the interest part of repayments is presented within operating cash flows under IFRS 16.

Below is the maturity analysis of the lease liabilities as per the requirements of paragraphs 39 and B11 of IFRS 7:

£'000s	2019
Non-current	17,330
Current	1,672
Total lease liabilities	19,002
No later than one year	2,456
Between 1 year and 5 years	11,504
Later than 5 years	9,409
Total future lease payments	23,369
Total future interest payments	(4,367)
Total lease liabilities	19,002

The Group does not face a significant liquidity risk with regard to its lease liabilities.

Company statement of financial position

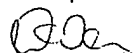
As at 31 December

£'000s	Note	2019	2018
Assets			
Non-current assets			
Investment in subsidiary companies	2	347,436	346,800
Total non-current assets		347,436	346,800
Current assets			
Other receivables	1(a)	287	187
Cash and cash equivalents	1(c)	106	86
Total current assets		393	273
Total assets		347,829	347,073
Liabilities and equity			
Current liabilities			
Amounts owed to subsidiaries	1(d)	3,448	1,556
Other payables	1(e)	168	152
Accruals		661	-
Total current liabilities		4,277	1,708
Non-current liabilities			
Amounts owed to subsidiaries	1(d)	32,516	32,201
Total non-current liabilities		32,516	32,201
Total liabilities		36,793	33,909
Capital and reserves			
Ordinary shares	4	300	300
Retained earnings		310,736	312,864
Total equity		311,036	313,164
Total liabilities and equity		347,829	347,073

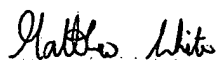
The above retained earnings includes a loss of £2.8 million for the 2019 financial year (31 December 2018: £(80.4) million). See the statement of changes in equity on page 152 for further details.

The above Company statement of financial position should be read in conjunction with the accompanying notes.

The Company financial statements on pages 151 to 157 were approved and authorised for issue by the Board of Directors on 23 April 2020 and signed on its behalf.



Andrew Denton
Chief Executive Officer



Matthew White
Chief Operating Officer

Alfa Financial Software Holdings PLC
Registered number 10713517

Company statement of changes in equity

£'000s	Note	Called-up share capital	Retained earnings	Total equity
Balance as at 1 January 2018		300	392,998	393,298
Total comprehensive loss for the period		–	(80,402)	(80,402)
Employee share schemes – value of employee services	3	–	268	268
Balance as at 31 December 2018		300	312,864	313,164
Total comprehensive loss for the period		–	(2,764)	(2,764)
Employee share schemes – value of employee services	3	–	636	636
Balance as at 31 December 2019		300	310,736	311,036

As 31 December 2019 £0.9 million (31 December 2018: £0.3 million) of retained earnings balance relates to reserves held to settle the Alfa employee share schemes, and does not qualify as distributable reserves.

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	2019	2018
Financial assets at amortised cost		
Other receivables (note 1(a))	287	187
Cash and cash equivalents (note 1(c))	106	86
Total financial assets at amortised cost	393	273
£'000s	2019	2018
Financial liabilities at amortised cost		
Amounts owed to subsidiaries (note 1(d))	35,964	33,757
Other payables (note 1(e))	168	152
Accruals	661	–
Total financial liabilities at amortised cost	36,793	33,909

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, other operating expenses and VAT receivable.

Other receivables are classified as current assets if receipt or recovery is due within one year or less.

At 31 December 2019, other receivables relate to prepayments of £174,000 (2018: £158,000) and VAT receivables of £113,000 (2018: £29,000).

1(b) Amounts owed 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 owed by subsidiaries is nil (2018: nil).

1. Financial assets and financial liabilities continued

1(c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

£'000s	2019	2018
Cash and cash equivalents	106	86

1(d) Amounts owed to subsidiaries

£'000s	2019	2018
Amounts owed to subsidiaries – current	3,448	1,556
Amounts owed to subsidiaries – non-current	32,516	32,201
Total amounts owed to subsidiaries	35,964	33,757

Current amounts owed to subsidiaries of £3.5 million relates to operating expenses owed (2018: £1.6 million) and non-current amounts owed of £32.5 million reflects a loan of £29.2 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 £53,000 (2018: £56,000) and trade creditors of £115,000 (2018: £96,000).

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, subsidiaries 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 each subsidiary's 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 it is recognised in the profit or loss.

£'000s	2019	2018
Cost		
As at 1 January	346,800	424,560
Capital contributions to subsidiaries	636	268
Impairment charge	–	(78,028)
As at 31 December	347,436	346,800

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 2019	Held by Group 2019	Held by Company 2018	Held by Group 2018
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, Germany	Software and services	-	100%	-	100%

The carrying amount of the investment is £347.4 million at 31 December 2019 (2018: £346.8 million). The recoverable amount was determined based on the market capitalisation of the Company as at 31 December 2019 of £360.0 million. As the carrying value was in excess of the recoverable amount, no impairment charge has been recognised as of the reporting date. The recoverable amount is sensitive to fluctuations in the market capitalisation of the Company. Reductions in market capitalisation below the carrying amount of the investment since the reporting date may lead to an impairment of the investment in future reporting periods. If the market capitalisation of the Company of £231.3 million as at 31 March 2020 remains unchanged at 31 December 2020, this would indicate a potential impairment of the investment of up to £116.1 million.

3. Employee share schemes

There is no charge in the income statement for share-based payments. Any charges for share-based payments have been recognised as an increase in the 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, in October 2018 and November 2019, selected employees of the Company's subsidiaries were granted LTIPs in the form of conditional awards over ordinary shares in Alfa. Shares in the Company will be 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 0.1 pence. All shares are fully paid and have equal voting rights.

