

Registered No. 10713517

Alfa Financial Software Holdings PLC



# **Leading the way in a changing market**

Annual Report and Accounts 2017

Accounting

We are Alfa

## We bring clarity to the complex.

We have created a software platform  
that combines our extensive expertise  
with modern disruptive technology.

We relentlessly push boundaries  
to provide smarter, faster and more  
efficient solutions that meet the needs  
of customers worldwide.

Explore our strategy and understand  
how we are relentlessly pushing  
boundaries to enable our growth

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To view and download the Annual Report online, please visit [annualreports.alfasystems.com](http://annualreports.alfasystems.com)

Most of the photography in this report was shot on location at Alfa's head office in London.

### Total revenue

**£87.8m**

20% increase on 2016

### Operating profit

**£33.8m**

£16.6 million in 2016

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

**47%**

Up from 45% in 2016

### Alfa team at 31 December 2017

**329** employees

Net increase of 60 in 2017

### Completed software implementations

**5**

Delivered in 2017

(1) See "Definition and method of calculation of KPIs" section on page 30.

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## Alfa at a glance

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

### Where we operate

**246**

Alfa team members at December 2017

#### Europe

We have 23 customers based in Europe, including two ongoing implementation customers as at 31 December 2017.

Alfa Systems has been implemented and is live in eight European countries, with a further expansion underway into 10 countries over the next two years.

The UK contributes the most significant portion of revenue to our European segment, generating £30.7 million in 2017.

**71**

Alfa team members at December 2017

#### USA

We won our first significant US customer in 2010 and since then have grown our US revenues to £42.2 million in 2017.

We have six customers, including three ongoing implementation customers at December 2017.

**12**

Alfa team members at December 2017

#### Rest of World

We started our Australasia operations over 10 years ago and we have three customers in Australia and New Zealand.

### Our revenue streams

**51%**

of 2017 revenue

#### Software implementation

We have five ongoing implementations. Alfa implementations can range from nine months up to five years, depending on the complexity of the lending portfolio, the number of systems being replaced and the level of change management required.

During an implementation there may be a number of go live events as different portfolios are migrated. Services include migration, development of customer specific requirements, testing and training.

**24%**

of 2017 revenue

#### Maintenance

We have 30 customers paying annual maintenance amounts. Maintenance includes support services such as help desk and fixes.

**25%**

of 2017 revenue

#### ODS

Ongoing development and services

ODS represents additional services or development provided to customers with live portfolios. This work is undertaken once the customer is fully live on Alfa Systems, or in the instance of a customer with multiple portfolios, across different geographies or industry verticals, services are rendered from the first go live date.

## Our customer by type

**55%**  
of 2017 revenue

### Banks

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

**24%**  
of 2017 revenue

### OEMs

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

**21%**  
of 2017 revenue

### Independents

Independent customers are customers who are neither part of a regulated banking group nor manufacturers of the asset being financed.

Independent customers tend to be smaller, both in portfolio volumes and personnel using Alfa Systems.

## Our verticals

**40%**  
of 2017 revenue

### 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.

Historically lending products on offer have been relatively vanilla yet more recently there has been a visible increase in the appetite for consumption based or subscription models.

Generally lenders classified as equipment financers 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.

**60%**  
of 2017 revenue

### 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.

## Market overview

# A complex and highly regulated market with a myriad of challenges and opportunities

## Global trends

### Global asset finance market

Overall the global asset finance market is in good health, with international and national leasing associations and research consultancies all indicating that there is continued demand in both the equipment and automotive verticals.

The US asset finance market recovered earlier from the post-2008 downturn than the European market, with the US hitting its seventh consecutive year of growth.

In 2017 we also saw a resurgence in Europe with new business volumes in the key European markets hitting double digits.

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

Therefore a key focus of the global asset finance players will be to keep pace with innovations in technology, whilst continuing to comply with greater regulatory oversight.

### Alfa's approach

Our pipeline, in line with our current customer base, is diversified both geographically and by vertical. Therefore we are well placed to react to cyclical global market trends.



**\$5.4tn**

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

### Regulation

Europe is witnessing increasing regulation in the form of the General Data Protection Regulation ("GDPR"), effective May 2018, bringing enhanced consumer rights and tougher penalties. This follows on from the Open Banking legislation and the recent Payment Services Directive.

UK lenders are also awaiting the outcome of the FCA review of practices in the motor finance market, which was launched as a reaction to concerns on the growing use of personal leasing options, specifically personal contract purchase (PCP).

In the US, there is expected to be a lower number of new regulations being introduced following the new administration's budgetary cuts in relation to the Consumer Financial Protection Bureau.

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



### Alfa's approach

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

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

(1) PwC Market Study on the Asset Finance Software Market, 2017.

### Credit conditions

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

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

### Alfa's approach

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



### Talent pool

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

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

While our applications from European nationals fell immediately after the Brexit referendum in 2016, we have seen this increase back to pre-June 2016 levels in recent months.

### Alfa's approach

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

We benchmark our whole remuneration package to ensure that we remain competitive and relevant.



**>500**

applications for each graduate position

(1) European Commission Winter 2018 Interim Economic Forecast.  
 (2) Federal Open market Committee 13 December 2017.  
 (3) HM Treasury forecast for UK Economy No. 309.

### Technology trends

#### Cloud

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



#### Alfa's approach

Alfa Systems is cloud ready and we are currently operating in the public cloud environment. Our experience is that significant operational gearing can be obtained by a cloud hosted solution which complements the efficiencies provided by Alfa Systems. Our sales approach in 2017 has been Cloud First.

#### Digitalisation

Generally the asset finance industry has been slower than expected at implementing wholesale digital change, although it has been on the agenda of most lenders for a number of years.

Digitalisation is not just the embracing of app-based customer service solutions, but instead is the connectivity of the lender's systems with the asset, with other service providers' <sup>(1)</sup> systems, and with end-customers' information – leading to a myriad of data which will ultimately change the way that finance is provided and end-customers are communicated with.

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



#### Alfa's approach

Alfa Systems is developed using open API technologies which supports our customers' digitalisation agendas.

We continue to develop and partner with other technology providers to ensure that our systems remain relevant in an ever changing world.

#### Usership and autonomous vehicles

In recent years, the desire to own a car has declined globally as many consumers look towards other mobility solutions such as ride hailing or ride sharing. This is a reaction in part to congestion or an emission target but is also representative of changing consumer tastes and evolving technology.

In 2017 we have seen a number of OEM and hire car companies launch car share services or invest in ride hailing or sharing players – all recognition that the world is adapting to the concept that car sharers may outweigh car owners in the near future.

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

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

#### Alfa's approach

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



**40%**

of all mileage done could be by autonomous vehicles by 2030<sup>(1)</sup>

(1) PwC Report January 2018 "Electric and self-driving cars will accelerate the change on our roads".

## Europe

### Overall

Overall the European market has continued its recovery and there is a positive outlook as we move into 2018.

In Europe the market players are relatively consolidated, with the top 25 asset finance companies accounting for around two thirds of funding provided. 70% of funds are managed by bank owned lessors, with nearly 20% managed by OEMs.

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

### Alfa's approach

Europe remains an important market for us, with UK revenues alone growing to £30.7 million in 2017. Our pipeline remains diversified between Europe and the UK and our opportunities in Europe are also split equally between automotive and equipment.

**€350bn**

of financing provided in Europe in 2017<sup>(1)</sup>

### Brexit

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

### Alfa's approach

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

### Automotive

European new leasing volumes for cars increased by 12.6% with commercial volumes growing by 13.1%.

Meanwhile, in the UK, new car registrations declined during 2017, with further declines expected in FY18 and FY19.

Similar to the US, a pay-per-mile model is becoming more prevalent with consumers demanding a cost effective and affordable leasing solution. This has led to private leasing and other similar lending solutions increasing across every market in Europe.

### Alfa's approach

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

**5%**

expected decline in UK new car registrations in 2018<sup>(1)</sup>

### Equipment

In 2017 the European machinery and industrial equipment market continued to grow, with the UK being the largest leasing market, followed by Germany and France.

The machinery and industrial segment contributes the most to forecasted growth in 2018, expecting to grow by 10.3% after a period of no growth.

Business machinery and technology was the only sector declining by 7.4%, perhaps an indication of a move towards cloud based solutions and therefore a lower need for investment in hardware.

### Alfa's approach

Our digitalisation initiative makes us well placed to serve European OEMs and independents serving customers through new lending products.

Our market share of the European equipment market continues to increase as many of the top 50 lenders use Alfa Systems.

**€334m**

European new leasing business in 2016 (+10.3%)<sup>(2)</sup>

(1) SMMT-forecast-october-2017.pdf

(2) Asset Finance Europe 50 2017 report – Asset Financial International

## Market overview continued

### USA

#### Overall

A steadily growing economy and a business-friendly administration are paving the way for future growth. Although the US car market may have reached the peak of the current cycle, we are seeing an increase in demand in the equipment finance market.

We have seen lending products evolve, moving away from the relatively simplistic loan products of the past to more bundled contracts.

Lenders are grappling with changes to lease, revenue and credit loss accounting as recent regulations are enforced which will lead to increased system reliance due to the complexity of the real time calculations required.

#### Automotive

While new car sales are down 5% year on year, they are still at the highest levels since the financial crisis following seven years of growth.

There remains an oversupply of used vehicles which impacts the residual values of both new and used cars. This will challenge the profitability of live lease contracts in the short term.

There has been an uptick in automotive finance in mid-2017 which was due to replacement vehicles following hurricane damage.

We have seen automotive lenders, both OEMs and banks, being more cautious around lending criteria amid sub-prime lending concerns. Having said that, the American Financial Services Association, after convening an expert panel to investigate sub-prime lending in the automotive market, has given the sector a clean bill of health. Although there had been some growth in sub-prime loans in recent years, there had been growth over all risk tiers and it was not considered concentrated.

Data suggests that lenders have become more adept at using data and analytics during the lending process to assess affordability. As sub-prime automotive lending is significantly smaller than mortgage lending, the exposure is therefore much less severe.

#### Equipment

New business volumes in the US equipment finance sector have picked up in 2017 and are hoped to benefit from tax reforms.

Although interest rates have increased, this is viewed as a positive as it will drive more companies to finance investment. Additionally there has been a shift to more consumption based and managed service financing.

#### Alfa's approach

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

**9.1%**

forecasted growth in 2018 investment in IT and software spend<sup>(1)</sup>

#### Alfa's approach

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

Although new car sales are forecast to decline in 2018, new payment models are generating demand for modern systems and we are well placed for personal contract hire or other consumer consumption focused lending products.

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

**16.7m**

new cars and light trucks projected to be sold in 2018 (2017: 17.1 million)<sup>(2)</sup>

#### Alfa's approach

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

(1) "2018 Equipment Leasing & Finance US Economic Outlook" – Equipment Leasing & Finance Foundation.

(2) Equipment Leasing and Finance Foundation's Monthly Leasing and Finance Index (ELFA MLFI) November 2017.

## 2018 and beyond

### *Our predictions for future trends within the market*

#### 1

##### **Innovative financing structures**

We are seeing significant innovation of lending products as a result of changing end-customer requirements or needs. The expected result is a tailored product, based on the usership profile of the end-customer, effectively matching payments to the benefit gained. We expect this will serve to increase customer satisfaction and therefore, loyalty.

#### 2

##### **Prioritising connectivity**

To move to a usership model, there must be an increased use of data and communication between systems. Alfa's open API platform allows this and we see the increased system connectivity being a continued priority for companies choosing an operating system.

#### 3

##### **Asset finance volumes increasing**

We do not expect to see the numbers of assets being financed decline overall. A key opportunity is global growth in the equipment vertical. Although the sharing economy will have an impact on car ownership levels – whether this is seen in 2020 or 2030 is a matter for debate – we predict that this will not have an impact on the overall number of cars being financed as usership or sharing will serve to increase wear and tear and therefore accelerate replacement times.

#### 4

##### **Focus on operational efficiency**

As interest rates increase and residual values come under pressure, so does the focus on maintaining margin and obtaining operational efficiencies. More and more importance is being placed on automation to save both time and effort, but also to prevent errors and maintain data integrity. Alfa's tried and tested workflow support ensures that this is readily attainable.

#### 5

##### **Shifting regulatory landscape**

The last few years have seen a number of seismic shifts in legislation – in accounting, taxation or data protection regulations. Our customers are finding that only the most modern of asset finance systems can adequately deal with these complex and far ranging changes. While we may see a slowing of new regulation and legislation being introduced, our customers are still assessing what changes are needed for this new world.

## Our business model

# We create value through constant development and innovation

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 assessments as their portfolio increases, their asset types expand and geographical reach increases.

### Our resources

#### Technology

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

#### People

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

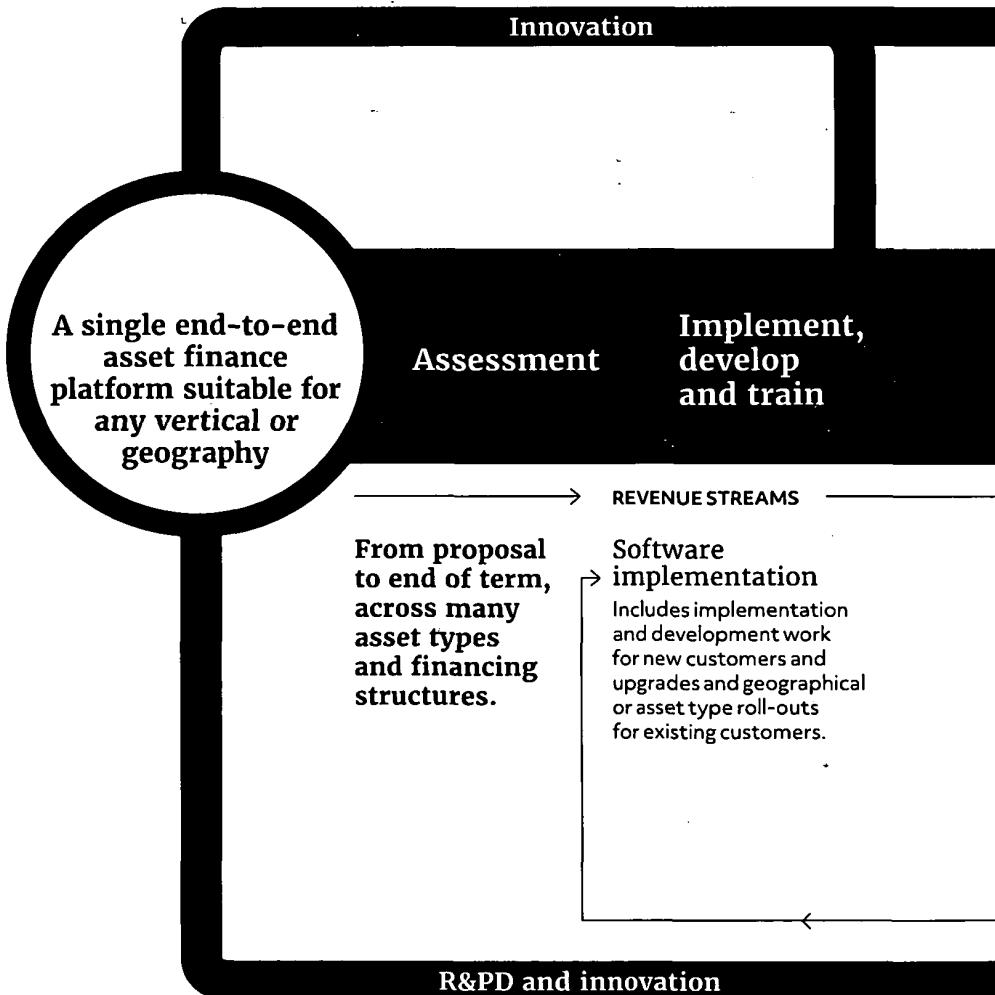
#### Culture

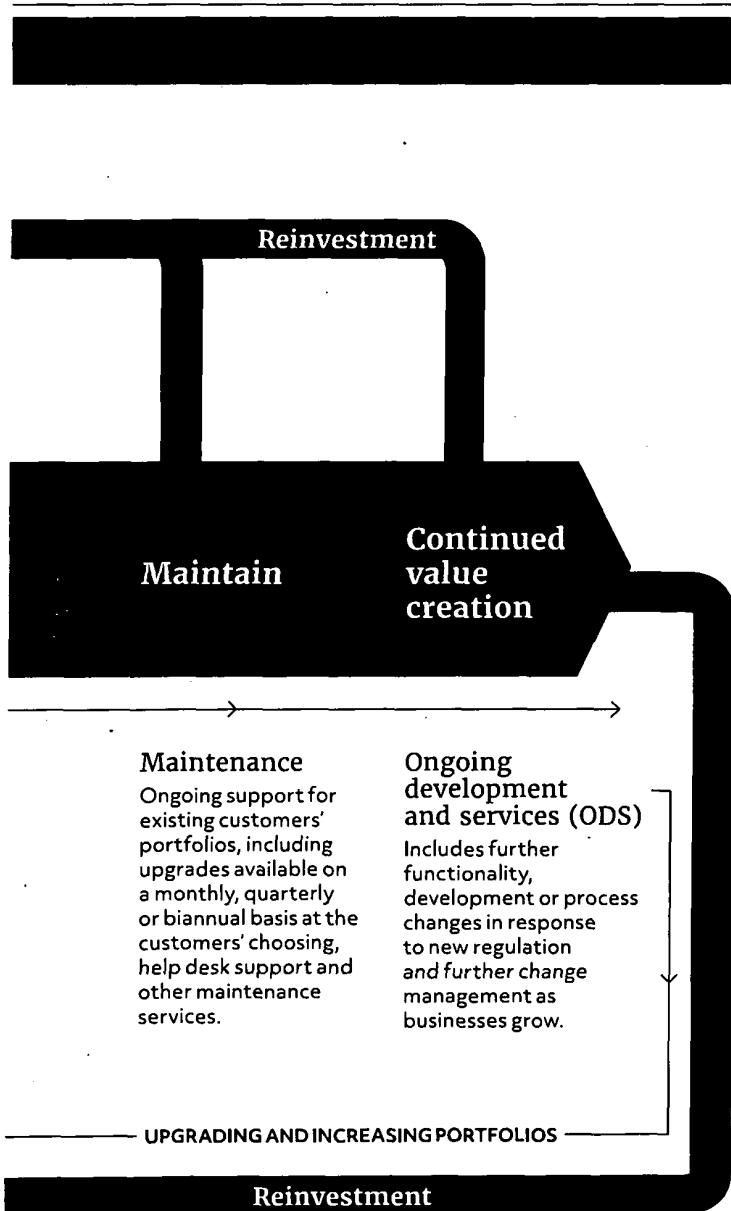
Our focus on excellence, agility and innovation ensures we are always at the forefront of the industry, providing solutions to regulatory and business challenges, digital needs and hosting solutions.

#### Experience

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

### How we create value





## The value we create

Shareholder value	EPS (basic)	Adjusted EPS (diluted) <sup>(1)</sup>
<b>9.1p</b>	<b>11.0p</b>	
<b>Customer loyalty</b>	Average customer relationship	
<b>c.12 years</b>		
<b>Employee retention</b>	<b>95%</b>	
<b>R&amp;PD and innovation</b>	Amount expensed in research and product development over the last three years	
	<b>£37+ m</b>	
<b>Brand</b>	Strongest functionality and broadest coverage of assets and loan type	
<b>Assets under finance</b>	<b>20+ m</b> supported by Alfa Systems	

(1) Diluted Adjusted EPS, diluted is not a measure specifically defined by IFRS. See "Key financial metrics" in the financial review on page 42 for further information.

## **Q&A with the CEO**

# **2017 – a year of delivering in line with our strategic plan**

***Scan to see  
the CEO video***

Video content

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To view the film download the  
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## Andrew Denton, Alfa's CEO, answers key questions about the business in 2017.

**Q.**

**What were your highlights of 2017?**

**A.**

Two things stand out for me – the first is the historic levels of delivery we have achieved, hand in hand with our customers. Following on from the hugely successful delivery in Q3 last year of one of our largest automotive customers, we had a further five go-live events this year. None of this would have been possible without the high levels of expertise and commitment our people bring to each project. Our reputation and brand is strengthened by successful implementations and I am proud that we have continued to deliver in these areas so emphatically this year.

Secondly, growing our customer base has been important and keeping the diversification of pure automotive finance and equipment finance. We secured two new customer wins in June 2017 and have continued to build the sales pipeline which is diversified both by asset class and geography so that we have a sound platform for growth in 2018.

**Q.**

**How would you summarise the Alfa business model and strategy?**

**A.**

Key for Alfa is to continue to grow our share of a vast addressable market. We will do this by continually delivering business benefit using the best technology.

I've already talked about delivery. The strength of our delivery approach, underpinned by our team's extensive experience, expertise and talent, is the key to this.

Software development has the same underpinnings in terms of the strength of our people. We create value by constantly innovating and evolving our core software development.

Alfa Systems is both simple and flexible and is capable of supporting all finance products, all asset types, channels to market and geographies. It benefits from 30 years of functional growth on a state of the art technical architecture.

Our unique single product approach continues to support our aims. Every development becomes part of the core package giving us high levels of supportability alongside maximal functional growth.

## Q&A with the CEO continued

**Q.**

**What are the factors you see driving customers to make changes to their systems environment?**

**A.**

The push factors we have always talked about continue to be a key factor in driving change. Older systems that are difficult and costly to maintain or impractical to change to support business ambition or regulatory change are still common in our market. In these situations, the customer often has no or little choice but to replace its system.

When customers do have discretion, for many the factors driving any system change are heavily influenced by the explicit need to reduce costs. Generally, doing things smarter to maximise efficiency and ensure regulatory compliance is the primary reason for replacing legacy systems. However, saving time, reducing costs and ensuring regulatory compliance are no longer the only drivers for IT change. Increasingly, change is being driven by more strategic goals and involves developing business strategy and the corresponding technology to create new products and services that deliver products and services to end-customers at the precise moment they want them.

Many of the more recent customer conversations I've had have been focused on how they can support business objectives through digital transformation. The traditional narrative for business is changing, today's connected world demands more from each asset – many CEOs and CIOs are asking themselves how an effective digital strategy can support them in achieving their ambitions. In fact, more than ever, technology is at the heart of buying decisions. As a result, understanding how to embrace new digital technologies is a high priority.

for our customers. Being innovative and embracing new technologies, such as digitalisation, artificial intelligence, internet of things and virtual reality, are critical if they are to enhance their products and services to support the customer journey and ensure their ongoing growth and future success. Particularly as the wider banking community begins its Open Banking journey. Given our progress in this area Alfa is well placed to lead them through it.

**Q.**

**What challenges do you see for the sector over the next few years?**

**A.**

I see three main challenges in the year ahead: the perceived automotive bubble in the US and PCP in the UK; the role of the middleman in the growing asset finance industry; and in Europe, the impending impact of Brexit. At Alfa, we are already looking to address these in the following ways:

### **Automotive market appetite**

There has been much debate and speculation on the future of the automotive industry. Uncertainty around the automotive bubble in the US and the increasing use of PCP in the UK combined with speculative concerns relating to the sharing economy have piqued the interest of many market observers. Despite these challenges the need for leasing and asset finance remains strong in both the new and used car markets. Financial products are evolving to emphasise the service element and to embrace usage-based finance. But the financial products have always evolved. The key data point is that finance of some kind is vital to selling assets and the secular drivers for change are constant.

### **The role of the middle man**

The desire to provide a better customer experience is leading to new self-service technology that cuts out the middleman from both auto and equipment finance. This technology will make the lending process swifter and more efficient and, this is driving further innovation on all fronts. Our customers and prospects need to compete from a technological as well as a market perspective.

### **The impact of Brexit**

In the UK the impact of Brexit and how it will affect financial lending is still to be fully understood. We will undoubtedly see further regulation affecting our customers, whether it is new banking legislation outside the EU regulations or more immediately managing the impact of General Data Protection Regulation coming into force in May 2018. We can be confident in this changing environment thanks to our geographically diversified customer base and the fact that regulatory change ultimately drives systems replacement.

We are also actively preparing for the impact Brexit will have on our people. We have more than 20 nationalities within the Alfa team and our focus is on giving as much certainty and support to those living outside their home country as possible.

**Q.**

**What is the biggest challenge facing Alfa in 2018?**

**A.**

As we continue to grow our operations globally we appreciate the challenges we face in terms of remaining innovative and leading with the best technology. We are overlaying two initiatives over our core strategy to ensure we maximise our potential and execution capability:

**Building a partner ecosystem**  
 Identifying and building business partnerships accelerates our delivery capability. Additionally, creating the right strategic alliances enhances our global reach and ability to target new customers. Finding partners with the right credentials, global coverage and cultural fit is key and we are looking to build a compact global ecosystem of partners with complementary skills that we can draw upon as required.

**Continuing to innovate**

A key part of our strategy is Business-in-a-Box, which is multi-faceted and will lead us to a low friction, pre-configured solution for any asset in any marketplace. This will be developed and delivered over a number of phases over the mid to long term, all of which will deliver benefits to our current enterprise customer base. The main focus remains on pricing structure, route to market and also a differentiated support offering to this new generation of customers.

In supporting our core strategy and these initiatives, we never forget that people are the bedrock of our business. Competition to find and retain the best talent is high and we face fierce competition. We encourage a culture that fosters innovation and collaboration, one where people are genuinely comfortable, feel safe and are encouraged to be themselves at work. We believe this approach gives us the best appeal for potential recruits and also provides a solid foundation for existing employees to flourish.

**“**  
*...we are focused on creating a culture that fosters innovation and collaboration, one where people are genuinely comfortable, feel safe and are encouraged to be themselves at work.”*

Andrew's 2018 outlook for Alfa

**Q.**

What are you most excited about in the year ahead?

**A.**

Personally I am delighted to be leading Alfa at such an exciting time in the asset and automotive finance industry. As we all adapt to the ever changing industry landscape, embracing the challenges as well as the opportunities that new digital technologies bring, our strategy centres on the customer. We have listened to our customers, and as a result we are developing our core platform so that it is truly digital. Ultimately our goal is to help our customers to remain competitive as well as disruptive in their own market. By doing this, we fuel their success and ensure our own evolution.

## CEO's review of the year



2017 has delivered change on a number of fronts; servicing an ever changing market place, our listing in London, our continued expansion with two historic customer wins and our ever growing and diverse team at Alfa.

### Delivering

We have really delivered for our customers in 2017 – never before did I think I would get two grateful calls over a single weekend from two different customers celebrating the fact that our Alfa teams delivered their implementations for them. By the point December closed, we had delivered five software implementations – each and every one of these is a huge achievement and the result of many cumulative months of work on both the Alfa and customer side.

Everyone in Alfa makes this possible – the sales team, the implementation and support teams, the product and technical centres and all of our internal teams around the world. I would like to thank every one of my colleagues for an excellent year of delivery for our customers as well as continuing to deliver on our strategy. We have grown the Alfa team around the world, increasing from 269 employees to 329 at 31 December 2017, an increase of 60 people which is our largest annual increase. We continue to celebrate the sheer breadth and diversity of nationalities, backgrounds and skills that we are lucky to have in our Alfa team.

### Growing and winning

As we have grown, we have taken care to protect our culture, which is rooted in our founding 20 plus years ago, whilst also embracing change. We have increased our headcount to 329 and expect to grow by a further 15-20% over the next year. Our induction and training programme, which all new joiners attend, has been developed to provide our new members with the training, support and supervision required as they learn the Alfa way.

In 2017, we have also grown the Alfa family by entering into a global service agreement with a transnational professional services firm, with whom we are now co-bidding in a late stage pipeline opportunity. This is a very important step towards implementing side-by-side with partners and will provide the bandwidth for long term operational growth.

In June 2017, we announced two significant new customer wins and those implementations have kicked off in earnest, ramping up through the fourth quarter and delivering over £3.4 million in revenue in 2017. While those implementations will continue throughout 2018 and beyond, we have recently announced the win of a global equipment manufacturer. The implementation will focus on Europe in the first instance, but the global master framework agreement provides us with an opportunity to implement globally, assisting this organisation in reinventing the way they do business. This will contribute to revenue growth in the second half of 2018.

Alfa team members

**329**

Completed software implementations

**5****Addressing the changing market**

From a macro-economic perspective, we believe the global asset finance market to be generally in good health. The US asset finance market is hitting its seventh consecutive year of growth and new business volumes in the key European markets reaching double digit growth. Having said that, the automotive finance sector is being buffeted by a number of headwinds. These include declining new car sales and, as with other parts of the market, increased regulation. Therefore a key focus of the global asset finance players will be to keep pace with all market drivers. Ultimately, all these factors lead to increased systems investment but they may create uncertainty in some sectors in relation to timings of implementations.

We have seen a seismic shift in the asset finance landscape in recent years and indeed months. Today we are all thinking and talking about digital, artificial intelligence, internet of things and cyber security. The way we did things a couple of years ago will no longer be the way we do it in the future. Demographics and customer priorities are changing and we need to keep listening and changing with them.

While change may be a challenge to many, we view this as an opportunity and have stepped up to grab it with both hands. After listening to our customers, who have told us that digitalisation has been at the top of their agendas for the last few years, we launched Alfa Digital to lead thinking and demonstrate our capabilities in this arena. This has successfully opened doors to potential new customers and also created new opportunities for existing customers. We can offer direct access to end consumers, connectivity within the

IT landscape and also access to data which will ultimately increase consumer satisfaction and therefore loyalty. Already, at one of our customers we have been taking part in evolving conversations around the Internet of Things – connecting Alfa Systems to the physical asset – and how this will disrupt the lending landscape. There is still a lot of runway on this and I am excited to see where this goes in 2018.

Our Cloud First approach to the market, which is a robust and comprehensive commitment to Alfa Systems being hosted in the cloud, be it public or private, has given us a major competitive advantage. This has provided our customers with real optionality around their infrastructure and has also led to significant running cost efficiencies.

**Developing Alfa Systems and our implementation processes**

We have been asked a lot about version six of Alfa Systems. Java is still a modern language and the Alfa technical platform is still a sound base for development in relation to user experience, digitalisation, and further connectivity with other systems. 2018 will see us start the journey towards a more granular modularisation of Alfa Systems allowing for faster development, fewer dependencies, and positioning the software as a leader in the more open and cooperative deployments we expect to see in the future. Some of this development will appear in version six of the software.

We are also continuing to focus on the strategic projects which will move us towards the vision of delivering a fast, lower friction Alfa to any country, any vertical and to any size of company.

Our simplification focus will look at improving internal processes and optimising automation of migration and data testing. The collaborations we have with existing customers, as well as our own investment in simplification over 2017 will enable Alfa to win customers who had previously not been able to accept the traditional implementation processes.

**Looking back**

We have a lot to celebrate in 2017, which was a strong year financially. Revenue increased by 20% to £87.8 million (2016: £73.3 million) and Adjusted EBIT margin increased to 47%. Currency fluctuations post-Brexit have been sizeable, and excluding this impact, revenue increased 9% on a constant currency basis. Important to us is the fact that all of our completed implementation customers continued into our Ongoing Development and Services segment ("ODS") which demonstrates the strength of our customer relationships and the continued partnership we have with them.

**Looking forward**

Our management objectives will focus on the following activities:

- We will continue to ensure flawless execution of our current software implementation projects and continue to deliver to our ODS customers.
- We are also focused on capitalising on the full pipeline we see at the end of December 2017, with a number of late stage opportunities progressing to the closing stages. We expect three to four new customers or existing customer upgrade projects to be announced in 2018, including our recent win at the beginning of March 2018.

Against a backdrop of a weakening dollar, the Board expects to report low double-digit top line growth on a budget rate, or mid double-digit on a constant currency basis with new customer projects achieving run rate in the second half of the year.

**Andrew Denton**  
CEO

8 March 2018

## Our strategy

# We deliver on our strategy by focusing on our four strategic pillars

Strategic pillars	Overview	What we have achieved in 2017
<b>Focusing on the customer</b>	<p>The asset finance industry is complex, dynamic and highly regulated. Alfa delivers innovative, highly functional software that underpins our customers' operations and provides a base platform for them to innovate. We always put our customers at the heart of our offering – we work together, in partnership, to provide an optimum solution configured for each customer's needs.</p>	<ul style="list-style-type: none"><li>• Five successful implementations delivered in 2017 – record levels</li><li>• Our Cloud First approach allows quicker and more efficient Alfa deployment – first cloud implementation in February 2017 with two more following in the second half of the year</li></ul>
<b>Enabling business agility</b>	<p>The ability to adapt Alfa to changing market dynamics, while listening to our customers' needs, is at the centre of our offering.</p> <p>Our extensive market knowledge and insight means we are always on top of demands that are symptomatic of our complex, regulated markets. Our agility ensures we are always ahead of the curve, whether it is servicing new products, hosting in the cloud or partnering on digital solutions.</p>	<ul style="list-style-type: none"><li>• Alfa Systems is business ready for more than 20 regulatory regimes, therefore allowing our customers to use Alfa Systems across their theatres or business areas</li><li>• Coping with changing regulation – GDPR comes into play in May 2018 and we are working with two customers to ensure they are business ready</li></ul>
<b>Delivering with the best people</b>	<p>Our people and culture are the bedrock of our business. Innovation, quality and thoughtful leadership are fundamental in everything we do – and we are always striving to better ourselves, our product and our processes. Our industry focus, extensive experience, wide skillset and exacting but personal recruitment process allow us to deliver time and time again. This is also the perfect platform for building on and supporting our partner network.</p>	<ul style="list-style-type: none"><li>• During 2017 we have taken steps to further develop our Alfa learning and education programme, with progress made in relation to launching a new platform in 2018</li><li>• Our partnership journey continues and we have continued to deliver with two small European partners and have now signed a global framework agreement with a transnational professional services firm</li><li>• We have formally established our global corporate and social responsibility teams and have a programme of activities to give to the communities in which we work</li></ul>
<b>Leading with the best technology</b>	<p>With almost three decades of technical innovation and functional development, our product is the leading mission-critical software platform available in the market. It is developed using modern technology and purpose-built for automotive and equipment finance. We continue to develop our Business-in-a-Box solution which will increase our access to all markets.</p>	<ul style="list-style-type: none"><li>• Next generation user interface</li><li>• Elastic SQL database technology</li><li>• Digitalisation</li><li>• Cloud deployment at three customers</li><li>• Operational data store platform implemented at three customers</li></ul>

→ See our strategy in action overleaf

Performance metrics	Key challenges	Priorities for 2018
Number of completed software implementations <b>5</b>	<ul style="list-style-type: none"> <li>• Pressure on project delivery timescales</li> <li>• Pressure from changing regulation</li> <li>• Pressure on customers from disruptive entrants or new technology</li> </ul>	<ul style="list-style-type: none"> <li>• To offer a Cloud First solution to all prospects</li> <li>• Continued focus on understanding customers' needs as they push forward their digital agenda</li> <li>• Continued focus on timely and efficient delivery</li> </ul>
Revenue growth <b>20%</b>		
Countries operating in <b>26</b>	<ul style="list-style-type: none"> <li>• Pressure on the automotive sector globally</li> <li>• Increasing interest rates could put pressure on availability of credit for end-customers</li> <li>• Pressure on Alfa customers from disruptive entrants or new technology</li> </ul>	<ul style="list-style-type: none"> <li>• Continued innovation on streamlined implementation processes</li> <li>• Value add advisory services in relation to best practice and 100% automation targets</li> </ul>
Number of customers <b>32</b>		
Alfa team retention rate <b>95%</b>	<ul style="list-style-type: none"> <li>• Competition for talented people</li> <li>• Being Brexit ready</li> <li>• Maintaining retention targets</li> <li>• Continuing to provide an environment which fosters learning, development and innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Continued growth and development of our talented and diverse Alfa team</li> <li>• Identification and cultivation of the talent pool and succession planning – the next generation team</li> <li>• Effective partnerships on a global scale</li> <li>• Retention at &gt;90%</li> </ul>
Rating on Glassdoor <b>4.1</b>		
Number of Alfa team members <b>329</b>		
Total investment in product in last 3 years <b>£37+m</b>	<ul style="list-style-type: none"> <li>• Increased competition from other market participants</li> <li>• Changing technologies may make current platform outdated</li> </ul>	<ul style="list-style-type: none"> <li>• The next phase of implementing a low friction Alfa Systems is underway, with a focus on increasing efficiency of implementation work programmes, maximising efficiencies from our Cloud First customer approach and continuing to increase the connectivity of Alfa Systems with a wider systems landscape</li> </ul>
Number of engineers <b>165</b>		

→ Key performance indicators  
Page 28

→ Principal risks and uncertainties  
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# We prefer personal, not general

## Focusing on the customer

PEAC Finance is an independent pan-European asset finance leasing company.

Working together with partners and brokers alike, they deliver innovative financial solutions funding a wide range of asset classes, from office technology and software to manufacturing and plant equipment.

### How Alfa helped

Following PEAC's acquisition by HPS Investment Partners in January 2016, PEAC needed to meet a challenging deadline of less than a year to identify, build and deliver a new contract management platform. The integration of Alfa Systems ensured PEAC's unique business requirements ran effectively whilst eliminating several historical processes and technical system silos.

Over the course of the year-long project, a team of 12 Alfa staff worked in partnership with PEAC on site to design, configure, develop, test and implement its new asset finance platform.

Together Alfa and PEAC sought to understand how each of their core systems should integrate and function with the aim of streamlining PEAC's business processes and delivering fast, efficient finance at point of sale for PEAC's external partners.

### Impact

Since go-live in May 2017, Alfa and PEAC have continued to work closely together to further develop a platform that works for PEAC's ongoing needs. Alfa Systems seamlessly consolidated seven different operating systems with multiple logons into a single platform, with only one login required. Alfa supports all aspects of the PEAC contract lifecycle: on-boarding, operations and processing, as well as finance and analytics. Crucially, many of PEAC's partners now use the same system as the internal sales support team to submit proposals via Alfa's front-end Point of Sale system. This has not only made the originations process faster and more efficient, but has enabled external partners to receive credit decisions on-line within a matter of seconds.

### Better functionality

- One system with one login
- User-friendly, intuitive and easy to use
- Tailored workflow
- Integrated case management

### More efficient

- Replaces seven core systems
- Partners now use the same system as PEAC's sales support team
- Automated credit decisioning

### Innovative technology

- Less development time needed
- Highly configurable workflow and business rules
- Many APIs available, allowing PEAC to build interfaces without further technical development
- Single database

## PEAC

**Sector:** Equipment leasing  
**Region:** Europe

"The seamless nature and connectivity of the new platform enables both the Front- and Back-Office teams to access the same end customer and partner data, allowing for a truly unified customer view and enhanced data integrity. Ultimately, Alfa Systems helps us to focus on what matters most – our partners and end-customers, providing fast and effective finance on Point of Sale and a consistent service delivery from deal inception through to end of lease.

Due to our change of ownership, we needed to find a new solution and re-platform all legacy systems very quickly. We now operate a far more integrated and robust solution and with Alfa's support we have been able to seamlessly integrate our end-to-end business processes.

Our entire operational arm is now able to work more cohesively using integrated customer case management and highly configurable workflow, ultimately enabling PEAC to better service its customer and partner base.

As PEAC continues to grow and expand its European footprint, Alfa Systems will continue to work with PEAC to support and maintain its existing implementation and to further develop and enhance critical functionality such as Point of Sale and scorecard integration."

Louise O'Connell  
 PEAC, COO

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**Societe Generale  
Equipment Finance UK**

**Sector: Equipment  
Region: Europe**

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**"It has been a pleasure to work with Alfa throughout this important project. Alfa's meticulous approach and their willingness to go the extra mile ensured we were compliant with IFRS9 and had processes in place before the implementation deadline, putting us in good stead to adapt to extra changes."**

Helen Applegarth  
CIO of SGEF UK

## Strategy in action

# Flexibility not rigidity

## Enabling business agility

### Regulatory compliance at Societe Generale Equipment Finance UK (SGEF)

The accounting standard IFRS 9, published by the IASB, sets out the requirements for recognising and measuring financial assets and financial liabilities. The deadline for IFRS 9 compliance is 1 January 2018.

### How Alfa helped

Alfa Systems is a fundamental component of SGEF UK's IT landscape. There was a requirement to update this core system, as well as specific operational processes, in order to reflect the new IFRS 9 obligations. We worked with SGEF to gather requirements, suggest suitable system changes, and assist with the analysis and redesign of Finance and Collections processes to ensure timely compliance.

Although IFRS 9 was the initial driver for this particular project, SGEF also wanted to take the opportunity to automate the system's provisions processing features, and enhance Alfa's accounting functionality to reduce unwelcome manual work required at the end of each reporting month. Over the course of the project, a team of Alfa consultants worked closely with SGEF, providing regulatory advice as well as technical design, development and implementation support.

### Impact

This project was delivered in two phases, with the first completed in February 2017 and the second in December 2017, well within the required deadline. Through the implementation of new automation, SGEF benefited immediately from more robust and efficient processes for the Finance and Collections teams. Alfa continues to provide on-site support, responding to IFRS 9 queries as SGEF adjusts to the new processes following the successful go-live.

# We bring character, not robots

Delivering with the best people

## Energy, teamwork and fun

These attributes describe how we work at Alfa; they inform how we work with each other and our customers.

Delivering the best for our customers is our number one priority, but we make sure success is delivered within an environment conducive to respect, collaboration and creativity.

We believe that an inclusive and supportive internal environment internally makes day-to-day life easier for the Alfa team and this positive spirit is carried through to our clients.

Listen to Hannah describe her working day in the office and on client site.

## Working with our clients

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"The ability to work almost immediately on real life software implementations is one of the great opportunities our new Alfa team members get on joining the team – working at the customer site, seeing how their work transforms the customer's business and also gaining real commercial insight."

Lucy Matthews  
Chief People Officer

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**"Cultivating in-house innovation is key to continuing the significant progress made by our Alfa product teams over the last year. We are looking to incorporate more functionality and digital channels in Alfa Systems while streamlining our delivery model for all our markets."**

Ralf Neuff  
Chief Information Officer

## Strategy in action

# We always pioneer, never follow

## Leading with the best technology

### Cultivating innovation at Alfa

The markets our customers operate in are constantly changing. Our goal is to help our customers remain relevant by continually enhancing, developing and innovating our software in order to support their growth ambitions.

#### How we develop

Our rigorous development protocol includes robust processes and ensures quality output. To prepare regular releases and deliver on our quality promise we employ an agile methodology process that is built around four-weekly time boxes. Every four weeks (this is a period well in excess of 1,000 man days) new code is committed to the code base. The four week period is supported by a robust software development lifecycle using test driven development techniques and automated regression testing. Suites of tests are executed after every commit and every day, including for performance testing and using a variety of representative configurations. This gives our customers confidence that future releases will continue to work for them.

### Collaboration and innovation

As well as developing new features that our customers need, we're continually investigating and implementing new technologies. In FY17 we had our first go-lives on the MySQL database platform, in addition to the more common Oracle database, and we added support for the NuoDB database, from which, we believe, our customers will derive significant benefits. In FY18 we expect to fully productionise our support for Docker, which will reduce the installation time of our software to a matter of minutes for those customers who don't adopt our cloud offering.

#### How we cultivate continued innovation

New ideas are actively welcomed from all the Alfa team. We firmly believe that innovation is not achieved through top-down diktats; we actively encourage participation and the generation of new ideas from everyone.

Teams are given the freedom to explore and develop their ideas. Our development community works in small streams of six to eight people

who have ownership of the areas in which they specialise. This approach not only encourages continuous improvement, it allows for the big ideas to grow and develop. We also run formal innovation programmes such as our Hackathons, during which the whole company works together in a highly energetic and innovative environment to put new ideas into action. The Hackathons run in 2017 have produced more than ten active projects or initiatives.

Alfa UK Hackathon,  
June 2017

## Key performance indicators

# Measuring our performance

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

### Our strategic pillars

Focusing on the customer	Enabling business agility	Delivering with the best people	Leading with the best technology
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### Operational

Number of customers	Headcount <sup>(1)</sup>	Retention rate <sup>(2)</sup>
<b>32</b>	<b>329</b>	<b>95%</b>

#### Performance in 2017

Two new customer wins in year with one customer loss, due to a market exit

#### Priority for 2018

Continuing to deliver for new customers and assist with existing customer upgrades

#### Performance in 2017

Increase net 60, including a 50:50 split of graduate and experienced hires

#### Priority for 2018

Continued focus on retaining the Alfa culture and values whilst increasing supervisory ratio

#### Performance in 2017

We maintained our team retention rate and increased our employee engagement on internal surveys

#### Priority for 2018

Focus on maintaining our stellar retention rate and increasing engagement and internal communication

#### Linked to remuneration

No

#### Links to strategic pillars

#### Linked to remuneration

No

#### Links to strategic pillars

#### Linked to remuneration

Yes

#### Links to strategic pillars

\* See "Definition and method of calculation of KPIs" section on page 30.

**Financial – IFRS**

<b>Revenue</b> <b>£87.8m</b>	<b>Operating profit margin</b> <b>39%</b>	<b>Research and product development expense</b> <b>£14.0m</b>
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**Performance in 2017**

Continued strong growth across all regions with five completed implementations

**Priority for 2018**

Capitalising on the implementation pipeline and continuing to service our ODS pipeline

**Performance in 2017**

Double digit increases due to revenue growth and lower non-recurring share based payment charges

**Priority for 2018**

Operating profit margin expected to align with Adjusted EBIT margin below

**Performance in 2017**

£14.0 million cost spent on research and product development activities in 2017, representing 16% of revenue

**Priority for 2018**

Continued investment as we continue to meet customers' digitalisation agendas and with further development of our fast, lower friction Alfa Systems

**Linked to remuneration**

Yes

**Links to strategic pillars****Linked to remuneration**

No

**Links to strategic pillars****Linked to remuneration**

No

**Links to strategic pillars****Financial – Non IFRS**

<b>Billings<sup>(3)</sup></b> <b>£76.8m</b>	<b>Adjusted EBIT margin<sup>(4)</sup></b> <b>47%</b>	<b>Operating Free Cash Flow Conversion<sup>(5)</sup></b> <b>69%</b>
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**Performance in 2017**

Billings lower than revenue due to release of deferred license recognition

**Priority for 2018**

Aim to maintain billings at 90% of cash revenue

**Performance in 2017**

Sustained momentum in revenue growth coupled with our US cost base benefiting from the weakening of the US dollar

**Priority for 2018**

Continue to grow the Alfa team while maintaining consistent SG&A

**Performance in 2017**

Decrease in cash conversion ratio due to release of deferred revenue and impact of settlement of derivative financial instruments

**Priority for 2018**

As financial instruments are settled, conversion metric to increase

**Linked to remuneration**

No

**Links to strategic pillars****Linked to remuneration**

Yes

**Links to strategic pillars****Linked to remuneration**

Yes

**Links to strategic pillars**

\* See "Definition and method of calculation of KPIs" section on page 30.

## Key performance indicators continued

### Definition and method of calculation of KPIs

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

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

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

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

### (1) Headcount

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

### (2) Retention rate

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

### (3) Billings

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

### (4) Adjusted EBIT margin

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

£'000s	2017	2016
Profit for the year	25,866	9,882
Adjusted for:	—	—
Taxation	7,996	7,294
Interest income	(33)	(587)
Share-based compensation <sup>(1)</sup>	4,400	16,200
IPO-related expenses <sup>(2)</sup>	3,000	—
Adjusted EBIT	41,229	32,789

1) Relates to pre-IPO share based payment expense.

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

### (5) Operating Free Cash Flow Conversion

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

	2017	2016
Cash generated by operations	28,853	41,475
Adjusted for:		
Settlement of derivative financial instruments and margin calls	(2,683)	(4,036)
Capital expenditure	(663)	(390)
IPO-related expenses excluded from Adjusted EBIT	3,000	—
Operating Free Cash Flow	28,507	37,049
Adjusted EBIT	41,229	32,789
Operating Free Cash Flow Conversion	69%	113%



## Risk management overview

# Ensuring effective risk identification and management

### Introduction

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

### Risks and delivering on our strategic objectives

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

Our key business objectives are:

- Focusing on the customer
- Enabling business agility
- Delivering with the right people
- Leading with the best technology

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

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

### How we assess risk

#### 1

##### Identify risks

While overall responsibility for risk lies at the Board level, the Directors have delegated authority for risk identification to the Executive Committee, pulling on the operational board expertise as required.

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

#### 2

##### Define risk appetite

Our systems and processes are designed to manage our exposure to risk rather than eliminate the risk completely.

Therefore the Board, with the Executive Committee, will reassess the Group's risks appetite each year with this in mind. The Board will consider the risks associated with conducting our business and delivering on our strategy, assessing the risks we are exposed to and evaluating whether this exposure is acceptable given the likelihood and severity of the risk. Then the Board can decide how to address the risk – whether to tolerate, terminate, treat or transfer the risk.

#### 4

##### Respond, manage and mitigate

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

#### 3

##### Assess and quantify

Risks are assessed to understand the trigger, the likelihood and the financial impact of the risk crystallising.

We assess these looking at the following areas:

- Financial
- Operational
- Reputational
- Legal

#### 5

##### Monitor and review

The Executive Committee monitors progress against the principal risks.

This has been shared with our newly appointed internal auditors, KPMG LLP, in Q4 2017.

The Board reviews the summary risk register and assesses the adequacy of the principal risks identified, as well as the mitigating controls and procedures which are in place and are operational.

### Where do we monitor it?

Risks are reviewed at least quarterly by the risk owners as part of our Audit and Risk Committee meeting. Our risk register is documented in our project and issue tracking software tool which we use for all of our project development work.

Tracking it this way provides us with easy access to the register, including dashboards highlighting key risks and action points, whilst also providing a history of our decision making and discussion points.

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

Our risk register is documented in our project and issue tracking software tool used for all of our project development work. By tracking it this way, we are provided with easy access to the register, including dashboards highlighting key risks and action points, whilst also providing a history of our decision making and discussion points.

The complete risk register is reviewed at least quarterly as part of our Audit and Risk Committee meeting and ownership of the risk register sits with the Risk Officer.

The impact of each risk is determined by assessing the financial, legal, regulatory and operational impact, in conjunction with the likelihood of the risk crystallising.

### Principal risk analysis

1. Talent recruitment and retention
2. Project delivery and support
3. Product management
4. Economic, political and social environment
5. IT security cyber risks
6. Business interruption or continuity

## Risk management framework

### Board

Overall responsibility for risk management including setting the risk appetite and agreeing key risks and mitigations

### Audit and Risk Committee

Assesses scope and effectiveness of risk management processes and procedures along with the overall internal control framework

### Executive Committee

- Identifies, assesses, monitors and manages risks – including establishment of controls and mitigation of risk;
- Exploits opportunities in line with strategic aims whilst being cognisant of risk appetite across the four areas of financial, legal, operational and reputational risk assessment;
- Ensures appropriate internal controls are in place;
- Ensures risk register is assessed quarterly, is up-to-date, including being accurate and complete; and
- Embeds risk management processes throughout the business.

### Operational Board members

Embed risk management processes in the business and assess whether these are being complied with on a day-to-day basis

### Internal auditors

- Review appropriateness of risk management policies
- Give relevant practical advice and guidance on the implementation of processes and policies
- At certain intervals, assess whether the risk management processes have been appropriately embedded in the business

## Focus for FY18

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

### Ad hoc audits and reviews

We have recently appointed KPMG in an internal audit capacity and we will undertake a number of internal audit reviews over the financial areas where we have risks identified. We will also undertake a number of IT audits over our key systems and processes with a number of third party suppliers.

### Cyber security

Cyber security remains an important risk area and we intend to work to enhance and refine our controls in this area.