Issued and full paid	Shares – Ordinary	£'000s
At 31 December 2018	300,000,000	300
At 31 December 2019	300,000,000	300

5. Dividends

Dividends are recognised through equity when approved by Alfa's shareholders or on payment, whichever is earlier.

No dividend has been declared or paid for the year ended 31 December 2019 (2018: nil).

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 on pages 101 to 104.

7. Financial risk management

The Company's exposure to financial risks is managed as part of the Group's financial risk management. 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

The Directors note that the outbreak of Coronavirus (Covid-19) during early 2020 may have a significant impact on the Company and the environment in which it operates. This is discussed in more detail within the Strategic report and Directors' report. However these events are considered to be non-adjusting events after the reporting date, and accordingly no adjustments have been made to the financial performance and position of the Company as of the reporting date. The events have been considered within the assessment of going concern and viability, as set out in Note 1(a) and in the Directors' report.

There have been no other 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 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 to act as a holding company.

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 above. These policies have been consistently applied to 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 indicate they will continue in operation for the foreseeable future. As described in Note 1(a) to the Consolidated financial statements, this has included an assessment of the likely impact of Covid-19 including additional downside stress testing.

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, entity statements of profit and loss and comprehensive income are not included as part of these financial statements. The parent company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect the presentation of a cash flow statement.

The loss for the financial period to 31 December 2019 was £2.8 million (2018: £(80.4) million).

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. There were no critical accounting judgements that would have a significant effect on the amounts recognised in the parent company financial statements. The carrying amount of investments in subsidiaries is a key source of estimation uncertainty. Further information is presented in note 2.

Glossary of terms

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 profit from continuing operations, before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets.

Adjusted EBIT margin: Adjusted EBIT margin is defined as profit from continuing operations, before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets as a proportion of revenue.

AFSGL: Alfa Financial Software Group Limited.

AGM: The Annual General Meeting of the Company.

Alfa: The Group or Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).

API: Application Programming Interface. A computing interface to a software component or a system, that defines how other components or systems can use it. It defines the kinds of calls or requests that can be made, how to make them, the data formats that should be used, the conventions to follow, etc.

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 licence payments and maintenance agreements and accrued income.

Board: The Board of Directors of Alfa Financial Software Holdings PLC.

BPO: Business process optimisation, the task of improving business processes for efficiency gains.

Captive: Wholly owned subsidiaries of retailing or manufacturing firms that help customers finance purchases.

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.

Company Leadership Team (CLT): A body of senior members of the Alfa team which provides input and recommendations to support the CEO.

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

Directors: The Directors of the Company whose names are set out on pages 76 to 77.

Disclosure and Transparency Rules: The Disclosure and Transparency Rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

Docker containers: A Docker container image is a lightweight, standalone, executable package of software that includes everything needed to run an application: code, runtime, system tools, system libraries and settings.

Dynamic Lease: Telematics based financing option that enables customers to adjust the leasing rates to the actual use of the vehicle, introduced by Daimler Truck Financial into the US finance market in early 2020.

EONIA: Euro Overnight Index Average. The effective overnight reference rate for the euro. Now replaced by ESTER (ESTR, €STR).

EPS: Earnings per share.

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.

ESTER (ESTR, €STR): Euro Short Term Rate. An interest rate benchmark that reflects the overnight borrowing costs of banks within the eurozone.

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.

FRC: The Financial Reporting Council.

FVTPL: Fair value through profit or loss.

GDPR: General Data Protection Regulation. A legal framework that sets guidelines for the collection and processing of personal information from individuals who live in the European Union.

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.

IoT: Internet of Things.

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.

JSON over HTTP: A modern inter-system API protocol for communication and coordination, used by REST (Representational State Transfer) protocols.

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 pages 76 to 77.

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 is calculated as cash from operations, less gains and losses on settlement of derivative instruments and margin calls, less capital expenditures, less total lease payments in respect of IFRS 16 (which was applied for the first time in the year ended 31 December 2019) and adding back IPO-related expenses. Operating free cash flow conversion represents Operating free cash flow generated as a proportion of Adjusted EBIT.

Ordinary shares: The ordinary shares with a nominal value of 0.1 pence each in the share capital of the Company.

PDMR: Person Discharging Managerial Responsibilities

POSKit: The Alfa toolkit for building point of sale applications.

PostgreSQL: Also known as Postgres, a free and open-source relational database management system (RDBMS) which emphasises extensibility and SQL compliance

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 employees over the previous 12 month period, excluding any managed staff attrition.

RoE: Rest of Europe

RoW: Rest of World.

SDLC: Software development lifecycle. A process that produces software with the highest quality and lowest cost in the shortest time possible. SDLC provides a well structured flow of phases that help an organisation to quickly produce high-quality software which is well tested and ready for production use.

SG&A: Sales, general and administrative expenses.

Shareholder: A holder for the time being of ordinary shares of the Company.

SOFR: Secured Overnight Financing Rate. An influential interest rate that banks use to price US dollar-denominated derivatives and loans.

Software implementation: An implementation process contains three types of billing streams, being the recognition of a licence, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from a few months to several years depending on the complexity of the implementation and the size of customer.

SONIA: Sterling Overnight Index Average. The effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.

TCO: Total cost of ownership

The Code: The UK Corporate Governance Code published by the FRC in July 2018.

VAT: UK value added taxation.

Webhooks: A method of augmenting an application with a custom callback to another application via HTTP. This can be used to provide notification or request a calculation or action from another system.

WLTP: World harmonized light-duty vehicles test procedure. A lab test that applies to all new vehicles registered since September 2018, to check how they perform in everyday driving conditions.

Useful Information

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