### Ongoing data protection

As new regulations come into force we will continue to strengthen our processes and protections to ensure that we fully comply.

### Brexit

Our Board and Audit and Risk Committee have considered the potential impact of exiting the European Union on our business, our people and our strategy. While it is difficult to predict the impact of an exit, there could be an impact on the way we do business. Although the Directors do not see this as a stand-alone risk, it is one which we will continue to monitor and to assess.

# Principal risks and uncertainties

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

## Risk movement from prior year

▲ Increase ▼ Decrease < > Unchanged

1. Talent recruitment and retention	Impact: High	Probability: Unlikely	Movement: < >
<b>How it impacts us</b>	<b>What we are doing about it</b>		<b>Strategic priorities</b>
<p>Our business is very much dependent on our people as they are integral to the development and delivery of Alfa Systems. We operate in an industry where there is intense competition for engineers and consultants, both at the graduate level as well as highly experienced individuals.</p> <p>Failure to attract, train and retain high quality individuals in our key operating regions may impact our ability to deliver implementations, maintain product quality and leading edge functionality, manage customer relations and deliver on our strategic plan.</p>	<ul style="list-style-type: none"> <li>Continuing to ensure that Alfa is a great place to work is a key objective.</li> <li>We continue to recruit graduates and experienced hires from a diverse range of sources, from varied backgrounds and ethnicity and with varied core skills.</li> <li>Our training programmes are focused on both developing our people as engineers but also in giving them market and industry expertise. These programmes continue to evolve as we grow and we are committed to ongoing training throughout our people's careers.</li> <li>We benchmark our remuneration levels each year and aim to be competitive, through base pay and, going forward, through share ownership in our business.</li> <li>Quarterly employee engagement surveys allow areas of improvement to be identified, giving feedback on new actions or programmes and retaining an anonymous forum for continuous improvement.</li> <li>Annual career and succession planning is carried out to provide for continuity of operations.</li> </ul>		<ul style="list-style-type: none"> <li>Delivering with the best people</li> </ul>
<b>2. Project delivery and support</b>	<b>Impact: Severe</b>	<b>Probability: Unlikely</b>	<b>Movement: ▼</b>
<b>How it impacts us</b>	<b>What we are doing about it</b>		<b>Strategic priorities</b>
<p>Our business is dependent on continued delivery success – our customers depend on Alfa Systems to be the heart and lungs of their business and therefore failure to deliver timely and effective implementations and maintain sufficient levels of post-implementation support could harm our reputation and cause loss of customers.</p>	<ul style="list-style-type: none"> <li>Our implementations and ongoing development and support services are delivered using our standard Alfa implementation methodology – meaning that there is constant interaction with our customers to create one team including both customer personnel as well as the Alfa team. Time frames and go live dates are agreed as a team and continuously monitored.</li> <li>Our development methodology uses a four-weekly time box approach – which serves to maximise success as development is undertaken on a continuous basis of four-weekly sprints. This increases the efficacy of quality reviews and testing cycles as there is a regular check-in approach.</li> </ul>		<ul style="list-style-type: none"> <li>Enabling business agility</li> <li>Focusing on the customer</li> </ul>
<b>3. Product management</b>	<b>Impact: High</b>	<b>Probability: Unlikely</b>	<b>Movement: &lt; &gt;</b>
<b>How it impacts us</b>	<b>What we are doing about it</b>		<b>Strategic priorities</b>
<p>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.</p> <p>Such changes could come from increased regulation, adopting a new or more modern operating model or a desire for increased efficiency.</p> <p>Failure to manage our product road map in light of customer demand could result in an inappropriate investment focus which does not meet our customers' business needs. This in turn could increase the risk that customers could look for alternative solutions, resulting in the loss of new or existing revenue streams, and could stall long-term growth prospects.</p>	<ul style="list-style-type: none"> <li>Our approach to product development is very much a partnering approach with the customer. Through our Alfa standardised implementation methodology, we improve the communication between the business owners at our customers and our on-site teams – where we receive immediate and constant feedback on Alfa Systems development and improvements and also the current issues or challenges facing our customers' CEO, CIOs or CTOs.</li> <li>We also ensure there is a flow of internal communication between developers, product teams at head office and sales and marketing when assessing strategic projects or development plans.</li> <li>We have retained a one product approach, which allows us to provide a simple, common upgrade path for all our customers, allowing all of them to take advantage of new functionality developed to meet the demands of a changing marketplace and requirements of regulators.</li> </ul>		<ul style="list-style-type: none"> <li>Leading with the best technology</li> <li>Focusing on the customer</li> <li>Enabling business agility</li> </ul>

4. Economic, political and social environment		Impact: High	Probability: Likely	Movement: < >
How it impacts us		What we are doing about it		Strategic priorities
Alfa derives all of its revenues from providers of finance in the asset finance sector. The finance industry is sensitive to changes in economic conditions and unforeseen external events, such as political instability, inflation and other unforeseen events which may put pressure on profitability of the players in this market.	This in turn may decrease the amount they have to spend on improving their internal systems and processes or may extend the decision making when contemplating a new asset finance system.	<ul style="list-style-type: none"> <li>Alfa has a diverse customer base, both geographically and by asset type (i.e. auto, equipment) but also by type of customer (i.e. banking, OEM or independent) which therefore have different and often contrasting risk characteristics. This mitigates some of this risk as there is often a degree of geographical cyclical in trends affecting the asset finance industry.</li> <li>We aim to maintain our pipeline with the same mix to allow for a diverse portfolio in following years.</li> <li>In times of uncertainty, regulation and focus on operational efficiency may increase and Alfa revisits the product roadmap and strategy to ensure that such changes become business opportunities in times of economic, political and social uncertainty.</li> </ul>		<ul style="list-style-type: none"> <li>Focusing on the customer</li> <li>Enabling business agility</li> </ul>
If the pace of change decreases and Alfa fails to attract new customers or retain existing ODS work, this may have an adverse impact on revenue and profitability in the short to medium term.				
5. IT security and cyber risks		Impact: Severe	Probability: Unlikely	Movement: ✓
How it impacts us		What we are doing about it		Strategic priorities
In recent times, IT security risk and cyber risk has increased and we are cognisant that no system, network or product is immune to the risk that outside elements may target Alfa with attacks, specifically designed to disrupt our business or harm our reputation.	Although we do not store our customers' data, a targeted attack on Alfa could adversely affect our customers' or future customers' perception of Alfa Systems. In addition, a security breach could impact our ability to operate our business, including our ability to continue to provide support to our customers.	<ul style="list-style-type: none"> <li>We have established an internal IT and cyber security team with a focus on identifying key security and cyber risks, assessing and monitoring the control framework of our key technology suppliers (tier 3 and above) and day-to-day monitoring of IT security incidents.</li> <li>We have a process for implementing continual improvements in our IT security environment and maintaining an education and training process for all staff annually.</li> <li>Where we provide pass through hosting services, in third party environments, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.</li> </ul>		<ul style="list-style-type: none"> <li>Focusing on the customer</li> <li>Leading with the best technology</li> </ul>
6. Business interruption or continuity		Impact: Severe	Probability: Unlikely	Movement: < >
How it impacts us		What we are doing about it		Strategic priorities
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.	<ul style="list-style-type: none"> <li>We have a detailed and tested incident management procedure and escalation process which is well established over a number of years. We have a disaster recovery and business continuity plan which is reviewed and tested annually.</li> </ul>		<ul style="list-style-type: none"> <li>Focusing on the customer</li> <li>Leading with the best technology</li> </ul>

## Viability statement

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

### Assessment of prospects

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

- 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 2017, the Group generated profit before tax of £33.9m and was highly cash generative with net cash from operating activities amounting to £28.9m. Taking into account the Group's current position and its principal risks and uncertainties as described on pages 34 to 35 of this Annual Report, the Directors have assessed the Group's prospects and viability.

The strategy and business model as set out on pages 10 and 19 are central to an understanding of its prospects. These inputs provide a framework for the rolling three-year plan which is developed as part of the annual budget process and reviewed by the Board to assess the Group's prospects and viability.

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

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

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

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

The output of the annual review process is a set of operational priorities, an analysis of the risks which could prevent the plan being delivered and the annual financial budget. Detailed financial forecasts which include profit, cash flow and key financial ratios have been prepared for the three-year period to December 2020. The first year of the financial forecasts forms the Group's 2018 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 above, has been made with reference to current market conditions and known risk factors. The principal risks and uncertainties are laid out on pages 34 to 35 of this Annual Report.

Given the Group's financial performance in 2017 and in recent years, the Board considers that the key factors which could impact the delivery of the Group's financial objectives are as follows:

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

The viability model has assumed the following:

1

**Alternative scenario**

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

All recruitment plans remain in place.

2

**Alternative scenario**

Includes the case of a significant ongoing implementation being terminated immediately.

All recruitment plans remain in place.

In the case of a terminated implementation, deferred revenue would be released in the short term and termination payments would be invoiced representing up to three months of implementation effort. In the alternative scenario, it is envisaged that the termination payment is not collectible due to the financial condition of the terminating customer.

3

**Alternative scenario**

Includes both a rapid deterioration in pipeline and therefore no new customer wins in a 12 month period and the case of a significant ongoing implementation being terminated.

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

In the case of a terminated implementation, deferred revenue would be released in the short term and termination payments would be invoiced representing up to three months of implementation effort. In the alternative scenario, it is envisaged that the termination payment is not collectible due to the financial condition of the terminating customer.

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.

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

Revenue and profitability are clearly affected in this alternative scenario but the business remains cash generative. The lowest cash balance envisaged was £21.7 million before mitigating items which would conserve a further £5.0–10.0 million cash, approximately on an annualised basis.

Based on the assessment of prospects and viability opposite, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2020.

## Financial review

# Consistent revenue growth across all of our markets with strong EBIT margins

**Vivienne MacLachlan**  
Chief Financial Officer

Revenue  
**£87.8m**  
(2016: £73.3m)

Revenue growth  
**20%**

Adjusted EBIT margin<sup>(1)</sup>  
**47%**  
(2016: 45%)

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

### Group results

	2017 £'000s	2016 £'000s	Movement %
Revenue	87,777	73,280	20%
Operating expenses – net	(53,948)	(56,691)	(5%)
Operating profit	33,829	16,589	104%
Finance income	33	587	(94%)
Taxation	(7,996)	(7,294)	10%
Profit for the period	25,866	9,882	162%

### Revenue

Alfa revenue increased by £14.5 million or 20% to £87.8 million in the year (2016: 73.3 million). Growth was predominantly driven by completing implementations on larger more complex projects, with customers who then moved into ODS post implementation. We therefore saw ODS grow by £12.5 million in the year with the number of ODS customers contributing more than £0.3 million increasing to 14, from eight in the prior year.

We gained from the strong US dollar in the first half of the year and benefited from £1.7 million gains on the revaluation of financial instruments (2016: £3.8 million loss).

### Software implementation

Software implementation revenue decreased by £3.1 million, or by 7%, to £44.8 million for the year ended 31 December 2017 (2016: £47.9 million) reflecting the natural progression of customers, who had gone live primarily in the first half of the year, all continuing into ODS activities.

Completed implementations contributed £16.2 million of revenue in 2017 (2016: £28.3 million).

New implementation customers contributed £3.6 million in aggregate in the second half of the year, which partially offset the decline in completed implementations. With an average number of implementation customers of six during 2017 (2016: 7), revenue per

customer increased by 6% reflecting the increased efforts at the go-live point, offset by the naturally lower revenue levels from new customers as new projects commenced in the second half of the year. Average number of customers is calculated based on the number of months of implementation activities in each year.

In 2017, 60% of implementation revenue is denominated in US dollars (2016: 70%) and as such, were impacted by the strong USD in the first half of the year.

### Constant currency

We provide percentage increases or decreases in revenue or Adjusted EBIT to eliminate the effect of changes in currency values as we believe it is helpful to the understanding of underlying trends in the business. When trend information is expressed herein "in constant currencies", the comparative results are derived by re-calculating non British pounds denominated revenue and/or expenses using the average monthly exchange rates of this year and applying them to the comparative periods results, excluding gains or losses on derivative financial instruments. The average rates are as follows:

	2017 average	2016 average
USD	1.2887	1.3554
Euro	1.1414	1.2163
Swedish Krona	11.0001	11.5210
New Zealand dollar	1.8140	1.9497
Australian dollar	1.6811	1.8252

We recorded £1.7 million of gains on fair value of derivative instruments entered into prior to the June 2016 Brexit vote. On a constant currency basis, the decline in implementation revenue was 18%, reflecting the significant portion of revenue derived from our US customer base.

#### ODS

ODS revenue increased by £12.5 million to £21.2 million during 2017 (2016: £8.7 million). The number of ODS customers contributing more than £0.3 million of revenue increased to 14 (2016: 8) due to completed implementation customers moving into ODS. These customers contributed £10.2 million of revenue in 2017, an increase of £7.1 million. Another key driver of ODS growth was the continued strong demand from our existing customer base which contributed an increase of £4.6 million, including increased license fees of £1.3 million due to increased customer portfolio sizes.

Average customer revenue increased by 37%, reflective of the increasing size and complexity of these ODS customers and their operations. ODS projects undertaken in the year included ongoing changes to processes, additional bespoke development and migration of additional customer portfolios onto the Alfa platform as a result of regulatory or control requirements.

Due to the diversity of our ODS customer portfolio, the impacts of foreign currency were not as significant and, on a constant currency basis, ODS revenue growth was similar, at 140%.

#### Revenue

	2017 £'000s	2016 £'000s	Movement %
Software implementation	44,764	47,881	(7%)
ODS	21,164	8,667	144%
Maintenance	21,849	16,732	31%
<b>Total revenue</b>	<b>87,777</b>	<b>73,280</b>	<b>20%</b>

#### Maintenance

Maintenance revenue increased by £5.1 million, or 31%, to £21.8 million (2016: £16.7 million), primarily due to increases in customer portfolio sizes which triggered increased license and maintenance payments and stepped increases after implementations have completed. Such payments accounted

for £3.3 million, with the remainder coming from the underlying customer base or new customers. Annual rate rises on the underlying existing customer base were also offset by the weakening of the US dollar on US dollar denominated maintenance contracts in the second half of the year.

#### Revenue streams

Alfa generates three different revenue streams.

#### Software implementation

An implementation process contains three revenue streams, being recognition of the perpetual license, implementation fees and development fees. Implementations can take from nine months to five years depending on the complexity.

The perpetual license is generally invoiced and collected at the beginning of the project and the license amount is banded by geographies, the number of modules taken by the customer and the number of contracts or agreements to be written through Alfa Systems. There is one performance obligation, being the implementation of Alfa Systems. For this reason, the license is recognised as deferred revenue and then recognised as implementation revenue over the period of the implementation.

Implementation and development fees are recognised on a daily rate basis.

#### 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.

#### Ongoing development and services

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.

Such services are generally provided on a shorter contractual term.

**“2017 saw another strong year of growth, with revenue growth of 20% and an Adjusted EBIT margin of 47%. This was driven primarily by increased implementation revenues at the beginning of the year, supplemented by growing demand from our growing ODS customer base in the back end of the year.”**

### Operating profit

The Group's operating profit increased by £17.2 million, or 104%, to £33.8 million in the year ended 31 December 2017, from £16.6 million in 2016, predominantly reflecting revenue growth and decreased non-recurring pre-IPO share based payment expense of £11.8 million. Operating profit margin increased to 39% (2016: 23%), reflecting the decrease of share based payment expense.

Excluding exceptional items of pre-IPO share based payment expense of £4.4 million (2016: £16.2 million) and IPO-related expenses of £3.0 million, operating profit increased to £41.2 million from £32.8 million due to growth in revenue, offset by increased salary costs as we continued to expand the Alfa team.

**Implementation and Support (“I&S”) expenses** increased by £4.3 million, or by 25%, to £21.0 million (2016: £16.7 million) which represents 24% of revenue generated. I&S expenses are predominantly personnel costs and therefore increase with headcount. In the year, average I&S headcount increased by 27 FTEs to 110 FTEs (2016: 83 FTEs). Additionally we have been impacted by increased costs to recruit, with recruitment fees increasing in line with the number of experienced hires in the period.

### Research and product development

(“R&PD”) expenses remained relatively static with a marginal increase of £0.3 million to £14.0 million (2016: £13.6 million) which represents 16% of 2017 revenue. R&PD expenses are predominantly personnel costs in relation to personnel identified as developers. Personnel can be reassigned to other areas in response to changing project requirements. For instance, with more mature ongoing implementations, these typically see a peak of development effort at the mid-point of the implementation, with less in the latter stages. During 2017, our development efforts centred primarily on customer project development, with no amounts capitalised.

**Sales, general and administrative (“SG&A”) expenses** decreased by £7.3 million, or by 28%, to £19.1 million (2016: £26.4 million) which reflected a decrease in share based payment expense of £11.8 million offset by increased professional fees of £3.0 million, relating to the IPO, and increases to salary costs. Excluding the impact of pre-IPO share based payment expenses and IPO related expenses, SG&A expenses increased by £1.5 million, or by 15%, to £11.7 million (2016: £10.2 million). This increase reflects an increase in salary costs as FTEs increased to 49 (2016: 37) as we bolstered our back office capability and grew our sales and marketing team, offset by a decrease in foreign exchange losses to £1.1 million (2016: £1.3 million).

### Profit after taxation

Profit after taxation increased by £16.0 million, or by 162%, to £25.9 million (2016: £9.9 million). The effective rate of taxation in 2017 decreased to 24%, (2016: 42%) due to non-deductible expenses such as share based payment expenses decreasing in 2017. Excluding exceptional items, the adjusted effective rate of taxation was 19% (2016: 22%) reflecting the decrease in the UK's statutory tax rate offset by profits in foreign subsidiaries.

### Tax policy

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

## A regional snapshot

**On a regional basis, 48% of the Group's revenue is generated from US-based customers (2016: 50%), 35% from UK customers (2016: 35%), and 17% from the Rest of World (2016: 15%).**

### Revenue – by region

£'000s	2016	Movement %
UK	30,686	25,894
US	42,167	36,493
Rest of World	14,924	10,893
Total revenue	87,777	73,280

#### UK

UK revenue increased by £4.8 million, or by 19%, to £30.7 million for the year ended 31 December 2017 (2016: £25.9 million) primarily reflecting existing customer revenue growth, with new customers additionally contributing £0.9 million in the year. Demand from UK based customers increased specifically in relation to assistance with development and implementation services for their overseas portfolios. Additionally there was increased focus due to changing regulatory requirements, specifically GDPR and open banking legislation. This increased demand was partially offset by the natural decline in development work for completed implementation customers.

Revenue from the UK's equipment lenders increased by £3.1 million or 17%, to contribute approximately 71% of segment revenue. This increase was driven by increased implementation revenue ahead of go-lives and revenue from additional licenses due to increased customer portfolio sizes.

#### US

US revenue increased by £5.7 million, or by 16%, to £42.2 million for the year ended 31 December 2017 (2016: £36.5 million) reflecting ongoing implementation activity, coupled with contribution from our recent customer win, offset by decreasing revenue from ongoing development and services. The number of US customers increased by one in the period, with new revenue contributing £2.4 million in the second half of the year. Excluding the impacts of unrealised gains or losses on derivatives, underlying US revenue remained relatively constant at £40.5 million (2016: £40.2 million).

US revenues are approximately 100% automotive customers (2016: 100%) with banking customers contributing 49% of segment revenue (2016: 38%) and OEMs contributing 37% (2016: 60%). We have increased the contribution from independent customers to 14% (2016: 2%) due to a significant new customer win in the used car sector.

#### Rest of World ("RoW")

RoW revenue is generated principally from Europe, Australia and New Zealand with RoW revenue increased by £4.0 million, or by 37%, to £14.9 million for the year ended 31 December 2017 (2016: £10.9 million) reflecting increased activity across both implementations and ODS. New customers contributed £2.0 million to growth, while existing customer revenue increased by a further £1.9 million as a result of ongoing implementations and migrating new portfolios onto existing Alfa platforms.

RoW revenue is derived almost wholly from the equipment vertical, contributing 89% in 2017 (2016: 91%).

## Financial review continued

### Key financial metrics

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

The most directly comparable measure of Adjusted EBIT and Adjusted Earnings is our profit from continuing operations.

#### Billings and Operating Cash Flow

Conversion are monitored by management as liquidity measures.

The most directly comparable measure of Operating Cash Flow Conversion is cash generated from operations as a percentage of operating profit.

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

#### Adjusted EBIT

Adjusted EBIT, defined as operating profit excluding pre-IPO share based payments and IPO-related costs, increased by £8.4 million, or 26%, to £41.2 million in 2017 (2016: £32.8 million). Adjusted EBIT margin in 2017 increased to 47% (2016: 45%), reflecting margin enhancing revenue from increased maintenance or licenses, including a release of £2.0 million deferred ODS revenue in the first half of the year, offset by increased personnel costs as the Alfa team grew both at the graduate level but also at the junior management level. Excluding the impacts of currency, Adjusted EBIT on a constant currency basis increased by 17%.

Adjusted EBIT	2017 £'000s	2016 £'000s
Profit for the period	25,866	9,882
Adjusted for:		
Taxation	7,996	7,294
Finance income	(33)	(587)
Share based compensation <sup>(1)</sup>	4,400	16,200
IPO related expenses <sup>(2)</sup>	3,000	—
Adjusted EBIT	41,229	32,789

(1) Relates to pre-IPO share schemes.

(2) Relates to non-recurring expenses in relation to the listing of shares in June 2017.

#### Adjusted Earnings per share

On an adjusted basis, Adjusted Earnings attributable to equity holders was £33.0 million, representing an increase of £8.9 million or 37% on the prior period. Adjusted earnings per share, diluted, increased to 11.0 pence (2016: 8.0 pence).

Adjusted Earnings per share	2017 £'000s	2016 £'000s
Profit for the period attributable to shareholders	25,866	7,869
Adjusted for:		
Share based compensation <sup>(1)</sup>	4,400	16,200
IPO related expenses <sup>(2)</sup>	3,000	—
Tax effect of adjustments <sup>(3)</sup>	(290)	—
Adjusted Earnings	32,976	24,069

(1) Relates to pre-IPO share schemes.

(2) Relates to non-recurring expenses in relation to the listing of shares in June 2017.

(3) Professional fees tax effected based on the applicable rate in the UK in the period in which incurred. Share based compensation is not deductible for tax purposes and therefore not tax effected.

#### Billings

These are amounts invoiced in year. This differs from revenue as defined by IFRS due to the release of deferred income in relation to license payments and maintenance agreements and accrued income in relation to work in progress. Billings increased by £2.8 million to £76.8 million, which was £11.0 million less than revenue recognised.

#### Operating Free Cash Flow Conversion

Operating Free Cash Flow conversion decreased to 69% (2016: 113%) due to recognition of £7.3 million of deferred revenue license amounts and an increase in trade receivables.

Operating Cash Flow generation	2017 £'000s	2016 £'000s
Cash generated from operations	28,853	41,475
Adjusted for:		
Settlement of derivative financial instruments and margin calls	(2,683)	(4,036)
Capital expenditure	(663)	(390)
IPO-related expenses excluded from Adjusted EBIT	3,000	—
Operating Free Cash Flow	28,507	37,049
Adjusted EBIT, including pre-IPO expenses	41,229	32,789
Operating Free Cash Flow Conversion	69%	113%

## Funding and liquidity

At 31 December 2017 the Group had cash reserves of £31.3 million. Cash balances were denominated predominantly in GBP and US dollars, being 62% and 32% of the total cash and cash equivalents balance respectively.

Net cash decreased to £31.3 million as at 31 December 2017, from £46.3 million at 31 December 2016. This decrease reflected a £60.7 million payment of pre-IPO dividends and £2.7 million paid in settlement of derivative instruments offset by the repayment of a loan from the ultimate parent of £27.0 million and operating cash generation of £28.9 million.

### Cash flow

	2017 £'000s	2016 £'000s
Cash generated from operations	28,853	41,475
Settlement of derivative financial instruments and margin calls	(2,683)	(4,036)
Income taxes paid	(6,888)	(5,771)
Net cash generated from operating activities	19,282	31,668
Net cash generated from/(used in) investing activities	26,413	(17,984)
Net cash used in financing activities	(60,743)	(4,270)
Effect of exchange rate changes	49	2,758
<b>Movement in year</b>	<b>(14,999)</b>	<b>12,172</b>
Cash and cash equivalents at beginning of the period	46,266	34,094
<b>Cash and cash equivalents at end of the period</b>	<b>31,267</b>	<b>46,266</b>

Net cash generated from operating activities decreased by £12.4 million to £19.3 million during year ended 31 December 2017 (2016: £31.7 million) which was primarily due to the decrease in cash generated from operations of £12.6 million.

Cash generated from operations decreased to £28.9 million (2016: £41.5 million) partially due to £7.3 million utilisation of deferred revenue. This relates to implementation-related license revenue recognised as revenue in the year on a percentage of completion basis, which had been collected in prior periods. This licensee revenue was partially offset by annual maintenance amounts collected and deferred to 2018 and new customer license revenue. Trade and other payables decreased, reflecting a cash outflow of £1.1 million, linked to lower personnel related accruals and VAT payments outstanding at the year end. Operating profit, after non-cash items of share based payment expense, depreciation and unrealised gains and losses on derivative instruments, was relatively static in both periods at £37.0 million. Net cash generated from operating activities was further decreased by £2.7 million and £6.9 million payments related to the settlement of derivative financial instruments and taxes paid in 2017, respectively.

Net cash flows generated from investing activities of £26.4 million in year ended 31 December 2017 related to the receipt of a related party loan receivable from the ultimate parent company of £27.0 million, offset by £0.7 million of capital expenditure. In 2016, cash used in investing activities of £18.0 million was primarily in relation to a £17.7 million loan paid to the ultimate parent company.

Net cash flows used in financing activities of £60.7 million in year ended 31 December 2017 related to pre-IPO dividends paid to the ultimate parent company. A cash outflow of £3.3 million in 2016 was in relation to a settlement of preference shares held by a former founder and a dividend of £1.0 million. No further dividends have been proposed.

### Currency hedging

A portion of the Group's revenues is denominated in US dollars and while some of the Group's operating expenses are also US dollar denominated, there is still some exposure. The Group had entered into US dollar forwards which have been partially settled by 31 December 2017. In 2016, overall currency movements were such that the impact of these arrangements was a gain to revenue of £1.7 million whereas in 2016 it was a loss of £3.8 million. At 31 December 2017, \$9.0 million of US dollar forwards remain outstanding for settlement.

## Capital expenditure and contractual obligations

The Group's capital expenditure primarily comprises of property, plant and equipment in relation to property enhancements and computer hardware and was invested primarily in the UK.

Additionally the Group had contractual obligations in the form of operating leases of £9.4 million, of which £1.3 million is payable within 12 months of the year end, £4.5 million in 1-5 years and £3.6 million after 5 years.

## Distributions to shareholders

In February and May 2017, dividends of £60.7 million were declared and paid to the ultimate parent company prior to the IPO. All dividends have been paid as at 31 December 2017 and no interim or final dividend has been declared.

## Related party transactions

The ultimate parent undertaking is CHP Software and Consulting Limited (the "Parent"), which is the parent undertaking. There was no trading between the Group and the Parent. In the year ended 31 December 2017, the amounts owing from the Parent were settled in full, as disclosed in note 12 to the financial statements, and the balances outstanding from the Parent at 31 December 2017 and 31 December 2016 were nil and £27.0 million respectively.

## Subsequent events

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

**Vivienne MacLachlan**  
Chief Financial Officer

8 March 2018

## Corporate social responsibility

# Alfa's commitment to the market, our stakeholders and our communities

Our CSR agenda underpins a business imperative that supports customer loyalty and Alfa's competitive advantage

## Our team

### Our diversity

We appreciate diversity and treat everyone equally

We have embedded programmes to support and promote all diversity across the whole Company. We are a proud member of Stonewall, the LGBT rights charity, have a 33% female representation at Board level and 29% on our Executive Committee.

Over the coming months we are building on our Women in Tech initiatives. Our inclusion group also runs a number of talks each year to raise awareness, challenge perceptions and encourage healthy debate on diversity topics that impact our people and our communities.

### Our training

We invest in our people, throughout their careers

The Alfa team are remunerated well, enjoy an excellent benefits package, and are supported to develop the career they want.

This is not just about expanding technical knowledge as there is an equal focus on soft skills and personal development. We have held the Investors In People award continuously since 1994.

### Our culture

Our culture and heritage are very important to us

As demonstrated in our 95% retention rate, we take pride in creating a great place to work. An environment where the whole Alfa team can be themselves and can achieve their best work.

Our culture is inspired by collaboration and the sharing of ideas, knowledge, expertise and networks.

### Our internal communication

Engagement and alignment with core goals for all Alfa staff are key

Our global quarterly Company meetings give the opportunity for transparent and clear communications, from the senior management but also for the entire Alfa team to share their views and ideas.

We also hold numerous team and Company events throughout the year. Our Hackathons are great examples of inspirational events that encourage innovation and working together.

→ Turn over to read in more detail how we put this into practice

## Our community

### Our customers

#### Our customers are our top priority

Innovation is embedded in our culture and we take pride in using this focus to help our customers excel.

We achieve this by working in partnership with them, collaborating at every level, including, and especially, on the smaller details.

We actively listen to feedback, react and respond to it and always follow through on our promises. It is important that we understand the same values as our customers' values and that we grow and evolve with them.

### Our suppliers

#### Mutual trust is at the heart of our supplier relationships

We source ethically and focus on working with suppliers who we can trust to do as we do. A genuine relationship built on respect is essential for us to proceed with shared business activities.

We are committed to working with suppliers who source ethically and whom we can trust to continue to do so.

We insist on integrity, honesty and fairness in all aspects of our business and we expect our suppliers to be as diligent.

Maintaining a sustainable business is also important and we work with suppliers who also wish to carry out business in an environmentally and social responsible manner.

### Our next generation

#### We actively encourage next generation growth in our industry to make the world better, open and more connected

Our endorsement of the Leasing Foundations' young professional initiative, including our CEO's significant ongoing involvement, demonstrates our focus on the importance of the next generation.

Through the programme we offer support, advice and importantly connections to young people who are just starting out in the business world.

### Our charities

#### Our support is not just monetary as we are committed to a continuing provision of our team's time and expertise.

We support a number of charitable causes by offering our time and expertise as well as financial donations.

We believe that supporting charities locally not only provides crucial resource

for the local environments we operate in but also gives the Alfa team the chance to engage with the community and feel like we can and are making a difference.

# We believe that our activities should positively impact the lives of the wider community

## Our key stakeholders in 2017 are:

**Our customers**

**Our people**

**Our investors**

**Our communities**

Staff retention rate

**95%**

Amounts donated

**£74,000+**

### Our values

Our focus is always on delivering the highest value to customers. How we achieve this is very much about how we treat each other, our customers and our wider stakeholders. To be excellent in our industry you need to combine high standards of service with a responsible and respectful approach to delivery and communications. We aim to fulfil this in numerous ways:

- We strive to do the right thing and we pride ourselves on building trusted relationships. We are always happy to hear from our customers and we remain committed to finding the right solution if things don't go smoothly.
- It's important that we use our voice to drive improvements in the industry, including transparency around inclusion and diversity. We aim to be clear, forthright and proactive in this area. Our CEO actively champions inclusion, particularly in his directorial role at the Leasing Foundation. He has profiled the topic at many industry forums and events.
- Constantly innovating and developing our technology is also a fundamental part of our value infrastructure. This ensures we continue to serve our customers and the market well.
- Our charitable activities and donations raised over £74,000 in 2017. All funds raised have helped make a difference to people's lives and wellbeing. We are also looking to expand our CSR agenda internationally as we increase our global footprint.

### Our people

#### Ethical conduct

We launched a revised code of conduct in 2017 to address the changing landscape and also to educate our team on unlawful and unethical conduct. We have a zero tolerance for corrupt behaviour among our employees. Our whistleblowing team provides a safe environment to report concerns regarding unethical behaviour and we encourage employees to do so in good faith. Since launch of the team and the reporting line, we have had no reports.

#### Building skills and promoting creativity and innovation

Creating the next Alfa Leadership team is key to our ongoing success and during 2017 we have taken steps to develop our team members with leadership potential, devise a plan for succession of key roles and also reinvigorate our internal learning and development programme. In 2018, we expect to launch a new learning and development platform which will provide individual Alfa team members with a tailored learning and development programme.

#### Listening to our people

Our quarterly internal survey allows formal feedback and we have a dedicated team who review and assess the results before responding and acting on the feedback received. Additionally, our internal leadership blogs and comments provide a valuable real-time communication channel.



## Corporate social responsibility continued

***“We’ve grown from a small operation to become a global player, but have kept our focus on the contribution and development of each individual on the team.”***

**Establishment of CSR teams globally**  
2017 saw the continuation of our CSR initiative in the UK. The US team also established a team in 2017, with the aim of establishing stronger links with the communities in which they work.

**Total reward**  
Our bonus structure is developed to be equitable, recognising that each and every one of our team contributes to the success of Alfa. Additionally in 2018, we will launch our programme of Long-Term Incentive Plans and share savings plans, with the goal of increasing employee shareholding, and therefore increasing employee engagement.

### **Inclusion, diversity and collaboration**

Our Diversity Policy is stated on page 62 to this Annual Report and has been rolled down throughout the organisation. We remain committed to recruiting the right person for each role, regardless of gender, ethnicity or background.

During 2017 the diversity of the Alfa global workforce increased, with women now representing 25% of the workforce (2016: 24%). At Board level, women make up 33% and on the Executive Committee, 29%.

### **Gender pay gap**

The Alfa gender mean pay gap for 2017 stands at 19%. This is largely on par with the UK’s national average and exists due to the lower number of women at senior levels. Excluding the impacts of demographics the mean pay gap would have been 2%.

Therefore we are committed to continued support of women returning to work after maternity leave, shared parental leave, flexible working and family days to ensure we continue to support the concept of the Alfa family in our culture.

We recognise that innovation comes from teams where diversity and individual strengths are celebrated, therefore we continue to support and aim to develop each and every Alfa team member, understanding and recognising the individual strengths they bring to the larger Alfa team.

### **Our investors**

Subsequent to Admission, we have embarked on a journey to get to know our investors and to help them fully understand our business. To achieve this we have welcomed a number of our investor teams to our head office in London, all of whom have had a chance to see our development centre at work and meet with the senior leadership team. This has provided an insight into how we operate and we welcome any other teams who want to see first-hand our culture and energy.

## Our communities

### Supporting the next generation

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

We also support our local schools through donations to or participation in events and programmes run by organisations such as the Diana Awards, the Literacy Trust and the Computers to Schools programme.

### Reducing the impact we have on the environment

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

Our green focus in the coming year will be on:

- Increasing the percentage of waste that is recycled within Alfa.

- Reducing the amount of waste generated by employees. For instance we have just introduced "A Lunch Box" initiative whereby team members use an Alfa-supplied lunch container when buying hot food for lunch. The container is then washed and re-used the next day, eliminating the waste of one-use packaging supplied by food outlets.
- Increasing the air quality of the office through having a greater number and variety of plants.

### Greenhouse Gas Emissions

The Greenhouse Gas Emissions ("GHG") disclosures for the Group have been shown for the year ended 31 December 2017, which is the first year they are presented. The calculation of the disclosures has been performed in accordance with the Greenhouse Gas Protocol Corporate Standard and using the UK Government's DEFRA conversion factor guidance in relation to 2017.

The Alfa operations that primarily release GHG include the usage of electricity at our leased offices and business travel. As this is the first time that Alfa has reported on its GHG emissions, we are continuing to develop the GHG data gathering capabilities. Therefore, the 2017 data covers our leased headquarters in London assuming

**"All employees are encouraged to take an active part in the schemes we offer, and volunteers range in seniority from Junior Consultant to our CEO."**

Gillian Bray  
Head of HR

an average consumption for the property type and area leased. We do not select or control the provision of electricity. We have chosen to show the intensity ratio measured as tonnes of CO<sub>2</sub> equivalent per £ million of revenue as it reflects the impact of the growth of the business on the immediate surroundings.

	2017 tCO <sub>2</sub> E
Usage of fuel and operation of buildings	140
Electricity purchased for own use	-
Air travel	550
Total	690
Intensity ratio – tCO <sub>2</sub> e per £million of revenue	7.9

### Giving back

Over 2017 the Alfa team participated in a number of giving back schemes, from donating to Christmas foodbanks to Macmillan Cancer bake sales to sponsorship for sporting events. We have donated and matched funds in excess of £50,000 and have just implemented a payroll giving scheme, available to all Alfa team members.

### Modern slavery assessment

During 2017 we have undertaken an assessment of our suppliers to ensure that we contract and work with ethical providers. We have trained our key procurement team in relation to the relevant requirements and regulations and also developed an ethical procurement policy.

## Corporate Governance Introduction

# Committed to effective corporate governance

**“Our commitment to corporate governance touches all aspects of our business, from assessing our risk appetite to the creation of our talent pipeline and resultant succession planning. Our commitment to the highest standards of governance sets the strongest example of the Alfa values and culture, and sets the tone within our team.”**

**Andrew Page**  
Executive Chairman

Our Board was formed on 5 May 2017, following incorporation of the Company and prior to the IPO. Since formation, the Board has focused on not only demonstrating that it is committed to the establishment and delivery of the highest standards of corporate governance, but also to delivering the strategic aims laid out during the listing process, refining the talent and succession pipeline and ensuring that all stakeholders are informed of the next stages in the Alfa journey.

In preparation for listing, the Board either approved existing policies or established new policies, where necessary, with the aim of further strengthening the Alfa governance framework. In 2017, the Board's principal achievements are as follows:

### **Establishing our PLC Board with relevant**

#### **Non-Executive expertise and industry knowledge**

Bringing an experienced, highly skilled and well-balanced Board together was the realisation of one of our key purposes for listing – we were looking for Board members who would complement the executive Board with the right balance of skills and experience – both from an industry and technical skill perspective but also with experience of listed companies – and people who would also partner with us through the next part of our journey. In the appointments of Richard, Robin and Karen, we received all of this and we are very proud that they sit with us today.

### **Shareholder engagement**

We view our relationship with all our shareholders as a partnership, and aim to maintain open and transparent communication. We laid the foundations for this ongoing shareholder dialogue as we progressed through the listing process, and look to continue this into 2018 and beyond. We have held briefing meetings with analysts and institutional shareholders, primarily following the announcement of the interim results but also at other times during the year. The CFO provides the Board with feedback from investor and analyst meetings, in addition to the formal feedback obtained from analysts and institutional shareholders via our brokers and PR advisors.

### **Refining our strategic aims**

In addition to the on-boarding process of our Non-Executive Directors in the run up to the listing, we also held a strategy day in October 2017 where we ran through certain aspects of the business and operational strategy in more detail. This is an important part of growing our Board's continued understanding of our business and industry. Additionally, it provides our Executive Committee with access to the Board.

### **Talent development and succession planning**

We have started to refine our talent development and succession planning programme and will continue to focus on this in the coming year. We formed the Executive Committee pre listing, with further details on members on pages 56 to 57 to this Annual Report, where all parts of the business are represented. The Non-Executive Directors have spent some time with the team outside formal meetings to gain a deeper insight into how we currently manage talent and remuneration, and this is expected to increase in the coming year.

### **Identifying and planning for stakeholder management**

We have identified our customers, employees, investors and the communities in which we work as our principal stakeholders. We continue to develop and refine the way we communicate and engage with each group, especially employees, as we have gone through this period of change. A continued focus of the Board, through the work of the Remuneration Committee, in the coming year will be the reward and assessment of employees throughout the Company.

# Corporate Governance Report

## Statement of Corporate Governance

This Corporate Governance Report, including the sections which follow, sets out how the Company has applied the main principles of good governance as set out by the UK Corporate Governance Code, April 2016, as issued by the FRC (the "Code").

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

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

The Directors of Alfa Financial Software Holdings PLC (the "Company") present this first Annual Report for the year ended 31 December 2017, on the affairs of Alfa, together with the Consolidated Financial Statements and the Auditor's report. Alfa is committed to achieving the highest levels of corporate governance and, in 2017, has continued to build on the corporate governance framework which was established on incorporation of the Company.

We have laid out this Corporate Governance Report using the UK Corporate Governance Code (the "Code") as a framework for articulating the Board's activities this period and also to frame our focus for the coming year. The structure of this Corporate Governance Report is as follows;

- Leadership and effectiveness
- Accountability
- Stakeholder engagement and relationships
- Remuneration

Governance area	Highlights
<b>Independence</b>	At the point of listing, and at the date of this Annual Report, we have a non-independent Chairman. However, we have a majority of independent Non-Executive Directors on our Board, excluding the Chairman, which is in line with the guidance under the Code.
<b>Experience</b>	When the Board was established, our focus was to ensure that we had relevant industry, financial and public company expertise and we believe that we have achieved that with our Board today.
<b>Accountability</b>	We have clear and documented separation of duties between the Chairman and the CEO. The Alfa CEO, Andrew Denton, is responsible for determining the Alfa strategy and day to day operations, leading the Executive Committee, which assists in the day to day delivery of this strategy and general operations. Andrew Page, as Chairman, provides oversight and guidance to Andrew Denton on the strategic direction, key commercial or contracting decisions and overall succession planning for the Board.
<b>Evaluation</b>	We have not undertaken an internal evaluation of the Board or the Board's committees as they were established in May 2017. Instead, an internal evaluation will be undertaken in the second half of 2018 ahead of the 2018 annual reporting process.
<b>Attendance</b>	Each of our Directors has attended all relevant Board and committee meetings with an acceptable level attended in person.
<b>Compliance of composition of committees</b>	The composition of our committees complies with the Code requirements.
<b>Shareholder relationship agreement</b>	A relationship agreement was executed on 26 May 2017 setting out the framework under which the controlling shareholder, CHP Software and Consulting Limited, and the shareholders of the controlling shareholder would operate to protect the rights of non-controlling shareholders. The agreement gives the right to appoint two Directors to the Board, not compete and, where applicable, all transactions between the controlling shareholder and Alfa will be conducted at arm's length and on normal commercial terms.
<b>Internal audit</b>	We have applied an outsourced internal audit model, appointing KPMG LLP as our outsourced internal audit provider for 2018.
<b>Remuneration and reward</b>	We present our Remuneration Policy on pages 71 to 76, which is designed to incentivise and motivate the Executive Team to achieve the strategy as laid out in this Annual Report.

## Corporate Governance Report continued

### 1. Leadership and effectiveness

#### The role of the Board

Alfa is led and controlled by the Board which is collectively responsible for the long-term and sustainable performance of Alfa. The roles of the Chairman and the CEO are separate and clearly defined, with the division of responsibilities set out below.

#### The responsibilities of the Board

Role	Principal responsibilities
<b>Chairman</b>	<ul style="list-style-type: none"> <li>Manages and provides leadership to the Board.</li> <li>Acts as a direct liaison between the Board and management, working with the CEO to assist the flow of information.</li> <li>Ensures that the Directors have sufficient information to enable the Directors to form appropriate judgements.</li> </ul>
<b>Chief Executive Officer</b>	<ul style="list-style-type: none"> <li>Responsible for the day-to-day management of Alfa.</li> <li>Together with the Executive Committee, is responsible for executing the strategy, once it has been agreed by the Board.</li> <li>Creates a framework that optimises resource allocation to deliver strategic objectives over varying timeframes.</li> </ul>
<b>Senior Independent Director</b>	<ul style="list-style-type: none"> <li>An Independent Non-Executive Director.</li> <li>Provides a sounding board for the Chairman and CEO.</li> </ul>
<b>Non-Executive Directors</b>	<ul style="list-style-type: none"> <li>Provide constructive challenge to the Executive Directors.</li> <li>Help develop proposals on strategy.</li> <li>Scrutinise management's performance in meeting agreed goals and objectives.</li> <li>Monitor performance reports.</li> </ul>
<b>Chief Financial Officer</b>	<ul style="list-style-type: none"> <li>Overall management of the financial risks of the Group.</li> <li>Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders.</li> </ul>

The relationship between the Board and Controlling Shareholder, CHP Software and Consulting Limited, is governed by the Relationship Agreement (May 2017). Under this 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 while Andrew Denton is a Director, the Controlling Shareholder will not exercise its right to appoint a second Director to the Board. There have been no Board observers appointed either under the Relationship Agreement or otherwise.

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

#### Board balance and independence

The Code recommends that at least half the Board of Directors, excluding the Chairman, should comprise independent Non-Executive Directors. We have three Non-Executive Directors – whose skills and experience are detailed on page 55 to this Report. The Board considers that all of its Non-Executive Directors are independent, in character and judgement, and therefore the Alfa Board complies with the requirements of the Code. Additionally, the Directors, both individually and collectively, have the range of skills, knowledge, diversity of experience and dedication necessary to lead the Group and have the requisite strategic and commercial experience to contribute to the leadership of Alfa.

#### Board induction and training

To ensure that all Non-Executive Directors are able to influence, participate fully in discussions and challenge appropriately and knowledgeably, all Non-Executive Directors received a full and tailored induction on joining the Board in May 2017, including meeting with the Executive Committee members and other members of the Alfa senior team and meetings with Alfa's team of external advisors. The induction involved visits to Alfa's head office in London, attendance at industry events and presentations as part of the Board strategy day. Further training will be provided as needs are

identified and we continue to utilise a portion of our Board meetings to provide market updates or to discuss a variety of industry, regulatory and governance issues or changes, in light of the impact these could or do have on our business.

#### What we focused on in 2017

During the period since listing we assessed, considered and debated a wide range of matters including but not limited to:

## 2. Accountability

### Responsibility for the Annual Report

The Board has charged the Audit and Risk Committee with reviewing the contents of this 2017 Annual Report to assess whether, when taken as a whole, it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Alfa consolidated position, performance, business model and strategy. This process and the focus of this review is further disclosed on page 67 to the Audit and Risk Committee Report.

### Risk management and internal controls

The Board is responsible for the overall system of internal control and for reviewing its effectiveness. Therefore the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity as detailed on pages 34 to 35 of the Strategic Report. The Board has delegated the responsibility for designing, operating and monitoring the internal control and risk management framework and systems to the Executive Committee. The internal control and risk management framework and systems have evolved through the identification, evaluations and assessment of how to manage key risks, taking into account risk appetite. The Executive Committee reports changes, developments or results of testing to the Board, through the CEO and CFO, on a bi-annual basis. We have laid out a summary of our risk management processes on pages 32 to 33 of the Strategic Report and provided further detail on page 67 of the Audit and Risk Committee Report.

There have been no changes to the internal control or risk management frameworks during the period since listing and up to the date of approval of the Annual Report. It should be noted that the systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve

business objectives and therefore they can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of law and regulations. We have a number of internal controls which operate across the Alfa business. The key controls which are relied upon during the year are set out on page 33 to the Strategic Report. This should be read in conjunction with the principal risks and uncertainties facing Alfa, which are detailed on page 34 to 35 to the Strategic Report.

### 3. Stakeholder engagement and relationships

#### Shareholder relations

The Board is committed to ensuring that we maintain good communications with existing and potential shareholders based on mutual understanding of the Company's objectives. A comprehensive investor relations programme underpins this commitment.

The Chairman, the Chief Executive Officer and the Chief Financial Officer regularly engage with institutional shareholders in order to develop an understanding of their views, which is communicated back to, and discussed with, the Board.

Presentations given to analysts and investors covering the annual and interim results, along with all results and other regulatory announcements as well as further information for investors, are included on the investor relations section of the Company's website at [www.investors.alfasystems.com](http://www.investors.alfasystems.com). Additional shareholder information is also set out inside the back cover.

Shareholders are able to contact the Company through the Company Secretary or Head of Investor Relations at the Company's registered office, listed at the end of this Report.

Our Senior Independent Director, Richard Longdon, serves as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through the normal channels. He may be contacted through the Company Secretary.

#### Other stakeholders

Other stakeholders, other than shareholders, have been identified as customers, employees and the communities in which we operate. See page 46 of the Strategic Report.

#### Annual General Meeting

All shareholders are encouraged to attend, and have the opportunity to ask questions at the Company's AGM and at any other times by contacting the Company. As well as the Chairman, the CEO and the CFO, the Chairs of the Audit and Risk, Nomination and Remuneration Committees will be available at the AGM to answer questions relating to the responsibilities of those committees.

The Notice convening the 2018 AGM, to be held on 24 April 2018, will be issued along with this Annual Report to the shareholders at least 20 working days in advance of the meeting. This will provide shareholders with the appropriate time, as set out in the Code, to consider matters. Separate resolutions will be proposed on each substantially separate matter. The results of the proxy votes on each resolution will be collated independently by the Company's registrar and will be published on the Company's website after the meeting.

## Board of Directors

A comprehensive  
and balanced mix of  
experience and expertise

3.

1.

2.

5.

4.

6.

### Board overview

**1. Andrew Page**

Executive Chairman

**Appointment to the Board**  
2017**Committees**

- Nomination Committee

**Meeting attendance**  
4/4**Other appointments**  
N/A**Past roles**  
N/A**Relevant experience**

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

**2. Andrew Denton**

Chief Executive Officer

**Appointment to the Board**  
2017**Committees**

N/A

**Meeting attendance**  
3/3**Other appointments**

- Chief Executive Officer of Alfa since 2014

**Past roles**  
N/A**Relevant experience**

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

**3. Vivienne MacLachlan**

Chief Financial Officer

**Appointment to the Board**  
2017**Committees**

N/A

**Meeting attendance**  
3/3**Other appointments**

- Chief Financial Officer of Alfa since 2016

**Past roles**  
N/A**Relevant experience**

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

**4. Richard Longdon**

Senior Independent Director

**Appointment to the Board**  
2017**Committees**

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

**Meeting attendance**  
10/10**Other appointments**

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

**Past roles**

Chief Executive Officer and President of AVEVA.

**Relevant experience**

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

**5. Karen Slatford**Independent  
Non-Executive Director**Appointment to the Board**  
2017**Committees**

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

**Meeting attendance**  
10/10**Other appointments**

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

**Past roles**

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

**Relevant experience**

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

**6. Robin Taylor**Independent  
Non-Executive Director**Appointment to the Board**  
2017**Committees**

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

**Meeting attendance**  
10/10**Other appointments**

- Non-executive Director of FDM Group PLC
- Senior Independent Non-executive Director of Emis Group

**Past roles**

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

**Relevant experience**

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

\*Meeting attendance represents meetings of Board or committees where the Director is a member.

## **Executive Management Team**

**Day-to-day management of the Group  
is delegated to the Executive Committee,  
which is chaired by Andrew Denton**

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**1. Andrew Denton**

Chief Executive Officer

Joined Alfa  
1995**Experience**

Andrew joined Alfa in 1995 as a developer before being appointed Sales and Marketing Director in 2003. He was made COO in 2010 and became CEO in September 2016. Andrew is also director and joint founder of the Leasing Foundation, an organisation that supports the leasing and asset finance industry through charitable activities, research and development.

**2. Vivienne MacLachlan**

Chief Financial Officer

Joined Alfa  
2016**Experience**

Viv joined Alfa in September 2016 where she oversees the core finance function responsibilities and investor relations, as well as being a key member of the Executive Committee. Prior to joining Alfa, Vivienne was a capital markets specialist for more than 12 years at PwC in London, assisting companies to raise capital in the UK and US markets. Vivienne is a member of the Institute of Chartered Accountants of Scotland.

**3. Lucy Matthews**

Chief People Officer

Joined Alfa  
1991**Experience**

Lucy is responsible for HR, project resourcing and the ongoing learning and development of the Alfa team. In the past she has been responsible for some of Alfa's largest UK implementation projects and continues to maintain a customer relationship role. Lucy was appointed to the Executive Committee in December 2017 and has 30 years of experience in the asset finance industry.

**4. Michael Mayes**

Chief Commercial Officer

Joined Alfa  
2002**Experience**

With more than 16 years' experience in the asset finance industry, Mike is responsible for leading commercial client negotiations across all of Alfa's territories in addition to project initiation, purchasing and supply chain management. Mike was most recently responsible for Alfa's growth in the Nordics, and has extensive experience in delivering implementations, sales and project management.

**5. Ralph Neuff**

Chief Information Officer

Joined Alfa  
1998**Experience**

With more than 19 years of experience in the asset finance industry, Ralph is responsible for Alfa's technical operations, including software development, hosting services, internal systems, information security and business continuity. He leads a team of over 70 dedicated developers based in the United Kingdom.

Before progressing to CIO, Ralph was the lead project director on a number of UK and Asia-Pacific customer implementations.

**6. Steve Taplin**

Global Sales and Marketing Director

Joined Alfa  
1997**Experience**

Steve heads up the sales and marketing group of Alfa, and has more than 20 years of experience in the asset finance industry. Since starting his career at Alfa as a developer, he has led a number of key implementation projects in the UK. He was appointed Global Sales and Marketing Director in 2010. Along with his sales brief and Alfa management team activities, Steve takes a lead role in the direction of the Alfa Systems product, as well as authoring industry articles, presenting at industry events and working on strategic consultancy engagements.

**7. Matthew White**

Delivery Director

Joined Alfa  
1999**Experience**

Matthew joined Alfa as a graduate in 1999, starting in a software development role before assuming a role on the Executive Committee in 2016. During his 17 years of experience in the asset finance industry, Matthew has undertaken a variety of roles within Alfa, from system configuration and testing support to project management for a number of UK and European implementation projects. Matthew is accountable for the operations of the business, including project delivery.

## Corporate Governance Report continued

### Board committees

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

#### Nomination Committee

##### Key objectives

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

##### Principal responsibilities

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

##### Membership

Richard Longdon (Chair)  
Andrew Page  
Karen Slatford  
Robin Taylor

 **Nomination Committee**  
Report page 60

#### Audit and Risk Committee

##### Key objectives

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

##### Principal responsibilities

- Monitor the integrity of financial statements;
- Review and challenge accounting policies and the application of these policies to unusual transactions;
- Review and approve assumptions in relation to viability;
- Assess compliance with accounting standards;
- Review clarity, transparency and completeness of financial statements;
- Oversee material information presented with financial statements;
- Review content of Annual Report to advise if fair, balanced and appropriate 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

Robin Taylor (Chair)  
Richard Longdon  
Karen Slatford

 **Audit and Risk Committee**  
Report page 63

#### Remuneration Committee

##### Key objectives

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

##### Principal responsibilities

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

##### Membership

Karen Slatford (Chair)  
Richard Longdon  
Robin Taylor

 **Remuneration Committee**  
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### Board and committee meetings and attendance

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

(1) Number of meetings does not include attendance at the strategy day.

## Executive Committee

In addition to the Board, the Executive Committee, as detailed on pages 56 and 57 of this Annual Report, meets regularly to discuss the following:

- Current trading;
- Market and industry developments;
- Financial updates – actual and planning;

- Operational issues – such as resourcing, recruitment and training and development;
- Product updates, with focus on the development roadmap, technical developments and strategic direction for the product;
- Sales pipeline and marketing; and
- Execution of strategic plan.

## Matters reserved for the Board

<b>Corporate strategy</b>	<ul style="list-style-type: none"> <li>• Review and approve overall strategy and business objectives</li> <li>• Review and approve all take-over offers</li> </ul>
<b>Capital structure</b>	<ul style="list-style-type: none"> <li>• Approve any share issues (excluding employee share plans) and any major changes to the share structure</li> <li>• Approve any changes to the Articles of Association of the Company</li> <li>• Approve any changes to the Company's listing</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>• Review and approve half year and year-end consolidated financial statements, including accompanying reports</li> <li>• Review and approve budget and three-year plan</li> <li>• Review and approve dividend policy</li> <li>• Approve any material changes to accounting policies and practices, including hedging policy</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>• Review and set risk appetite</li> <li>• Review procedures for detection of fraud and prevention of bribery</li> <li>• Approve annual assessment of effectiveness of risk and control processes</li> <li>• Approve levels of insurance coverage for Alfa and the Directors and officers</li> </ul>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• Approve statement that Non-Executive Directors are independent</li> <li>• Undertake a formal review of performance of Alfa in relation to corporate governance framework, collective effectiveness of Board and committees and effectiveness of individual Directors</li> </ul>
<b>Expenditure</b>	<ul style="list-style-type: none"> <li>• &gt;£1m of capital or operating expenditure outside budget</li> <li>• All class 1 or 2 transactions or any acquisitions or disposals &gt;£25 million</li> <li>• New material borrowing facilities</li> <li>• All related party transactions</li> </ul>
<b>Shareholder communication</b>	<ul style="list-style-type: none"> <li>• Receive and consider views of shareholders</li> <li>• Approve all circulars, annual reports and press releases with significant matters included</li> <li>• Approve all resolutions and related documentation for general meetings</li> </ul>
<b>Succession planning</b>	<ul style="list-style-type: none"> <li>• Succession plans for Board and Executive Committee, including selecting a Chairman, CEO and appointing a Senior Independent Non-Executive Director</li> <li>• Appointment of a Company Secretary</li> </ul>

## Share dealing code

Alfa has adopted a share dealing code which applies to the Company's Directors, its other PDMRs and certain persons deemed insiders. In accordance with the Market Abuse Regulation, the Directors and PDMRs are responsible for procuring the compliance of their respective connected persons with the Alfa share dealing code. The share dealing code has been published on the Alfa intranet and further training will be provided in 2018 to all of the Alfa team.

# Nomination Committee Report

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

## Membership of the Committee

**Richard Longdon<sup>(1)</sup>**  
Chairman of the Nomination Committee, SINED

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

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

**Andrew Page**  
Executive Chairman

(1) Denotes independent member under the Code.

## Role of the Committee

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

## Committee meetings in 2017

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec  
● ● ● ● ● ● ● ● 23 ●

## Meetings

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

23 Nov

Richard Longdon (Chair)	✓
Karen Slatford	✓
Robin Taylor	✓
Andrew Page	✓

I am pleased to introduce the Nomination Committee (the "Committee") Report for 2017. The members of the Committee are myself, two Non-Executive Directors, being Karen Slatford and Robin Taylor, and the Executive Chairman, Andrew Page.

We can confirm that we have complied with the Code recommendations that the Committee comprises a majority of Independent Non-Executive Directors. Myself, Karen Slatford and Robin Taylor are confirmed as independent, whilst Andrew Page is not deemed independent for the purposes of the Code.

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

There have been no changes in Committee membership since 31 December 2017.

## Role of the Committee

The Committee's primary purpose is to develop and maintain a formal, rigorous and transparent procedure for identifying appropriate candidates for Board appointments and reappointments and to make recommendations to the Board. In addition, the Committee is responsible for reviewing the succession plans for the Executive Directors and the Non-Executive Directors.

This involves:

- keeping under review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- regularly reviewing the structure, size and composition of the Board to ensure it has an appropriate balance of skills, diversity, experience, knowledge and independence, and reporting and making recommendations to the Board with regard to any changes; and
- regularly assessing the knowledge, skills and experience of individual members of the Board and reporting the results to the Board.

On the recommendation of the Committee and in accordance with the Company's Articles of Association with the Code, all currently appointed Directors will retire at the forthcoming AGM and offer themselves for re-election by shareholders.

## Diversity

The Committee will take into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge and diversity. Alfa endeavours to achieve appropriate diversity, including gender diversity, throughout the Company. The most important priority of the Committee has been and will continue to be ensuring that members of the Board should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the Group.

The Board has adopted a Diversity Statement as set out on page 62.

## Meetings

The first meeting of the Committee took place on 23 November 2017. The meeting focused on succession planning, constitution of the Board and committees and the Board Diversity Policy.

The Nomination Committee and the Board are of the view that its size and composition as well as the mix of talents, quality and skills are well suited to Alfa's current circumstances and needs and allow for its efficient functioning as a decision-making body and promote sound governance.

## Activities

### Induction, training and development

A tailored induction programme was arranged for the independent Non-Executive Directors, both in the run up to their appointment but also following the IPO as part of the strategy day held on 18 October 2017.

***"The Committee's main focus since incorporation has been the oversight of succession planning for the Board and senior management and to ensure there is a diverse and appropriate balance of skills on the Board."***

## Appointments

Richard Longdon, Karen Slatford and Robin Taylor.

As part of the preparation for Admission, the Board appointed three Non-Executive Directors, selected on the basis of their industry and public company skills, knowledge and experience required for Board members as guided by the UK Corporate Governance Code. An external recruitment consultant was not engaged as part of the recruitment process, and nor was there public advertising. Instead recommendations from the Company's advisors were sought. An assessment of the candidates' skills was undertaken and interviews were held with members of the Board and Executive Committee on a one-on-one basis prior to appointment.

## Annual evaluation

As the Nomination Committee has only been established for a short time, a formal performance evaluation has not been conducted. It is intended that a performance evaluation will be conducted in 2018 and reported on in the Company's 2018 Annual Report.

**Richard Longdon**

Chairman of the Nomination Committee

8 March 2018

## Corporate Governance Report continued

### Diversity Policy and statement

In satisfying our commitment to selecting the best persons to propose to shareholders as candidates for the Board and designate as members of the Executive Committee, the Board believes that diversity is important to ensure that the profiles of Directors and members of senior management provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management.

Accordingly, Alfa has adopted a diversity policy which outlines its approach to achieving and maintaining diversity on its Board and in senior management positions. This includes requirements for the Board to establish measurable objectives for achieving diversity on the Board of Directors and in senior management positions, and for the Nomination Committee to monitor the implementation of the policy, assess the effectiveness of the Board's nomination process and the appointment process for management positions in achieving the objectives of the policy and to measure our annual and cumulative progress made in achieving the objectives.

The Nomination Committee is responsible for monitoring the implementation and effectiveness of the diversity policy. As such, the Nomination Committee will assess on a periodic basis:

- the mix of diversity, talents, quality and skills on the Board and in senior management positions; and
- progress made on diversity, including with regard to the achievement of measurable objectives set pursuant to the diversity policy.

In consultation with the Executive Chairman of the Board, the Nomination Committee will develop, review and monitor appropriate selection criteria for Board membership that strive to attain a diversity of competencies, genders, personal qualities, geographical representation, business background, cultural background, experience, overall expertise and financial competency, taking into account Alfa's circumstances and needs.

In identifying and nominating candidates for election or re-election to the Board of Directors, the Committee:

- will seek to include diverse candidates in any director search. This process will take into account that qualified candidates may be found in a broad array of organisations, including privately held businesses and trade associations, in addition to the traditional candidate pool of corporate Directors and officers, and from a variety of cultural and geographic backgrounds;
- periodically review Board of Directors' recruitment and selection protocols to ensure that diversity remains a component of any director search; and
- will report its findings to the Board in order to assess what actions may be required for the coming year.

For the financial year ended 31 December 2017, females comprise 33% of all Directors.

A subsection of the Nomination Committee, composed entirely of independent Directors, has the mandate to oversee the succession planning for the Chairman and Chief Executive Officer and a number of selected senior executive positions, with the appointment and promotion of other members of management being delegated to management. In compliance with our diversity policy the Nomination Committee and, where applicable, management will:

- consider candidates that are qualified based on their experience, education, expertise, personal qualities, and general and sector-specific knowledge;
- make decisions on appointments and promotions on the basis of performance, skill and merit; and
- review potential candidates from a variety of cultural and geographic backgrounds and perspectives, with Alfa's diversity objectives in mind.

Pursuant to its mandate, the Nomination Committee will ensure that appropriate hiring policies, competency profiles, training policies and compensation structures, including retirement benefits, are in place so that Alfa can attract, motivate and retain the qualified personnel required to meet its business objectives. All internal and external training opportunities are based on merit and in light of the Company's needs and individual needs. In addition, the Nomination Committee will ensure that monitoring is in place regarding social issues such as employment equality, harassment and discrimination, and will review a 12-month consolidated Ethics and Compliance activity report on human resources issues.

Alfa's commitment to diversity is further reflected in its Code of Ethics, pursuant to which Alfa shall offer equal employment opportunities without regard to any distinctions based on age, gender, sexual orientation, disability, race, religion, citizenship, marital status, family situation, country of origin or other factors, in accordance with the laws and regulations of each country where it does business.

# Audit and Risk Committee Report

**Robin Taylor**  
Chairman of the  
Audit Committee

## Membership of the Committee

**Robin Taylor – Chairman**<sup>(1,2,3)</sup>  
Independent Non-Executive Director

**Karen Slatford**<sup>(1,3)</sup>  
Independent Non-Executive Director

**Richard Longdon**<sup>(1,3)</sup>  
Senior Independent Non-Executive Director

- (1) Denotes independent member under the Code.  
(2) Recent and relevant financial experience.  
(3) Software experience.

## Role of the Committee

The Board has delegated to the Committee responsibility for:

- overseeing the financial reporting and internal financial controls of the Company;
- reviewing the Group's internal control and risk management systems; and
- maintaining an appropriate relationship with the External Auditor.

## Committee meetings in 2017

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
●	●	●	●	●	●	●	12	29	●	●	23

Meetings held on 29 August and 23 November, External Auditors met independently with the Committee members excluding management.

## Meetings

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

	12 Jul	29 Aug <sup>(1)</sup>	23 Nov <sup>(1)</sup>
Robin Taylor (Chair)	✓	✓	✓
Richard Longdon	✓	✓	✓
Karen Slatford	✓	✓	✓

- (1) Denotes meetings where the External Auditors met independently with the Committee members excluding management.

I am pleased to present this Audit and Risk Committee Report for the year ended 31 December 2017 which summarises our activities since the Committee was formed in May 2017, as well as setting out intended key areas of focus as we move into 2018.

Since formation, the Committee's primary focus has been to ensure the integrity and transparency of external financial reporting, as we published the interim condensed consolidated financial statements in August 2017, and put in place a work plan for the year ahead. Following the publishing of the interim condensed consolidated financial statements we have turned our attention to year end reporting processes, the reassessment of our risk management framework and risk appetite assessment and system of internal controls. In December 2017 we appointed KPMG as internal auditors to provide independent assurance on these matters to the Board. An annual plan has been put in place, which includes the use of IT and security specialists where considered appropriate.

Moving into 2018, we will continue to discuss and give healthy challenge to management on their key judgements and estimates in relation to financial reporting, review and assess the performance of the business in line with the plan and ensure that the Alfa systems, processes and people are supported and developed to align with the growth of the business.

## Membership of the Committee

The Committee's members are all Independent Non-Executive Directors, and therefore the Committee make up complies with the Code. There have been no changes in Committee membership since the IPO in June 2017.

Members' skills and experience are documented on page 55. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience and that as a whole we have sufficient experience of the technology sector.

## Role of the Committee

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

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

- giving due consideration to applicable laws and regulations;
- monitoring the integrity of the consolidated financial statements;
- reviewing and challenging the application of accounting policies, including estimates and judgements made by management, and the clarity and completeness of disclosures;
- reviewing and assessing the internal audit function including approval of any appointments and the scope of their remit;
- overseeing the relationship with the External Auditor; and
- monitoring the effectiveness of the Company's internal financial controls and risk management systems.

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

## Audit and Risk Committee Report continued

### Meetings

The Committee met three times during 2017. The agendas are linked to the financial calendar and to an annual plan which was prepared prior to the listing. The annual plan was devised to ensure that we cover the requirements as documented in our Terms of Reference. This annual plan is dynamic and therefore will evolve when the Committee feels that there is a need for greater focus on a specific area. During the year, all members of the Board attended all meetings by invitation together with other senior managers where it was deemed useful to keep fully apprised of specific aspects of the business, such as IT controls and security.

Prism, our outsourced Company Secretary, acts as Secretary to the Committee and I am satisfied that the Committee received information on a timely basis and that meetings were scheduled adequately to allow members to have an informed debate.

In addition to the formal meetings, the Committee met the External Auditors privately without Executive Management present. I also have direct communication with our Audit Partner, predominantly around the external reporting times. In 2018, we would expect the internal auditors to attend some of the Audit and Risk Committee meetings to present their findings.

***“Our focus in 2017 has been in assisting the Board through the oversight and monitoring of financial reporting, specifically the key accounting judgements and estimates used in preparing those statements, and also in evaluating the development of Alfa’s internal financial control framework and risk management processes.”***

### Principal activities of the Committee

The Committee receives drafts of the Annual Report and consolidated financial statements in sufficient time ahead of signing, to enable sufficient review, challenge and discussion of key judgements, the narrative and disclosures.

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

#### 12 July (First meeting post IPO)

- Approval of the Committee's Terms of Reference and the annual Audit and Risk Committee plan.
- Discuss the approach to internal audit.
- Review any required changes to the risk register.

#### 29 August

- Approve interim condensed consolidated financial statements and analysts' presentation.
- Going concern review.
- Review relevant accounting policy changes.
- Review and approval of any non-audit services.

#### 23 November

- Presentation of the External Auditor's plan, including review of non-audit fees and approval of audit fee for 2018.
- IT internal controls update.
- Review of principal risks and uncertainties and the risk management process.
- Review of viability assumptions and methodology.
- Further discussion on the approach to internal audit, including approval of internal audit outsourced supplier and first internal audit projects.
- Review a draft of the ACR report and Corporate Governance Statement.

As part of the IPO process the Board approved a number of policies which included Whistle blowing, Code of Conduct, Delegation of Authority and Shareholder relationships. These policies will be reviewed each year and are included as part of the Committee's 2018 agenda.

At every meeting the Committee reviews the following:

- minutes and actions from the last meeting;
- the CFO report;
- updates to corporate reporting or corporate governance as applicable; and
- internal audit and control matters and updates to the risk management systems.

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

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

The critical accounting estimates, judgements and disclosure areas are disclosed below.

During the year, the Committee reviewed these judgements, which are described further in the relevant accounting policies and detailed notes to the consolidated financial statements. It should be noted that a critical accounting estimate in relation to share based payment expense, specifically in relation to the

estimate of the fair value of the A and A1 shares issued to employees, is no longer required at 31 December 2017 as management's estimate was as at the grant date in 2014 and 2015. The External Auditors reported to the Committee any misstatements that they found in the course of their work and no material adjustments were required.

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

### Revenue recognition

#### Key assessment

Implementation projects have three revenue streams, being recognition of a perpetual license, generally invoiced at the beginning of the implementation project, implementation revenues based on effort incurred and development revenues based on effort incurred.

As the license is not separable from the implementation effort, license revenue is combined with the implementation services as a single performance obligation and therefore effectively recognised based upon a percentage of completion of the implementation project delivered. This is calculated by evidencing the man days worked as at the end of the applicable period as a percentage of the total estimated implementation man days to complete the implementation.

The total estimated man days to complete an implementation project relies on management assumptions and judgements which are in turn based on historical experience, definition plans delivered to the customer and also reliant on facts and circumstances which arise during the implementation. As an implementation can take up to five years, there may be a number of revisions to this estimate during the period of implementation.

Additionally what forms the implementation effort may be a matter of judgement, as while there are core deliverables such as migration, testing and development work to ensure that the go live is achievable, there may be ancillary services which may or may not be integral to the implementation.

Management reviews each implementation estimate and judgement on a monthly basis with the project team, with a further more detailed quarterly review to assess any changes to estimates or judgements.

The revenue recognition accounting policy is detailed in note 4 of the consolidated financial statements.

#### Committee action

The Committee reviewed each of the key projects in detail with management and the External Auditor and is satisfied with the explanations provided, the judgements and conclusions made, compliance with accounting policies and the disclosure in the consolidated financial statements.

### Development costs

#### Key assessment

Alfa invests a substantial effort in the ongoing development of Alfa Systems, specifically in relation to the ongoing enhancement of the Alfa Systems product platform and capabilities. While research work is minimal, most development effort is undertaken in partnership with customers and therefore very specific to that implementation or customer's process.

Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionalities, does not satisfy the capitalisation criteria where the product is not substantially new in its design nor functional characteristics. Such expenditure is therefore recognised as an expense.

Judgement is required in relation to whether the development is substantially new in design nor functionality and whether it is commercially viable in the open market. Management forms an initial judgement at the beginning of a development project, and revisits this each quarter and at the completion of the development cycle, which is generally less than six months.

#### Committee action

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

### Financial Statements

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## Audit and Risk Committee Report continued

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

#### Key assessment

Alfa uses certain APMs which are not specifically defined by IFRS, including Adjusted Earnings and Adjusted EPS, to show the impact on earnings after exceptional items such as Share Based Payments and IPO costs. Adjusting for exceptional items is judgemental in nature as there is no definition under IFRS.

Additionally, Alfa uses constant currency revenue growth to show the underlying growth of the geographical segments excluding the effects of currency, and Operational Cash Flow Conversion to show the conversion of Adjusted EBIT.

These measures are not specifically defined by IFRS and are used by management as they believe they present a better understanding of the Group's underlying performance.

#### Committee action

The Committee considered the presentations made in light of the guidance (updated in October 2017) provided by the European Securities and Markets authority and is satisfied that the measures presented were appropriately adjusted and disclosed as non-GAAP measures. The Committee is satisfied that the non-GAAP measures were not given undue prominence and that the reconciliations provided were presented in a clear manner.

### Newly applicable accounting standards

#### Key assessment

Management has carried out an assessment of newly issued accounting standards applicable from 1 January 2018, being IFRS 15 "Revenue from Contracts with Customers", and "IFRS 9 "Financial Instruments", with IFRS 16 "Leases" applicable from 1 January 2019.

Management intend to implement IFRS 15 on 1 January 2018, using the retrospective approach. In assessing the impact of IFRS 15, management has assessed the terms and conditions of each contract for revenue with customers in existence as of 1 January 2017 to determine the performance obligations under each contract, reassess the transaction price and, where relevant, allocate the transaction price to each performance obligation. A further area of consideration was whether individual promises within the contract constituted distinct performance obligations and whether the fair value of any undelivered upgrade obligations constituted a material right. Management has also adjusted its internal controls and processes to increase the monthly focus on the estimates around the performance obligations and internal reporting. Following this assessment, management have concluded that due to the high degree of customisation and implementation required for Alfa Systems and the fact that license revenue is generally invoiced at the start of the project, the three revenue streams of an implementation (being license, implementation and development revenues) form one performance obligation. Therefore management expects no differences on the adoption of IFRS 15, as written and endorsed by the EU and using applicable current guidance, to the comparative period revenues or on future revenues on existing implementation projects.

Management intends to implement IFRS 9 on 1 January 2018 and IFRS 16 on 1 January 2019. Management does not expect IFRS 9 and IFRS 16 to have a material impact on the Group's results.

#### Committee action

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

#### Key assessment

The Director's must satisfy themselves as to the Group's viability and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due. The period over which the Directors have determined it is appropriate to assess the prospects of the Group has been defined as three years. In addition, the Directors must consider if the going concern assumption is appropriate.

#### Committee action

The Committee reviewed management's summary budget and forecasts, including an overview of the assumptions made in the preparation of the base case supporting the going concern and viability statement. This included the Group's 2018 budget and also the mid-term plan to 2020.

The Committee discussed, and challenged as appropriate, before agreeing with the reasonableness of the three-year period. The Committee assessed this in light of the principal risks and uncertainties as disclosed on pages 34 and 35 of this Annual Report.

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

The Committee notes the Code requirement for the Directors to state whether they consider it appropriate to adopt the going concern basis of accounting for a period of at least 12 months from the date of approval of the 2017 financial statements.

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

#### Viability statement

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## Assessment of the Annual Report

The Committee has reviewed the contents of this 2017 Annual Report to assess whether, when taken as a whole, it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

When forming its opinion, the Committee assessed the following:

### Fair

- Complete information has been presented based on materiality.
- Key messages are aligned and supported by KPIs.
- Revenue, profit and cash flow analysis in the financial review is aligned to the consolidated financial statements, the KPIs and the outlook presented.

### Balanced

- The Strategic Report is consistent with the consolidated financial statements.
- There is an appropriate balance between financial measures under IFRS and adjusted measures not defined by IFRS, with the latter not having undue prominence.
- The key judgements and issues set out in this report are consistent with the critical accounting estimates and judgements in the consolidated financial statements and the significant issues set out in the report of the External Auditors.
- The principal risks and uncertainties set out in the Strategic Report align with the key risks set out in the report of the External Auditors.

### Understandable

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

Following the Committee's review, the Directors confirm that the 2017 Annual Report, when taken as a whole, is fair, balanced and understandable and presents the information necessary for a shareholder to assess the Company's position and performance, business model and strategy.

## Internal controls and risk management

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

### Internal control environment

Throughout the IPO process, the Company worked with a focus on ensuring a control environment was in place which allowed the Company to report externally and to assess risks in line with the UK Corporate Governance Code.

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

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

### Review of effectiveness of the internal control environment

The Committee, on behalf of the Board, is responsible for reviewing the effectiveness of the internal control systems and the risk management process on an ongoing basis. The process was established when the Committee was formed and was ongoing through the date of approval of this Annual Report.

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

In 2018, management has indicated to the Committee that the automation of controls will be a key focus as the Group transitions to new financial and HR software.

### Risk management process

Alfa recognises that effectively managing risk is integral to allowing the Group to deliver on the strategy. Therefore management has implemented a five step process to monitor and manage risk throughout the business, as discussed in more detail on pages 32 and 33 to this Annual Report. Additionally, the Committee will review the risk register a minimum of twice annually and assess the actions taken by management to manage and mitigate the risks.

A review of the Group's risk management processes and principal risks and uncertainties are laid out on pages 34 and 35 to this Annual Report.

## Audit and Risk Committee Report continued

### Internal Audit

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

The three-year internal audit plan for 2018 was approved by the Committee in March 2018 and covers a broad range of core financial processes and controls focusing on specific risk areas including but not limited to:

- core financial processes;
- expense controls; and
- new business acceptance.

IT resilience, disaster recoverability and scalability and data protection and cyber security reviews will be carried out by third party specialist providers in 2018.

The effectiveness of the Internal Audit team will be reviewed annually, from 2018.

### Independence and performance of the External Auditors

The Board has approved a policy which is intended to maintain the independence and objectivity of the External Auditors. The policy governs the provision of audit, audit related services and non-audit services provided by the auditor. In summary this requires Committee approval for all projects with an expected cost in excess of £10,000.

The Group's auditors are Deloitte LLP, and were appointed, as statutory auditor to the Group on 5 May 2017 for the year ended 31 December 2016. They were re-appointed for the 31 December 2017 period on 29 August 2017 and the Committee has recommended to the Board that a resolution to reappoint Deloitte LLP for the 2018 financial period be prepared and presented to shareholders.

The audit partner is Richard Howe, who has been the partner on the engagement since 2016.

Description	1 Jan – 1 Jun 2017	2 Jun – 31 Dec 2017	Fee £'000s
PLC audit	–	63.0	63.0
Holding company	–	10.0	10.0
Trading entities	–	99.5	99.5
<b>FY audit fees</b>	<b>–</b>	<b>172.5</b>	<b>172.5</b>
Audit related services			
– interim review	–	61.0	61.0
<b>Audit related fees</b>	<b>–</b>	<b>61.0</b>	<b>61.0</b>
<b>Non-audit fees</b>	<b>779.0</b>	<b>–</b>	<b>779.0</b>
<b>Total fees</b>	<b>779.0</b>	<b>233.5</b>	<b>1,012.5</b>

During the year £0.8 million of non-audit related services were provided by Deloitte to the Group in respect of reporting accountant fees prior to Alfa listing. No non-audit services have been provided post listing. Further details of these amounts are included in note 5 to the consolidated financial statements.

The External Auditor is prohibited from providing internal audit services. No former employee of the external or internal audit providers is employed by the Group. Deloitte has confirmed its independence to the Committee on a regular basis during the year of review.

### Effectiveness of the External Auditor

The Committee has reviewed the quality of the audit plan and related reports for the 2017 audit and is satisfied with the quality of these documents. Additionally, the Committee intends to review the effectiveness and quality of Deloitte's 2017 year-end audit, which will be the first year-end audit following the listing. This review is intended to take the form of a questionnaire, to be completed by the relevant stakeholders. It is intended that the survey will cover the quality of the service being provided, the competence of the staff and their understanding of the business and related financial risks.

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

### Performance of the Audit and Risk Committee

The performance of the Committee will be assessed by way of an internal process in 2018.

### Our priorities for the year ahead

During 2018, the Committee will continue to focus on the integrity of the financial controls; particularly the work management is planning to automate more processes, risk management systems and IT security arrangements to ensure that they are appropriately robust to support the strategies of a high growth business.

**Robin Taylor**

Chairman of the Audit and Risk Committee

8 March 2018

# Directors' Remuneration Report

**Karen Slatford**  
Chair of the Remuneration  
Committee

**"The Committee's main focus has been on expanding on the Remuneration Policy laid out in the Prospectus, to ensure that this fully aligns with the aim of recruiting and retaining the best leadership team, whilst protecting the interests of shareholders."**

## Membership of the Committee

In compliance with the Code, the Committee's membership is limited to independent Non-Executive Directors of the Company. There have been no changes in Committee membership since Admission. Prism, the outsourced Company Secretary, acts as secretary to the Committee.

**Karen Slatford – Chairman**  
Independent Non-Executive Director

**Richard Longdon**  
Senior Independent Non-Executive Director

**Robin Taylor**  
Independent Non-Executive Director

## Role of the Committee

The Committee's primary role is to review and set the Remuneration Policy for the Executive Directors and certain other members of senior management.

## Committee meetings in 2017

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



### Meetings

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

	12 Jul	29 Aug	23 Nov
Karen Slatford (Chair)	✓	✓	✓
Richard Longdon	✓	✓	✓
Robin Taylor	✓	✓	✓

As Chair of the Remuneration Committee, I am pleased to present our report covering Alfa's Remuneration Policy and practice since becoming a listed company. The Committee has reviewed and built on the remuneration work undertaken by the Board in the lead up to the IPO, as published in the prospectus. The Remuneration Policy set out in this Annual Report is intended to incentivise and motivate the executive leadership team to achieve the Company's strategic goals. By ensuring a significant proportion of variable remuneration is delivered in shares and setting a minimum level of shareholding for executives, we also believe the approach is structured to encourage the leadership team to act in your best interests as shareholders in Alfa.

This report lays out the principles of our proposed Remuneration Policy, how we have operated it since the IPO and how we plan to operate in future. As this is our first year as a listed company, we have treated the Directors who were Directors of the previous holding company, Alfa Financial Software Group Limited, as if they have been Directors of Alfa from 1 January 2016. Directors who were appointed during 2017 have been treated as Directors from the date of appointment.

We have set out this report in three parts. This Annual Statement sets out an overview of 2017. This is followed by the Remuneration Policy which will be put forward to the shareholders at the 2018 AGM. Finally, the Annual Report on Remuneration, set out on pages 77 to 81 to this Annual Report, provides greater detail of the amounts paid in 2017 and how the Remuneration Policy is intended to be implemented in 2018. 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 and certain other members of senior management. It also approves discretionary performance-related awards to Executive Directors and senior management. The Committee's full Terms of Reference may be viewed on Alfa's website. The Executive Chairman, the CEO and other senior members of Alfa's management team may attend by invitation but will not be present when their own remuneration is discussed.

## Director's Remuneration Report continued

### Appointment of external advisors

Following an external tender process, Mercer Kepler was appointed as external advisor to the Committee to provide independent support and information as required. Mercer Kepler's fees for 2017 amounted to £5,000.

### Principal activities in 2017

In the lead up to Admission, in anticipation of becoming a PLC, the Board reviewed certain aspects of senior remuneration to ensure an appropriate remuneration structure and strategy was in place.

Following the listing, the principal activities were as follows:

- reviewed and proposed the Alfa Remuneration Policy for approval by the Board and by shareholders at the 2018 AGM;
- tendered and appointed executive remuneration consulting services;
- reviewed the annual bonus targets for the Executive Directors for 2017 and measured performance against them;
- agreed the annual bonus targets for the Executive Directors for 2018;
- approved awards to employees under the Long-Term Incentive Plans (LTIP), with appropriate performance measures, bonus deferral into shares and malus and claw back provisions; and
- reviewed and approved the Terms of Reference of the Committee.

### Remuneration Policy overview

The principal objectives of the Company's Remuneration Policy are to attract, retain and motivate the Group's Executive Directors and senior management, provide incentives that align with, and support, the Group's business strategy as it evolves, and align incentives with the creation of long-term Shareholder value plans for 2018 and beyond.

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

In readiness for Admission, the Committee approved the rules for a LTIP, a Company Share Option Plan ("CSOP") and an all-employee Share Incentive Plan (SIP). Basic salary, bonus and LTIP levels were agreed for the Executive Directors taking into account their service with Alfa and experience in the role. Salary for the Executive Chairman has been set at £374,448 per annum, at £321,912 per annum for the CEO and at £220,000 per annum for the CFO. No increases are proposed for 2018. However, shareholders should note that the Committee will closely monitor the salary and total remuneration for the CFO in particular and reserves the right to make an increase in excess of typical market practice if it considers it necessary and appropriate.

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

### Employee share ownership

Widespread share ownership has always been and remains an integral part of our culture. All of our employees contribute to the achievement of our strategy and we believe that extending share ownership throughout the Company enhances loyalty and engagement. In keeping with this ethos, the Committee approved the budget for a grant of discretionary nil cost option share awards under the LTIP to a wide range of Alfa team members who had not received share awards in the past. These awards are expected to be made in April 2018.

### Focus for 2018

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

- assessment of Group performance against 2017 budget and determination of bonus awards;
- approval of bonus performance measures and targets for 2018;
- approval of performance conditions and awards under the 2018 LTIP;
- review of any issues raised by shareholders in relation to remuneration and the Remuneration Policy; and
- assessment of the ongoing appropriateness of the remuneration arrangements in light of remuneration trends and market practice.

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

### Resolutions at the AGM

Shareholders will be asked to vote on our Remuneration Policy on page 71 to this Annual Report, which will remain in place for three years from the date of approval, and on the Annual Report on Remuneration at the 2018 AGM. Shareholders will also be asked to approve the Employee Share Purchase Plan for US Alfa team members, recognising that US employees will not be eligible to participate in the UK Share Incentive Plan. In accordance with legislative requirements, the vote on the Remuneration Policy will be binding and the vote on the Remuneration Report will be advisory. I look forward to your support on both resolutions.

#### Karen Slatford

Chair of the Remuneration Committee

8 March 2018

# Directors' Remuneration Policy

## Compliance Statement

This section sets out Alfa's Remuneration Policy for Executive and Non-executive Directors in accordance with the Companies Act 2006 and the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy will be subject to a binding shareholder vote at the 2018 AGM and, subject to Shareholder approval, will become effective from the date of the AGM. Subject to Shareholder approval, the Remuneration Policy is intended to remain in effect for three years from the 2018 AGM.

The Policy explains the purpose and principles underlying the structure of remuneration packages and how the Policy links remuneration to the achievement of sustained high performance and long-term value creation.

Overall remuneration is structured and set at levels to enable Alfa to recruit and retain high calibre colleagues necessary for business success whilst ensuring that:

- our reward structure, performance measures and mix between fixed and variable elements is comparable with similar organisations;
- rewards are aligned to the strategy and aims of the business; and
- the approach is simple to communicate to participants and shareholders.

Particular account has been taken of structures used within other FTSE 250 companies, especially comparable technology organisations.

## Fixed elements of remuneration for Executive Directors

Element of Remuneration	Purpose and link to Company Strategy	Operation	Maximum opportunity
<b>Salary</b>	Provides a set level of remuneration sufficient to attract and retain Executives with the appropriate experience and expertise.	The Committee takes into account a number of factors when setting and reviewing salaries, including: <ul style="list-style-type: none"> <li>• scope and responsibility of the role;</li> <li>• any changes to the scope or size of the role;</li> <li>• the skills and experience of the individual;</li> <li>• salary levels for similar roles within appropriate comparators; and</li> <li>• value of the remuneration package as a whole.</li> </ul>	There is no set maximum to salary levels or salary increases. Account will be taken of increases applied to colleagues as a whole when determining salary increases for the Executive Directors, however the Committee retains the discretion to award higher increases where it considers it appropriate, especially where salary at outset has been set at a relatively low level.
<b>Benefits</b>	Provides benefits sufficient to attract and retain Executives with the appropriate experience and expertise.	Executive Directors are entitled to the following benefits: <ul style="list-style-type: none"> <li>• life assurance;</li> <li>• income protection insurance;</li> <li>• private medical insurance; and</li> <li>• car allowance.</li> </ul> Executive Directors are also eligible to participate in all-employee share schemes on the same basis as other staff.	The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Company strategy. The maximum will be set at the cost of providing the benefits described.  One-off payments such as legal fees or outplacement costs may also be paid if it is considered appropriate.
<b>Pensions</b>	Provides pension contributions sufficient to attract and retain Executives with the appropriate experience and expertise.	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.	10% of salary per annum.

None of the fixed elements of remuneration are subject to performance metrics.

## Directors' Remuneration Policy continued

### Variable elements of remuneration for Executive Directors

Element of Remuneration	Purpose and link to Company Strategy	Operation	Maximum opportunity	Performance metrics
<b>Annual bonus</b>	Variable remuneration that rewards the achievement of annual financial, operational and individual objectives integral to Company strategy.	<p>Objectives are set annually based on the achievement of strategic goals. At the end of the year, the Committee meets to review performance against the agreed objectives and determines payout levels. As the bonus structure for 2017 was finalised prior to Admission, the awards for the year being reported will be made in cash.</p> <p>From the performance year 2018 onwards, not less than 25% of any bonus will normally be deferred for a period of three years. Any accrued dividends can be paid in cash or shares.</p> <p>The Committee retains the discretion to allow dividends to accrue over the vesting period in respect of the awards that vest.</p> <p>Malus and Clawback provisions may be applied in exceptional circumstances.</p>	<p>Up to 150% salary for the Executive Chairman and CEO. Up to 125% salary for the CFO.</p> <p>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.</p>	<p>Awards are based on financial, operational and individual goals set at the start of the year.</p> <p>At least 50% of the award will be assessed against the Company's financial performance in that year.</p> <p>The remainder of the award will be based on achievement against specific personal and strategic objectives.</p> <p>The Committee reserves the right to make an award of a different amount produced by achievement against the measures if it believes the outcome is not a fair reflection of Company performance.</p> <p>The split between these performance measures will be determined annually by the Committee and exceptionally during the year if there is a compelling reason to do so.</p>
<b>Long-Term Incentive Plan (LTIP)</b>	Variable remuneration designed to incentivise and reward the achievement of long-term targets aligned with shareholder interests. The LTIP also provides flexibility in the retention and recruitment of Executive Directors.	<p>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.</p> <p>Accrued dividends may be paid in cash or shares, to the extent that awards vest.</p> <p>The Committee may adjust and amend awards in accordance with the LTIP rules.</p> <p>Malus and Clawback provisions may be applied in exceptional circumstances.</p>	<p>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.</p> <p>Threshold performance will result in 25% of the award vesting.</p>	<p>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.</p> <p>The Committee reserves the right to adjust the outcome produced by achievement against the measures if it believes the outcome is not a fair reflection of Company performance.</p>

Element of Remuneration	Purpose and link to Company Strategy	Operation	Maximum opportunity	Performance metrics
<b>Company Share Option Plan (CSOP)</b>	Variable remuneration designed to incentivise and reward the achievement of long-term targets aligned with shareholder interests. The CSOP also provides flexibility in the retention and recruitment of Executive Directors.	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 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.	The CSOP will be used if the Remuneration Committee feel it is advantageous to do so, and on such terms as they regard as appropriate and in shareholder's interests.
<b>Share Incentive Plan (SIP)</b>	An all-employee plan designed to encourage share ownership.	The Company operates a SIP in which the Executive Directors are eligible to participate as required for HMRC approval.	Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.	The Company may apply conditions to participation in the SIP, which will apply to all eligible employees, as allowed by HMRC.

### Notes to the Policy Table

All LTIP and CSOP awards and bonus awards made in respect of the 2018 financial year onwards to Executive Directors are subject to Malus and Clawback provisions. The Committee may, in its absolute discretion, determine to reduce the number of shares to which an award or option relates or cancel it altogether. Alternatively, the Committee could impose further conditions on the vesting or exercise of an award or option. At any time within five years of an award being made the Committee may require the Executive Director to transfer to the Company a number of shares or a cash amount in circumstances where:

- 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);
- 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;

- 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 abnormal write-offs affecting any Group company of an exceptional basis.

### Legacy arrangements

Executive Directors may be eligible to receive any relevant payment from any award or other remuneration arrangements made prior to the approval of the Remuneration Policy (such as the vesting of share awards made prior to IPO, or prior to appointment to the Board). Details of any such payments will be set out in the Annual Report on Remuneration as they arise. The most likely scenario for any such disclosure would be promotion for an existing senior manager to the Board.

## Directors' Remuneration Policy continued

### Remuneration policy for other employees

As with the Executive Directors, salary for other employees is set at a level sufficient to attract and retain them, taking into account their experience and expertise. Annual bonus for other employees is calculated as a percentage of adjusted profit before tax. The profit pool is then shared between eligible scheme members.

From 2018, selected employees may be invited to participate in Alfa's LTIP to aid retention and motivation. Additionally, UK employees are eligible to participate in the SIP, on equal terms, in accordance with the relevant scheme rules. It is intended that in the US, Alfa intends to set up an Employee Stock Purchase Plan (ESPP) whereby US participating employees can purchase Company shares at a discounted price. The ESPP is a new share plan for Alfa and shareholders will be asked to approve it at the 2018 AGM. Pension arrangements are standard across the UK workforce and comply with local requirements for those working outside the UK.

### Executive Directors' service contracts

Each of the Executive Directors entered into new service contracts that were effective from 15 May 2017. Each is a rolling contract terminable by either party on six months' notice in the case of the Executive Chairman and by either party on 12 months' notice for the CEO and CFO. Each Executive Director receives life insurance, the benefit of which amounts to a maximum of four times basic annual salary. Each Executive Director is entitled to reimbursement of reasonable expenses incurred by them in the performance of their duties. Each Executive Director will be entitled to receive a payment equal to his or her gross annual salary (less any payment in lieu of notice) in the event that there is a change of control of the Company and the Director's employment is terminated within one month of the change of control. The service contracts for Executive Directors make no provision for termination payments, other than for payment in lieu of salary.

### Recruitment Policy

The Committee will seek to align a new Executive Director's remuneration package to the Company's Remuneration Policy as set out above. In determining remuneration for a new Executive Director, the Committee will consider all relevant factors, including the requirements of the role, the external market and internal relativities, while ensuring it does not pay more than is necessary to appoint the preferred candidate. Benefits will be limited to those outlined in the Remuneration Policy, with relocation assistance provided where appropriate. Awards under the LTIP rules and/or CSOP rules that may be awarded to a new Executive Director will be limited to 200% of salary and bonus limited to 150% of salary. Within these limits, the Committee may include any element included within the approved policy, or any other element which the Committee considers is appropriate given the particular circumstances. The Committee may buy out remuneration a new hire has had to forfeit on joining the Group if it considers the cost can be justified and is in the best interests of the Company. Any such buyout would be in addition to the limits set out previously. Any such buyout awards will be of comparable commercial value and reflect as closely as practicable the form and structure of the forfeited awards,

including timing of vesting, performance conditions and the probability of those conditions being met. Where appropriate, the Committee retains the discretion to use the provisions provided in the Listing Rules for the purpose of making such an award, or to utilise any other incentive plan operated by the Group.

Where an Executive Director is appointed from within the Group, any legacy arrangements would be honoured in line with the original terms and conditions as long as these do not cause a material conflict with the Remuneration Policy. If an Executive Director is appointed following an acquisition of, or merger with, another Company, legacy terms and conditions that are of higher value than provided in the Policy would normally be honoured.

### 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 is determined by the relevant rules. The Committee may structure any compensation payments beyond the contractual notice provisions in the contract in such a way as it deems appropriate.

The Company may at its discretion make termination payments in lieu of notice calculated only on base salary. The service agreements for the CEO and CFO allow for garden leave during any notice period.

There is no entitlement to a bonus in any year. The Committee retains discretion to award bonuses for leavers taking into account the circumstances of departure. Any bonus would normally be subject to performance, deferral and time pro-rating as appropriate. Although the Committee reserves the right to change their approach if necessary, the usual approach will be as follows:

- any deferred bonus awards will lapse if the Executive Director resigns, has breached a term of his or her employment or service contract or has been summarily dismissed;
- if the Executive Director dies, any outstanding awards will vest at the time of death; and
- in any other circumstances, awards will vest at the normal vesting date. In all circumstances, the Committee has the discretion to disapply pro-rating and accelerate vesting if it believes it appropriate and in the interests of the Company.

Treatment of LTIP awards is governed by the plan rules. If an Executive Director is designated as a good leaver any outstanding LTIP awards will normally be pro-rated to reflect the portion of the vesting period that has elapsed at the time the Executive Director leaves and will normally vest based on performance to the end of the original performance period. "Good leaver" means an Executive Director who ceases to be a Director or employee of a Group company as a result of:

- ill health, injury or disability;
- a transfer of the undertaking or part undertaking in which the participant is employed to a person who is not a Group company;
- the company in which the participant is employed ceasing to be under the control of the Company; or

- such other reason as the Committee may in its discretion approve provided that this may not in any circumstances include a Bad Leaver. "Bad Leaver" means an Executive Director ceasing to be a Director or employee of a Group company in circumstances where the employing company is entitled to dismiss him or her without notice, save in the case of long-term sick leave.

In the event of death, awards will normally vest early taking into account the Committee's assessment of performance against the performance conditions to the date of death and, unless the Committee determines otherwise, the pro-rating as described above. In any other circumstances, any unvested LTIP awards will lapse. In all circumstances, the Committee has the discretion to disapply pro-rating and accelerate vesting if it believes it appropriate and in the interests of the Company.

Treatment of CSOP awards is governed by the plan rules. If an Executive Director ceases to hold any office or employment with a Group company by reason of:

- ill health, injury or disability (evidenced to the satisfaction of the Committee); or
- a subsidiary ceasing to be under the control of the Company, or a business or part of a business being transferred to a person who is neither an Associated Company nor a company of which the Company has control; or
- a relevant transfer within the meaning of the Transfer of Undertakings (Protection of Employment) (Regulations) 2006; or
- such other reason as the Committee may in its discretion approve;

to the extent an option has not yet fully vested at the date of cessation, the Committee will determine the number of shares which vest based on the proportion of the vesting period during which the Executive Director was employed by the Group. The Committee may also take into account any performance conditions attached to the award. The option may be exercised at any time in the six months after the Committee has made its determination, after which it will lapse.

In the case of an option which has vested, the option may be exercised at any time in the six months after the date of cessation, after which it will lapse. If the Executive Director dies, the six month period referred to above is extended to 12 months. In any other circumstances, any CSOP awards will lapse unless the Committee determines otherwise. In all circumstances, the Committee has the discretion to disapply pro-rating and accelerate vesting if it believes it appropriate and in the interests of the Company.

## Change of Control policy

The Committee has discretion regarding whether to pro-rate the bonus based on the proportion of the year worked. The Committee's intention is that it will pro-rate the bonus for time. The Committee anticipates it would use its discretion to not pro-rate only where there is an exceptional business case, which would be explained in full to shareholders.

The rules of the LTIP plan provide that the number of shares that vest shall be determined by the Committee, taking into account the extent to which any performance conditions have been satisfied and, unless the Committee determines otherwise, pro-rating to reflect the period from the start of the performance period to the date of the change of control. Where an award is in the form of an option, this will then be exercisable for a period of one month and will then lapse. The rules also provide for awards to be exchanged for equivalent awards which relate to shares in a different company.

The CSOP rules provide that the number of shares that vest shall be determined by the Committee, taking into account the extent to which any performance conditions have been satisfied and, unless the Committee determines otherwise, pro-rating to reflect the period from the start of the performance period to the date of the change of control. The option will then be exercisable for a period of one month and will then lapse. The rules also provide for awards to be exchanged for equivalent awards which relate to shares in a different company.

## Other considerations

In making remuneration decisions, the Committee takes into account the pay and employment conditions elsewhere in the Group, although employees were not formally consulted prior to setting the Remuneration Policy for Executive Directors. Employees within the Group receive base salary, benefits, pension and an annual bonus subject to appropriate eligibility conditions. The terms and value of these elements vary based on seniority. The Committee understands the importance of listening to the views of the Company's shareholders. The Committee is open to listening to the views of our shareholders and engaging in ongoing dialogue with them on executive remuneration matters. The Committee also takes full account of the guidelines of investor bodies and shareholder views in determining the remuneration arrangements in operation within the Group.

## External appointments

Executive Directors may hold external directorships if the Board determines that such appointments do not cause any conflict of interest. Where such appointments are approved and held, it is a matter for the Board to agree whether fees paid in respect of the appointment are retained by the individual or paid to the Company.

## Directors' Remuneration Policy continued

### Illustrations of the application of the Remuneration Policy

Our remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets, aligned with the creation of sustainable shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The charts opposite illustrate the remuneration that would be paid to each of the Executive Directors, for the financial year 2018, under three different performance scenarios: (i) minimum; (ii) on-target; and (iii) maximum. The elements of remuneration have been split to show fixed remuneration, bonus and LTIP. On target awards have been calculated with a bonus award of half the maximum and an LTIP award of 25% maximum, consistent with threshold achievement against the performance conditions. Benefits and pension provision is based on the levels reported in the Annual Report on Remuneration on page 77. The projected values exclude the impact of any share price movements.

Shareholders should note the figures take account of the fact that the Executive Chairman and the CEO have waived LTIP awards for 2018. Although the Executive Chairman and the CEO waived any eligibility for a bonus in 2017, an award has been included in the scenarios for 2018.

These charts are for illustrative purposes only and actual outcomes may differ from those shown.

### Non-Executive Director remuneration

Element of Remuneration	Link to Company Strategy	Operation	Maximum opportunity
Non-Executive Director fees	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.	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.	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.

### Letters of appointment for Non-Executive Directors

The appointments of each of the Non-Executive Directors are for a fixed term of three years, commencing on 5 May 2017 for Richard Longdon and Robin Taylor and 15 May 2017 for Karen Slatford and subject to annual re-election by the Company at the AGM.

# Annual Report on Remuneration

The Annual Report sets out how the Directors' Remuneration Policy of the Company has been applied since Admission and how the Committee intends to apply the policy going forward. An advisory shareholder resolution to approve this report will be proposed at the AGM.

## A) Audited section of the Remuneration Report

### Single total figure of remuneration – Executive Directors

The following tables set out the aggregate emoluments earned by the Directors in the years ended 31 December 2017 and 2016 respectively. It should be noted that remuneration is only included from the point the Director was appointed to a director role. For the purpose of the comparison, the table shows the remuneration of Andrew Page and Andrew Denton as they were Directors of Alfa Financial Software Group Limited prior to appointment as Directors of the Company.

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

£'000s	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long-term incentives <sup>(4)</sup>	Pension <sup>(5)</sup>	Total
<b>Executive</b>						
Andrew Page	374	58	–	–	–	432
Andrew Denton	322	28	–	–	–	350
Vivienne MacLachlan <sup>(6)</sup>	146	4	71	–	15	236
<b>Non-Executive</b>						
Richard Longdon <sup>(7)</sup>	43	–	–	–	–	43
Karen Slatford <sup>(8)</sup>	43	–	–	–	–	43
Robin Taylor <sup>(7)</sup>	43	–	–	–	–	43

The following table shows the aggregate emoluments in the year ended 31 December 2016:

£'000s	Salary and fees <sup>(1)</sup>	Benefits <sup>(2)</sup>	Annual bonus <sup>(3)</sup>	Long-term incentives <sup>(4)</sup>	Pension <sup>(5)</sup>	Total
<b>Executive</b>						
Andrew Page	374	14	–	–	–	388
Andrew Denton	322	15	–	–	–	337

- (1) Annual salary and fees – corresponds to the amount received during the relevant financial year, either as base salary for executives or fees for non-executives.
- (2) Benefits – corresponds to the taxable value of benefits received during the relevant financial year and principally includes company car (or cash equivalent), life assurance and permanent health insurance.
- (3) Annual bonus – corresponds to the amount earned in respect of the relevant financial year. Details of how this was calculated are set out overleaf. The Executive Chairman and the CEO have waived any eligibility for a bonus in 2017.
- (4) Long-term incentives – corresponds to the amount earned by the Executive Directors in respect of the relevant financial year. No long-term incentive awards were made in respect of the 2017 performance year.
- (5) Pension – corresponds to the amount contributed to defined contribution pension plans. The CFO receives a Company pension contribution worth 10% of her salary.
- (6) Appointed 4 May 2017.
- (7) Appointed 5 May 2017.
- (8) Appointed 15 May 2017.

## Annual Report on Remuneration continued

### 2017 Annual bonus

The 2017 annual bonus performance measures were selected to reflect Alfa's annual and long-term objectives and reflect financial and strategic priorities, as appropriate. Performance targets are set to be stretching and achievable, taking into account a range of reference points including the strategic plan and broker forecasts, as well as the Group's strategic priorities and the external context.

In respect of the annual bonus, the following measures have been agreed:

- revenue for the year;
- Adjusted EBIT margin, being operating profit excluding certain non-recurring or non-cash exceptional items, such as IPO related expenses and pre IPO share based payment expenses, as a ratio of revenue;
- free Cash Flow Conversion being cash flow generated from operations after deducting the settlement of derivative financial instruments and margin calls and capital expenditures as a percentage of Adjusted EBIT, as defined above; and
- staff retention, calculated over a rolling 12 month period.

The table below shows the bonus payout relating to each measure.

Measure	Actual	% of maximum	Vivienne MacLachlan
Revenue	£87.8m	52%	£34,320
Adjusted Earnings	47%	30%	£19,800
Free Cash Flow Conversion	69%	0%	£0
Staff Retention	95%	100%	£16,500
<b>Total</b>			<b>£70,620</b>

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

	Shareholding as a % of salary (target/% achieved) <sup>(1)</sup>	Shares owned outright at 31 December 2017	Interests in share incentive schemes without performance conditions	Interests in share incentive schemes with performance conditions
Andrew Page	Over 200%	181,224,631	—	—
Andrew Denton	Over 200%	16,421,018	—	—
Vivienne MacLachlan	0%	—	—	—
Richard Longdon	n/a	6,153	—	—
Karen Slatford	n/a	12,307	—	—
Robin Taylor	n/a	6,153	—	—

(1) calculated as the base salary, absolute number of shares held as at 31 December 2017 by the share price at 29 December 2017.

Whilst Andrew Page and Andrew Denton have significant shareholdings in the Company, the Remuneration Committee wishes to ensure that a shareholding guideline is in place to cater for Vivienne MacLachlan and future Executive Directors who may not hold shares. Accordingly, the Remuneration Committee has adopted formal shareholding guidelines to encourage Executive Directors to build or maintain (as appropriate) a shareholding in the Company (excluding shares held conditionally under any incentive arrangements). The required shareholding will be 200% of base salary on a gross basis.

### Payments for loss of office

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

### Payments to past Directors

There were no payments made to past Directors during the year.

## B) Unaudited section of the Remuneration Report

### External appointments

Executive Directors are allowed to accept one appointment outside the Company, with the prior approval of the Board. Any fees may be retained by the Director, although this is at the discretion of the Board. During 2017 and at the date of this report, none of the Executive Directors hold external appointments for which they receive a fee.

### Fees for the Non-Executive Directors

The fees were agreed on appointment of the Non-Executive Directors in May 2017. A summary of current fees is shown below:

£'000s	Basic fees	Audit and Risk Chair	Remuneration Chair	Senior Independent Director
Richard Longdon	55	–	–	10
Karen Slatford	55	–	10	–
Robin Taylor	55	10	–	–

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

All the Non-Executive Directors have letters of appointment with the Company for an initial three years, subject to annual re-appointment at the AGM. Appointment is terminable on written notice. The appointment letters for the Non-Executive Directors provide that no compensation is payable upon termination of employment. Letters of appointment are available for inspection at the Company's registered office. Details of the appointment terms of the Non-Executive Directors are as follows:

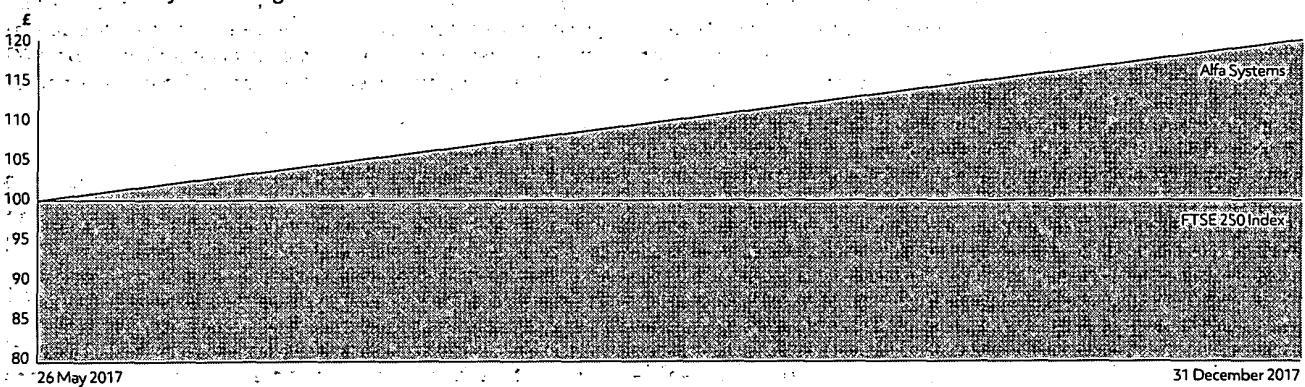
	Start of current term	Expiry of current term
Richard Longdon	5 May 2017	4 May 2020
Karen Slatford	15 May 2017	14 May 2020
Robin Taylor	5 May 2017	4 May 2020

### Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index (excluding investment trusts). The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income. The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member since the IPO. This graph has been calculated in accordance with the Regulations. It should be noted that the Company's shares started conditional trading on 26 May 2017 and therefore only has a listed share price from this date to 31 December 2017.

### Total Shareholder Return

For the financial year ending 31 December 2017



## Annual Report on Remuneration continued

### 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 2016 to 2017:

	% change in base salary 2016-2017	% change in bonus earned 2016-2017	% change in benefits 2016-2017
CEO	0%	0%	87%
Alfa employees	2%	(33%)	(11%)

### Relative importance of spend on pay

The following table illustrates Alfa's spend on pay for all employees in the Group in the years presented compared to distributions made to shareholders since Admission of the Company, 1 June 2017, to 31 December 2017.

£'000s	2017	2016	% change
Employee costs (note 6 to the consolidated financial statements) (£'000s)	£35,598	£43,819	(19%)
Employee costs excluding pre-IPO share based payments (note 6 to the consolidated financial statements) (£'000s)	£31,198	£27,619	13%
Average number of employees (note 6 to the consolidated financial statements)	301	246	22%
Revenue (consolidated income statement) (£'000s)	£87,777	£73,280	20%
Adjusted EBIT (note 4 to the consolidated financial statements) (£'000s)	£41,229	£32,789	26%
Shareholder distributions (dividends paid post IPO) (£'000s)	nil	n/a	n/a

### Implementation of the Remuneration Policy for the year ended 31 December 2018

#### 2018 Executive Director remuneration

The table below shows the salaries for the Executive Directors as at 1 January 2018 in comparison to base salary at 1 June 2017:

£'000s	1 January 2018	1 June 2017	% change
Andrew Page	374	374	—
Andrew Denton	322	322	—
Vivienne MacLachlan	220	220	—

The CFO will continue to receive a pension contribution of up to 10% of base salary. The Executive Chairman and CEO have waived any entitlement to pension benefits.

Salaries for Executive Directors are reviewed each year taking into account the Remuneration Policy set out in this report. No increases to salaries are proposed for 2018.

Annual bonus and LTIP performance measures are selected annually to reflect Alfa's annual and long-term objectives and reflect financial and strategic priorities, as appropriate. Performance targets are set to be stretching and achievable, taking into account a range of reference points including the strategic plan and broker forecasts, as well as the Group's strategic priorities and the external context.

In respect of the annual bonus, the following measures have been agreed:

- Revenue for the year (40% of bonus);
- Adjusted Earnings before Interest and Tax Margin, being operating profit excluding certain non-recurring or non-cash exceptional items, such as IPO related expenses and pre IPO share based payment expenses, as a ratio of revenue (40% of bonus);
- Free Cash Flow Conversion being cash flow generated from operations after deducting the settlement of derivative financial instruments and margin calls and capital expenditures as a percentage of adjusted EBIT, as defined above (10% of bonus); and
- Staff Retention, turnover calculated over a rolling 12 month period (10% of bonus).

Each measure has a target. Failure to meet a minimum percentage of the target will result in no bonus being awarded for that element. Achieving a maximum percentage of target will result in the maximum bonus being awarded under the formula, although as described earlier, the final determination is made by the Committee taking all available factors into account.

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

- Relative Total Shareholder Return (TSR)
- Earnings Per Share (EPS)

Vesting of the awards is also subject to the share price at the end of the performance period being higher than the IPO price of 325p.

The comparator group for the TSR is the FTSE250, 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.

The Executive Chairman and CEO have waived any eligibility to an LTIP award in 2018.

#### 2018 Non-Executive Director remuneration

Following the annual review of Non-Executive Director fees, it was determined that the fees will remain at the following level:

£'000s	
Base fee	55
Additional fee for chairing a committee	10
Fee for the Senior Independent Director (including chairing committees)	10

# Directors' Report

## Statutory information

The Directors of Alfa present their report and the audited financial statements for the period ended 31 December 2017.

Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006 and the Listing Rules 9.8.4R of the UK Financial Conduct Authority's listing rules, can be located as follows:

Statutory information	Section	Page
Employee Involvement	Strategic Report	46-49
Employee Diversity and Disabilities	Strategic Report Nomination Committee Report	48 62
Executive Share Ownership and Benefit Plans	Annual Report on Remuneration	78
Employee Long-Term Incentive Plans	Annual Report on Remuneration	70
Community	CSR	45
Directors' Biographies	Corporate Governance Report – Board of Directors	55
Executive Share Plans	Annual Report on Remuneration	78
Emissions reporting	CSR	49
Financial Instruments	Note 17.4 to the financial statements	110
Future Developments of the Business	Strategic Report	9, 17
Financial position of the Group, its cash flow, liquidity position and borrowing facilities	Strategic Report	43
Human Rights and Modern Slavery Statement	CSR	49
Independent Auditor	Audit and Risk Committee Report	68
Internal Controls and Risk Management	Strategic Report Corporate Governance Report	32-33 67
Research and Development	Directors' Report Strategic Report	10 40
Significant related party transactions	Note 24 to the consolidated financial statements	113
Subsidiary and Associated Undertakings	Note 2.4 to the consolidated financial statements	96
Statement of Corporate Governance	Corporate Governance Report	51
Audit and Risk Committee Report	Corporate Governance Report	63
Governance Report	Corporate Governance Report	51
Directors' Remuneration Report	Corporate Governance Report	69
Nomination Committee Report	Corporate Governance Report	60
Strategic Report	Strategic Report	2
Viability Statement	Strategic Report	36

## Principal activities

The principal activity of the Alfa Group is the provision of software and software related services to the asset finance industry. The principal activity of the Company is that of a holding company. The Company's registrar is Equiniti Limited situated at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

## Branches outside the UK

The Company has subsidiaries in the United States of America, Australia and New Zealand. In 2018, the Company has incorporated a subsidiary in Germany.

## Significant contracts

We have no contracts deemed significant.

## Research and development

The Strategic Report on page 40 sets out the research and product development expensed in the year ended 31 December 2017.

## Employee involvement

We place considerable value on the involvement of our employees, viewing and treating them all 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 Company intranet, including the CEO updates. Teams are consulted regularly on a wide range of matters affecting their current and future interests. We are proud to state that the share ownership schemes run throughout the Company, not just at the executive level, and this reflects our commitment to each and every team member within the Alfa family.

Further information on team engagement is included in the CSR Report on pages 44 to 49. Details of the Group's employee share plans are contained in the Remuneration Report.

## Employee diversity and inclusion

Our policy for the Alfa team and all applicants for employment is to match the capabilities and talents of each individual to the appropriate job. We are committed to ensuring equality of opportunity in all employee relations. We aim to ensure that no employee, potential employee, customer, visitor or supplier will receive less favourable treatment on the grounds of sex, pregnancy, disability, religious beliefs, marital status, race, ethnic origin, nationality, age, sexual orientation or colour.

## Disability

With regard to existing team members and those who may become disabled, Alfa's policy is to examine ways and means to provide continuing employment under the existing terms and conditions and to provide training and career development, including promotion, where appropriate.

## Directors

The names of the persons who, at any time during the financial year, were Directors of the Company are:

	Date of appointment	Date of resignation
Andrew Page	4 May 2017	n/a
Andrew Denton	5 May 2017	n/a
Vivienne MacLachlan	4 May 2017	n/a
Richard Longdon	5 May 2017	n/a
Karen Slatford	15 May 2017	n/a
Robin Taylor	5 May 2017	n/a

## Appointment and removal of a Director

The rules governing the appointment and removal of a Director are set out in the Articles of Association of the Company. The Articles of Association may be amended by a special resolution of the shareholders. Specific details relating to the Principal Shareholder, CHP Software and Consulting Limited and their right to appoint Directors are set out in the Governance Report on page 52.

All Directors will stand for re-election on an annual basis, in line with the recommendations of the Code.

The Articles of Association are available on the corporate governance page of our investor relations website.

## Powers of the Directors

Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year.

Since listing, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

## Directors' interests

The Directors' interests in and options over ordinary shares in the Company are shown in the Directors' Remuneration Report on page 70. Since the end of the financial year and the date of this report, there have been no changes to such interests.

In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Articles and each Director informed of the authorisation and any terms on which it was given. The Board has formal procedures to deal with Directors' conflicts of interest.

## Directors' indemnities

Each Director of the Company has the benefit of a qualifying indemnity, as defined by section 236 of the Companies Act, and as permitted by the Articles, as well as prospectus liability insurance which provides cover for liabilities incurred by Directors in the performance of their duties or powers in connection with the issue of the Company's prospectus dated 1 June 2017 in relation to the listing. In addition, all Directors and officers of Group companies are covered by Directors' & 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 issued share capital of the Company as at 31 December 2017 and 28 February 2018, 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 19 of the Company's financial statements.

There have been no movements in the Company's issued share capital since Admission in June 2017.

Details of pre-IPO employee share schemes are provided in note 20 to the Group's financial statements.

## Significant shareholdings at 31 December 2017 and 28 February 2018 (being the latest practicable date prior to the 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 2017	% of issued share capital	No. of ordinary shares at 28 February 2018	% of issued share capital	Nature of holding
CHP Software and Consulting Limited	197,645,649	65.88	197,645,649	65.88	Direct
Alfa employee benefit trust	16,744,191	5.58	16,744,191	5.58	Direct
Old Mutual	10,597,130	3.53	n/a	n/a	Direct and indirect
Janus Henderson Investors	9,778,466	3.26	9,221,587	3.07	Direct

## Directors' Report continued

purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

### Transactions with related parties

The only subsisting material transactions which the Company has entered into with related parties are:

#### Relationship Agreement

- 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 the listing. Subject to a certain minimum shareholding, the Relationship Agreement details the rights the Controlling Shareholder has to representation on the Board and Nomination Committee and to appoint observers to the Nomination Committee (if no representation on the Committee). The Controlling Shareholder also undertakes not to operate, establish, own or acquire a competing business during the term 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 LR 9.2.2AR(2)(a), and LR 6.1.4DR.
- In accordance with the requirements of the 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 Company is aware, the Controlling Shareholder has complied with the provisions of the Relationship Agreement (including the independence and non-compete provisions set out therein), at all times since it was entered into.

Other non-material related party transactions are detailed in note 24 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 dividend

The consolidated profit for the year ended 31 December 2017 was £25.9 million (FY16: £9.9 million). The results are discussed in greater detail in the financial review on pages 38 to 43.

### 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 that takes effect, alters or terminates 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 listing on the Official List of the FCA.

### Political donations

The Group made no political donations and incurred no political expenditure during the year (FY16: nil). It remains the Company's policy not to make political donations nor to incur political expenditure. However, the application of the relevant provisions of the Companies Act 2006 is potentially very broad in nature and the Board is therefore seeking to review the shareholder authority, granted immediately prior to the IPO, to ensure that the Group does not inadvertently breach these provisions as a result of the breadth of its business activities, although 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 2017.

### Going concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group 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.

### Dividends

No dividends have been proposed for the financial year 2017.

### Post balance sheet events

There have been no post balance sheet events in the period since 31 December 2017.

### Disclosure of information to the auditor

Each of the Directors of the Company at the date the Director's Report is approved confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

Deloitte LLP, the Group's auditor, has indicated its willingness to continue in office and, on the recommendation of the Audit Committee and in accordance with section 489 of the Companies Act of 2006, a resolution to reappoint it will be put to the 2018 AGM.

### Board approval of the Annual Report

The Strategic Report, Corporate Governance Statement and the Corporate Governance Report were approved by the Board on 8 March 2018.

Approved by the Board and signed on its behalf by



Andrew Denton  
CEO

8 March 2018

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and the Company financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and the parent company financial statements in accordance with UK Generally Accepted Accounting Principles, specifically FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs, as adopted by the European Union, have been followed in the Group financial statements and UK accounting standards, specifically FRS 102, have been followed in the parent company financial statements, subject to any material departures disclosed and explained in those financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 (the "Act") and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary to shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors' section, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, which have been prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the parent company financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practices, consisting of FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland" and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the parent company; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by



Andrew Denton  
CEO

8 March 2018

# Independent auditor's report to the members of Alfa Financial Software Holdings plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 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 of Alfa Financial Software Holdings plc (the "parent company") and its subsidiaries (the "Group") 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 25 to the consolidated financial statements; and
- the notes 1 to 12 to the financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• revenue recognition; and</li><li>• capitalisation of development costs.</li></ul>
<b>Materiality</b>	<ul style="list-style-type: none"><li>• The materiality that we used for the Group financial statements was £2.06 million, which was determined on the basis of 5% of adjusted profit before tax.</li></ul>
<b>Scoping</b>	<p>The Group audit team performed full scope audits for Alfa Financial Software Holdings plc and Alfa Financial Software Limited. Specific audit procedures were carried out on the following companies in the Group:</p> <ul style="list-style-type: none"><li>• Alfa Financial Software Group Limited;</li><li>• Alfa Financial Software Australia Pty Limited;</li><li>• Alfa Financial Software Inc;</li><li>• Alfa Financial Software NZ Limited.</li></ul>

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 2.3 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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

### 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:

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

- the disclosures on pages 34-35 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 32 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 36 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.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Revenue recognition

**Key audit matter description** Total Group revenue recognised for the year ended 31 December 2017 was £87.8 million (2016: £73.3 million) and related to revenue from i) Software implementation services, ii) Maintenance and iii) Ongoing development and services.

This key audit matter relates to the risk that revenue is recognised inappropriately when there are:

- adjustments to revenue that are non-routine or fall outside of the usual business transactions that may impact the timing and extent of accrued and/or deferred income amounts; and
- complex and/or bespoke contracts with customers that may result in significant judgements over the identification of distinct performance obligations and the related accounting treatment.

Given the level of judgement involved in identification of distinct performance obligations, we identified this as a potential fraud risk area.

Further details are included in the critical accounting estimates and judgements note 3.1 to the consolidated financial statements and the Audit Committee Report on page 65.

## Independent auditor's report to the members of Alfa Financial Software Holdings plc continued

### Revenue recognition

<b>How the scope of our audit responded to the key audit matter</b>	<p>In response to this key audit matter, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>Evaluated the design and implementation of key controls over the revenue cycle.</li> <li>Evaluated the evidence supporting the recognition of non-routine accrued income items.</li> <li>Engaged in discussions with the Company's project managers to evaluate completeness of commercial arrangements considered in the analysis of accounting treatment and to determine whether conditions exist which result in bespoke contractual arrangements outside the usual terms.</li> <li>Assessed management's evaluation of accounting judgements for a sample of new contracts, focussing on the identification of distinct performance obligations and the treatment of bespoke terms and conditions.</li> <li>Reviewed minutes of the meetings of the committee which assesses the commercial viability of contracts entered to confirm whether the accounting treatment is consistent with the commercial substance of the agreements.</li> <li>Tested the key inputs and mathematical accuracy of the percentage of completion calculations.</li> </ul>
<b>Key observations</b>	From the procedures performed, we did not identify any material misstatement of revenue and are satisfied with the appropriateness of the related disclosures.

### Capitalisation of development costs

<b>Key audit matter description</b>	<p>The Group expends a substantial amount of time in research and product development work in relation to the enhancement of its product. In accordance with IAS 38: Intangible assets internally generated research and development costs can only qualify for capitalisation if the Group can demonstrate all of the recognition criteria are met. The Group considers the eligibility of development costs for capitalisation on a project by project basis.</p> <p>There is a judgement over the point at which work moves from the research phase to the development phase and over whether development spend is creating an asset which is substantially new in functionality or design. Therefore, there is a risk that development costs are not capitalised for spend that creates an enduring enhancement to the software capabilities available for sale to other clients.</p> <p>Further details are included in the critical accounting estimates and judgements note 3.2 to the consolidated financial statements and the Audit Committee Report on page 65.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"> <li>We evaluated the design and implementation of the key controls surrounding the recording and monitoring of development spend.</li> <li>We tested a sample of the research and development costs incurred to assess whether the related projects are creating an asset which is substantially new in functionality and/or design. To do this we evaluated the projects against the definition of an intangible asset and the recognition criteria in IAS 38.</li> <li>We challenged management's technical assessment of the judgements involved against the accounting standards and their rationale for the treatment of development costs incurred on key projects.</li> <li>We made enquiries of the development team leader and Chief Information Officer as to the activities of the development teams, including key projects undertaken during the year to evaluate the completeness of management's assessment.</li> </ul>
<b>Key observations</b>	We did not identify any material misstatement of development costs capitalised as a result of the procedures performed.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£2.06 million	£2.04 million
<b>Basis for determining materiality</b>	5% of adjusted profit before tax. Adjustments to the benchmark have been made in respect of IPO costs of £3.0 million and a share-based payment charge of £4.4 million because they are non-recurring.	Materiality equates to less than 1% of the parent company's net assets limited to 99% of the materiality of the Group.
<b>Rationale for the benchmark applied</b>	As a listed entity, profit before tax is considered the most appropriate benchmark for users of the financial statements.	As a holding company, the net assets benchmark is considered the most appropriate benchmark on which to base materiality for users of the financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.103 million for the Group and the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. The Group was audited by the Group audit team which also tested the consolidation process.

The Group has six components and the Group audit team performed full scope audits for Alfa Financial Software Holdings plc and Alfa Financial Software Limited and specific audit procedures were performed on the remaining components (Alfa Financial Software Group Limited, Alfa Financial Software Australia Pty Limited, Alfa Financial Software Inc, and Alfa Financial Software NZ Limited).

The total revenue for the components audited together with those on which specific audit procedures were performed represented 100% of the Group's revenue. The component materiality ranged from 40% to 99% of Group materiality.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report's Strategic report and Governance section, 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.

## Independent auditor's report to the members of Alfa Financial Software Holdings plc continued

### 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.

### 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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.

### Report on other legal and regulatory requirements

**Opinions on other matters prescribed by the  
Companies Act 2006**

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

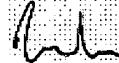
### Other matters

#### Auditor tenure

Following the recommendation of the audit committee, we were appointed by Company on 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 one year, covering the year ended 31 December 2017.

#### 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).



**Richard Howe FCA**

Senior statutory auditor

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK

8 March 2018

# Consolidated statement of profit or loss and comprehensive income for the years ended 31 December

£'000s	Note	2017	2016
<b>Continuing operations</b>			
Revenue	4	87,777	73,280
Implementation and support expenses	5	(20,971)	(16,714)
Research and product development expenses	5	(13,963)	(13,643)
Sales, general and administrative expenses	5, 20	(19,076)	(26,370)
Other operating income		62	36
<b>Operating profit</b>		33,829	16,589
Finance income	7	33	587
<b>Profit before taxation</b>		33,862	17,176
Taxation	8	(7,996)	(7,294)
<b>Profit and total comprehensive income for the financial year</b>		25,866	9,882
<b>Attributable to:</b>			
Equity holders of the Company		25,866	7,869
Non-controlling interest		-	2,013
		25,866	9,882
<b>Earnings per share (in pence)</b>			
Basic	9	9.1	2.8
Diluted	9	8.6	2.6
Weighted average no. of shares – basic	9	283,134,180	283,145,649
Weighted average no. of shares – diluted	9	300,000,000	300,000,000
<b>Adjusted Earnings per share (in pence)</b>			
Diluted	9	11.0	8.0

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

as at 31 December

£'000s	Note	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	1,463	1,305
Goodwill	11	24,737	24,737
Amounts owed by parent company	12	–	27,043
<b>Total non-current assets</b>		<b>26,200</b>	<b>53,085</b>
<b>Current assets</b>			
Trade and other receivables	13	6,887	9,606
Accrued income	13	5,505	3,623
Prepayments	13	1,731	953
Other receivables	13	602	943
Derivative financial assets	17	108	–
Cash and cash equivalents	14	31,267	46,266
<b>Total current assets</b>		<b>46,100</b>	<b>61,391</b>
<b>Total assets</b>		<b>72,300</b>	<b>114,476</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade and other payables	15	7,417	8,686
Corporation tax	15	3,956	3,088
Deferred revenue	15	6,719	14,019
Derivative financial liabilities	17	–	3,536
<b>Total current liabilities</b>		<b>18,092</b>	<b>29,329</b>
<b>Non-current liabilities</b>			
Provisions for other liabilities	16	87	58
Derivative financial liabilities	17	–	491
<b>Total non-current liabilities</b>		<b>87</b>	<b>549</b>
<b>Total liabilities</b>		<b>18,179</b>	<b>29,878</b>
<b>Capital and reserves</b>			
Ordinary shares	19	300	27
Share premium		–	11,123
Retained earnings		53,821	73,448
<b>Total equity</b>		<b>54,121</b>	<b>84,598</b>
<b>Total liabilities and equity</b>		<b>72,300</b>	<b>114,476</b>

The consolidated financial statements on pages 91 to 113 were approved by the Board of Directors and authorised for issue.

Signed on behalf of the Board.

Andrew Denton  
Chief Executive Officer

8 March 2018

Vivienne MacLachlan  
Chief Financial Officer

8 March 2018

Alfa Financial Software Holding PLC  
Registered number 10713517

# Consolidated statement of changes in equity for the years ended 31 December

£'000s	Note	Share capital	Share premium	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
<b>Balance as at 1 January 2016</b>		6,021	11,123	33,262	50,406	12,381	62,787
Profit for the financial year		-	-	7,869	7,869	2,013	9,882
<b>Total comprehensive income for the year</b>		-	-	7,869	7,869	2,013	9,882
Dividend	21	-	-	(1,000)	(1,000)	-	(1,000)
Settlement of C preference shares		(6,000)	-	2,729	(3,271)	-	(3,271)
Shares issued in consideration for non-controlling interests	6	-	-	-	6	(6)	-
Acquisition of non-controlling interest		-	-	14,388	14,388	(14,388)	-
Share based payment	20	-	-	16,200	16,200	-	16,200
<b>Balance as at 31 December 2016</b>	27	11,123	73,448	84,598	-	-	84,598
Profit for the financial year		-	-	25,866	25,866	-	25,866
<b>Total comprehensive income for the year</b>		-	-	25,866	25,866	-	25,866
Capital reduction	2.5	(27)	(11,123)	11,150	-	-	-
Reorganisation of share capital	2.5	300	-	(300)	-	-	-
Dividends paid to parent	21	-	-	(60,743)	(60,743)	-	(60,743)
Share based payment	20	-	-	4,400	4,400	-	4,400
<b>Balance as at 31 December 2017</b>		300	-	53,821	54,121	-	54,121

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

for the years ended 31 December

£'000s	Note	2017	2016
<b>Cash flow from operations</b>			
Operating profit		<b>33,829</b>	16,589
Adjustments:			
Depreciation	10	<b>495</b>	437
Share based payment expense	20	<b>4,400</b>	16,200
Unrealised (profit)/loss on derivative financial instruments	17	<b>(1,675)</b>	3,796
Movement in working capital:			
Movement in trade and other receivables		<b>252</b>	850
Movement in trade and other payables (excluding derivative financial instruments and deferred revenue)		<b>(1,148)</b>	4,902
Movement in deferred revenue		<b>(7,300)</b>	(1,299)
<b>Cash generated from operations</b>			
Settlement of derivative financial instruments and margin calls		<b>(2,683)</b>	(4,036)
Income taxes paid		<b>(6,888)</b>	(5,771)
<b>Net cash generated from operating activities</b>		<b>19,282</b>	31,668
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment		<b>(663)</b>	(390)
Loans repaid from/(advanced to) related parties	12	<b>27,043</b>	(17,699)
Interest received		<b>33</b>	105
<b>Net cash generated by/(used in) investing activities</b>		<b>26,413</b>	(17,984)
<b>Cash flows from financing activities</b>			
Redemption of C preference shares		<b>-</b>	(3,270)
Dividends paid	21	<b>(60,743)</b>	(1,000)
<b>Cash used in financing activities</b>		<b>(60,743)</b>	(4,270)
<b>Effect of exchange rate changes</b>			
Net (decrease)/increase in cash		<b>(14,999)</b>	12,172
<b>Cash and cash equivalents at the beginning of the year</b>		<b>46,266</b>	34,094
<b>Cash and cash equivalents at the end of the year</b>	14	<b>31,267</b>	46,266

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements for the year ended 31 December 2017

## 1. General information

Alfa Financial Software Holdings PLC ("Alfa" or the "Company") and its subsidiaries (together the "Group") is a public company limited by shares and is incorporated and domiciled in England. The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. The registered no. of the company is 10713517.

The principal activity of the Group is to provide software solutions and consultancy services to the asset finance industry in the United Kingdom, United States of America, Europe and Asia Pacific.

Prior to the admission of Alfa's shares on the main market of the London Stock Exchange on 1 June 2017 (the "Admission"), the Company obtained control of the entire share capital of Alfa Financial Software Group Limited ("AFSGL") via a share-for-share exchange. In substance, these consolidated financial statements reflect the continuation of the pre-existing Group previously headed by AFSGL, and the consolidated financial statements have been prepared applying the principles of predecessor accounting as this was a common control transaction and therefore outside the scope of IFRS 3 ("Business Combinations").

## 2. Accounting policies

The accounting policies adopted in preparation of the consolidated financial statements are consistent with those used to prepare the AFSGL Group's consolidated financial information for the years ended 31 December 2014, 2015 and 2016 as published in the prospectus for the admission of Alfa's shares (the "Annual Historical Financial Information"). These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were materially the same as those applied to the consolidated Annual Historical Financial Information, other than share based payment expense which is not included in the current year as it is related to an estimate made in relation to valuations in prior periods.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, other than the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) recorded at fair value through profit or loss.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS.

### 2.2 Standards, amendments and interpretations relevant to the Group's operation that are not yet effective and have not been early adopted by the Group.

#### a) New standards, amendments and interpretations

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2017, have had a material impact on the Group or parent company.

#### b) New standards, amendments and interpretations not yet adopted

The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but the Group has not early adopted them. Unless otherwise indicated, these publications are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 15 "Revenue from Contracts with Customers", effective for annual periods beginning on or after 1 January 2018. This new standard establishes a comprehensive framework for determining core principles for revenue recognition and disclosures. The guidance permits two methods for adoption, either applying retrospectively to each prior period or retrospectively with the cumulative effect of initially applying the standard recognised to the date of initial application.

The Group will apply this new standard for the financial reporting period commencing on 1 January 2018 and will apply the modified retrospective method of adoption of this standard. The Group has performed a detailed analysis of the impact of IFRS 15 by reviewing individually material contracts in relation to both implementation and ODS customers. The Group does not expect there to be a material impact on the consolidated financial statements under the final issued version of the standard and the latest authoritative guidance.

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 2. Accounting policies continued

- IFRS 9 "Financial Instruments", effective for annual periods beginning on or after 1 January 2018. This new standard replaces existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement" and introduces revised guidance on the classification, recognition, derecognition and measurement of financial assets and financial liabilities as well as a new expected credit losses model for calculating impairment on financial assets. It also includes new general hedge accounting requirements. Although the Group is still assessing the potential effect of this new standard, it is not expected to have a significant impact on the Group's consolidated financial statements. The Group will apply this new standard for the financial reporting period commencing on 1 January 2018.
- IFRS 16 "Leases", effective for annual periods beginning on or after 1 January 2019. This new standard supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". It sets out a comprehensive new set of rules for recognition and measurement of arrangements containing a lease. Although the Group continues to evaluate the impact of this new standard, it is expected that it will result in the recognition of some of its operating lease commitments as a "right to use" asset and a corresponding liability. The Group will apply this new standard for the financial reporting period commencing on 1 January 2019.

### 2.3 Going concern

The Group meets its day to day working capital requirements through its cash reserves. The Group's forecasts and projections take into account reasonably possible changes in trading performance due to the impact of operational, legal, macro-economic risks or reputational risks. Having assessed the principal risks, and other matters discussed in the viability statement, the Directors have a reasonable expectation that Alfa has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of this report, and therefore they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

### 2.4 Basis of consolidation

The Group's consolidated financial statements include the financial information of Alfa and its subsidiary undertakings.

**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.**

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Registered address and country of incorporation	Principal activity	Ownership at 31 December	
		2017	2016
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100% n/a
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%

### 2.5 2017 Group reorganisation

On 1 June 2017, Alfa's shares were admitted for trading on the main market of the London Stock Exchange (the "Admission"). Prior to the Admission, the Group was reorganised to insert Alfa, the new holding company of the Group, by way of a share-for-share exchange with AFSGL, the previous parent company of the Group. The restructuring has been accounted for as a common control transaction, applying the principle of predecessor accounting ownership. This policy reflects the economic substance of the transaction and these consolidated financial statements are presented as if Alfa had been the parent company of the Group since the beginning of the earliest period presented.

The Group reorganisation also effected the conversion of the A and A1 shares held by an employee trust. The table below summarises the movements in share capital from incorporation to 1 June 2017, being the date of the reorganisation completing:

	Shares - Ordinary	Shares - A	Shares - A1	£'000s
At date of incorporation of Alfa Financial Software Holdings PLC <sup>(1)</sup>	1	-	-	-
Share-for-share exchange <sup>(2)</sup>	2,663,689	91,020	75,689	424,560
Capital reduction <sup>(3)</sup>	263,705,310	9,010,980	7,493,211	(424,277)
Reorganisation of share capital – bonus issue <sup>(4)</sup>	16,238,969	409,254	311,877	17
Reorganisation of share capital – re-designation of A and A1 shares <sup>(4)</sup>	17,392,031	(9,511,254)	(7,880,777)	-
	<b>300,000,000</b>	-	-	<b>300</b>

- (1) On 6 April 2017, Alfa Financial Software Holdings PLC was incorporated with one 0.1 pence ordinary share issued.  
 (2) On 28 April 2017, Alfa was inserted into the Group above AFSGL as the new holding company by way of the share-for-share exchange agreement. The exchange was a 1:1 exchange and the nominal value of shares issued was £150.  
 (3) On 3 May 2017, Alfa undertook a capital reduction and ultimately the nominal value of each share was reduced to 0.1 pence.  
 (4) On 1 June 2017, Alfa undertook a bonus issue and share reorganisation to re-designate existing A and A1 shares into ordinary shares.

## 2.6 Foreign currency

- 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. Previously all subsidiaries were deemed to have a functional currency of pounds sterling as these entities were considered to be operating as an extension of the UK trading subsidiary. During the year, the functional currency for one of our subsidiaries changed to the local currency due to a change in the underlying contracting method with customers.
- Presentation currency – The consolidated financial statements are presented in pounds sterling. Alfa's functional and presentation currency is the pounds sterling, which is the Group's presentation currency and the currency in which the majority of the Group's transactions are denominated.
- 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 1.2887 in 2017 (2016: 1.3554). The closing rate for the US dollar used was 1.3493 in 2017 (2016: 1.2341).

## 3. Critical accounting judgements and estimation uncertainty

The preparation of historical financial information requires the Directors to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period. The nature of estimation means that the actual outcomes could differ from those estimates.

In the process of applying the accounting policies, the Directors have made the following judgements that may have a significant effect on the amounts recognised in the historical financial information. The key assumptions concerning the future, and the other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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.

### Critical judgements in applying the Group's accounting policies

**3.1 Revenue recognition** – As detailed in note 4.2, the Group is required to make an assessment as to whether the implementation process, which includes license, implementation and development revenues streams, forms one performance obligation when assessing how to recognise the software license component. In doing so the Group assesses each software license contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements and before Alfa Systems can be utilised by the customer. Where significant modification or customisation is required, the license fee is recognised over the life of the software implementation based on a percentage-of-completion method. Therefore there is judgement required in determining what efforts relate to the implementation process and what efforts could be determined to be additional development and services which are separate from the implementation effort.

In making this judgement, the Group assesses the contractual terms and the original project plan for the implementation but also uses historical evidence of what is core implementation work.

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 3. Critical accounting judgements and estimation uncertainty continued

**3.2 Internally generated software development** – As detailed in note 5.1, 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, 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 expenses for the period was £14.0 million (2016: £13.6 million) and there was nil capitalised development costs in the year (2016: nil).

#### Key sources of estimation uncertainty

**3.3 Revenue recognition** – The Group estimates the percentage of completion, specifically with regards to the total project days remaining to complete the relevant software implementation. Estimates of total project days required for a relevant implementation are based on historical evidence of past implementations, knowledge of the customer's systems being replaced and scope of customisation. The Group applies the percentage-of-completion method when calculating implementation revenues and updates estimates at each quarter end accordingly.

At 31 December 2017 the Group has £4.7 million of deferred license revenue and, if the Group's estimates of project days to complete increased by 10%, this would result in deferred license revenue increasing by £1.0 million, with the increase recognised as a reduction to revenue in the current period, although this would be partially offset by an increase in accrued professional fees.

### 4. Segment information

**4.1 Segments** Operating segments and reporting segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance, has been identified as the Group's Chief Executive Officer ("CEO"). 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 and Maintenance.

There is judgement in relation to which revenue is derived from implementations which include initial implementations and upgrades in comparison to ongoing development and services.

**4.2 Revenue** The Group derives external revenue from the following sources: (1) software implementation revenue which includes software licenses, software development and other software implementation services; (2) software maintenance (help desk and other support services); and (3) ongoing development and support services.

The Group recognises revenue in accordance with IAS 18 "Revenue". This requires the exercise of judgement and the use of estimates in connection with the determination of the amount of revenue to be recognised in each accounting period. In exercising such judgement, the Group draws upon guidance from specific software industry revenue recognition practices which comply with IAS 18 "Revenue".

Revenue, which excludes value added tax and trade discounts, represents the value of goods and services supplied.

- (i) Software implementation services – represents income from perpetual licenses, the cost of software implementation and client specific development efforts, all of which are delivered under a master services agreement. Long-term software implementation arrangements are accounted for on a percentage-of-completion basis, whereby revenue recognised during the period represents the man days effort incurred up to the end of the reporting period as a percentage of the total estimated man days to complete the implementation. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue due to changes in estimates are accounted for in the period in which the change in estimates occurs. Such revenue is recognised when man-days efforts are provided and collection is deemed probable. Provisions are made for estimated losses on contracts where applicable and such provision would comprise the valuation of the estimated loss until the completion of the work.
- (ii) Maintenance – revenue from annual maintenance contracts is recognised on a straight-line basis over the course of the contract, which is generally 12 months. Revenue is recognised when collection is reasonably assured.
- (iii) Ongoing development and services – such services are recognised as revenue as services are delivered.

**4.3 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. £1.7 million of unrealised gains on derivative financial instruments were recognised in the year ended 31 December 2017 (2016: £3.8 million of unrealised losses).

**4.4 Adjusted EBIT and Adjusted Earnings** The CODM analyses the financial performance of the business on two adjusted profit measures, being adjusted earnings before interest and tax ("Adjusted EBIT") and adjusted earnings ("Adjusted Earnings"). Adjusted EBIT and Adjusted Earnings are not measures defined by IFRS. The most directly comparable IFRS measure to both Adjusted EBIT and Adjusted Earnings is net income for the relevant period.

Adjusted EBIT – Adjusted EBIT is defined as profit from continuing operations before income taxes, finance income, pre-IPO share based compensation and IPO related expenses. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of the Group or adding items which are reflective of the overall trading operations, as applicable.

Adjusted Earnings – Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and share based compensation, less the tax effect of these adjustments. Adjusted Earnings is used by the CODM in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believe affect shareholder value and in-year return, such as income tax expense and net finance costs.

Management use Adjusted EBIT and Adjusted Earnings to (i) provide senior management with a monthly report of operating results that is prepared on an adjusted earnings basis and (ii) prepare strategic plans and annual budgets on an adjusted earnings basis. Senior management's annual compensation may also be reviewed, in part, using adjusted performance measures.

In addition, Adjusted Earnings is used for the purposes of calculating diluted Adjusted Earnings per share. Management uses diluted Adjusted Earnings per share to assess performance on a consistent basis at a per share level. See note 9.

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 4. Segment information continued

#### Revenue by type

The Group assesses revenue by type of project, being Software implementations, Ongoing development and services ("ODS") and Maintenance, as summarised below:

£'000s	2017	2016
Software implementation	44,764	47,881
ODS	21,164	8,667
Maintenance	21,849	16,732
<b>Total revenue</b>	<b>87,777</b>	<b>73,280</b>

Customers with revenue accounting for more than 10% of total revenue are as follows:

£'000s	2017	2016
Customer A	23%	20%
Customer B	10%	18%
Customer C	10%	n/a
Customer D	n/a	14%

#### Geographical information

Revenue attributable to each geographical market based on where the license is sold or the service is provided:

£'000s	2017	2016
UK	30,686	25,894
US	42,167	36,493
Rest of world	14,924	10,893
<b>Total revenue</b>	<b>87,777</b>	<b>73,280</b>

Non-current assets (other than financial instruments and deferred tax assets) attributable to each geographical market:

£'000s	2017	2016
UK	25,855	52,928
US	310	108
Rest of world	35	49
<b>Total non-current assets (other than financial instruments and deferred tax assets)</b>	<b>26,200</b>	<b>53,085</b>

#### Adjusted EBIT and Adjusted Earnings

The following tables reconcile profit for the period to Adjusted EBIT and profit for the period attributable to equity holders of the Company to Adjusted Earnings for the periods presented:

£'000s	2017	2016
Profit for the year	25,866	9,882
Adjusted for:		
Taxation	7,996	7,294
Finance income	(33)	(587)
Share based compensation <sup>(1)</sup>	4,400	16,200
IPO-related expenses <sup>(2)</sup>	3,000	–
<b>Adjusted EBIT</b>	<b>41,229</b>	<b>32,789</b>

£'000s	2017	2016
Profit for the period attributable to equity holders of the Company	25,866	7,869
Adjusted for:		
Share based compensation <sup>(1)</sup>	4,400	16,200
IPO-related expenses <sup>(2)</sup>	3,000	–
Tax effect adjustments <sup>(3)</sup>	(290)	–
<b>Adjusted Earnings</b>	<b>32,976</b>	<b>24,069</b>

(1) Relates to pre-IPO share based payment expense as detailed in note 20.

(2) Relates to costs related to the IPO.

(3) Professional fees tax effected based on the applicable rate in the UK in the period in which incurred. Share based compensation is not deductible for tax purposes and therefore not tax effected.

## 5. Operating profit

**5.1 Operating profit** is calculated after items such as personnel costs (including training and recruitment), cost of hardware not capitalised, research and development costs and other infrastructure expenses.

**Implementation and Services expenses** – Such expenses relate to the remuneration of personnel assigned to software implementation services, in addition to project related travel and accommodation expenses and an appropriate portion of relevant overheads.

**Research and product development expenses** – The Group invests a substantial part of its time in research and product development work in relation to the enhancement of its product platform and capabilities. Research and product development work is charged to the client where it is linked to specific client projects such as initial software implementations. The Group's research and product development costs include the 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 following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products, modules or capabilities is not proven until all high risk development issues have been resolved through testing in the marketplace. Development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria, where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense. See note 3.2 for further discussion.

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".

**5.2 Leases**, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Various buildings, machinery and equipment from third parties are leased under operating lease agreements. Under such operating lease agreements, the total lease payments are recognised as rent expense on a straight-line basis over the term of the lease agreement, and are included in Sales, general and administrative expenses, reflecting the nature of the leased assets. Lease incentives received to enter into an operating lease are credited to the consolidated income statement, to reduce the lease expense, on a straight-line basis, over the period of the lease. The Group's property lease in respect of its London headquarters has a lease term of 10 years with an additional five-years extension.

The following items have been included in arriving at operating profit:

£'000s	2017	2016
Personnel, external consultants, training and recruitment expenses	32,641	29,490
Other personnel related expenses	1,912	1,314
Advertising, sponsorship and marketing expenses	855	793
Depreciation (note 10)	495	437
Property expenses	1,857	1,929
Travel expenses	4,057	2,589
IT expenses	1,241	721
Professional advisor expenses	4,772	1,797
Foreign currency differences	1,100	1,251
Share based payment expense (note 20)	4,400	16,200
Other	680	206

The Group also incurred £14.0 million (2016: £13.6 million) in research and product development expenditure of which £12.1 million (2016: £11.9 million) is included in personnel costs, external consultants, training and recruitment expenses.

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 5. Operating profit continued

#### Operating leases

Operating lease payments in the year amounted to £1.3 million (2016: £1.2 million). Future operating lease payments, in respect of non-cancellable leases, are set out below:

£'000s	Within 12 months	1-5 years	Over 5 years
As at 31 December 2016	1,493	4,549	4,664
<b>As at 31 December 2017</b>	<b>1,302</b>	<b>4,535</b>	<b>3,566</b>

Operating lease commitments relate to property and motor vehicle leases.

#### Services provided by the Group's auditor and network firms

The Group obtained the following services from the Group's auditor as detailed below:

£'000s	2017	2016
Audit of the consolidated financial statements	100	38
Audit of the Group's subsidiaries	63	22
<b>Total audit fees</b>	<b>163</b>	<b>60</b>
Audit related assurance fees	61	–
<b>Total assurance fees</b>	<b>224</b>	<b>60</b>
Non-audit services	779	260
<b>Total audit and non-audit related services</b>	<b>1,003</b>	<b>320</b>

The 2016 and 2017 non-audit services relate to the reporting accountant fees required for the Admission, and in 2017 audit related assurance fees relate to fees payable in relation to interim reviews. There were no non-audit related services provided after Admission on 1 June 2017.

### 6. Employees and Directors

**Employee benefits** The Group provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

**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.

**Pensions** The Group operates various defined contribution plans for its employees. A defined contribution plan is a pension plan where the Company pays fixed contributions into a separate independent entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee's service in the current and prior periods.

**Share based payment expense** is recognised in line with the accounting policy in note 20.

Average monthly number of people employed (including Alfa Directors)	2017	2016
UK	218	179
US	67	54
RoW	16	13
<b>Total average monthly number of people employed</b>	<b>301</b>	<b>246</b>
Average monthly number of people employed (including Alfa Directors)	2017	2016
Software implementation	110	83
Research and product development	142	126
Sales, general and administrative	49	37
<b>Total average monthly number of people employed</b>	<b>301</b>	<b>246</b>

**Personnel costs**

£'000s	2017	2016
Wages, salaries and short-term benefits	24,524	22,889
Social security	5,050	3,195
Post-employment benefits	1,624	1,535
Share based payment expense	4,400	16,200
<b>Total personnel costs</b>	<b>35,598</b>	<b>43,819</b>

**Aggregate Director compensation**

£'000s	2017	2016
Aggregate emoluments	1,132	725
Post-employment benefits	15	–
<b>Total aggregate Director compensation</b>	<b>1,147</b>	<b>725</b>

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 Executive Committee.

**Key management compensation (including directors)**

£'000s	2017	2016
Wages, salaries and short-term benefits	2,236	1,764
Social security	286	207
Post-employment benefits	31	18
Share based payments	1,201	4,421
<b>Total key management compensation</b>	<b>3,754</b>	<b>6,410</b>

**7. Finance income**

Finance income is recognised on related party loans using the effective interest method.

£'000s	2017	2016
Finance income		
– Interest income on cash or short-term bank deposits	33	89
– Interest income on related party loans	–	498
<b>Total finance income</b>	<b>33</b>	<b>587</b>

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 8. Income tax expense

**Taxation expense** for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

i) **Current tax** – The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) **Deferred tax** – Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Analysis of charge in the year £'000s	2017	2016
<b>Current tax</b>		
Current tax on profit for the year	7,326	6,318
Adjustment in respect of prior years	(63)	228
Foreign tax on profit of subsidiaries for the current year	728	656
<b>Current tax</b>	<b>7,991</b>	<b>7,202</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	5	(10)
Adjustment in respect of prior years	–	102
<b>Deferred tax</b>	<b>5</b>	<b>92</b>
<b>Total tax charge in the year</b>	<b>7,996</b>	<b>7,294</b>

The effective tax rate for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

Analysis of charge in the year £'000s	2017	2016
Profit on ordinary activities before taxation	33,862	17,176
Profit on ordinary activities at the standard rate of corporation tax	6,518	3,435
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	353	419
Expenses not deductible for tax purposes	383	150
Income not taxable for tax purposes	(26)	(188)
Share based payment	847	3,240
Adjustment in respect of prior years	(63)	330
Group relief	(16)	(92)
Impact of tax rate change	–	–
<b>Total tax charge for the year</b>	<b>7,996</b>	<b>7,294</b>

Changes to the UK corporation tax rates were substantively enacted as part of Finance Act 2016 on 6 September 2016. These include reductions to the main rate of corporation tax to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

## 9. 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.

Diluted Adjusted Earnings per share, is defined as Adjusted Earnings, as reconciled in note 4, divided by the weighted average number of shares issued and outstanding, diluted.

As a result of the Group reorganisation as detailed in note 2.5, the basic and diluted earnings per share metrics, actual and adjusted, are calculated with reference to the share structure of the new parent company, as if it has been the parent for all periods presented.

	2017	2016
Profit attributable to equity holders of Alfa (£'000s)	25,866	7,869
Weighted average number of shares outstanding during the year	283,134,180	283,145,649
Basic earnings per share (pence per share)	9.1	2.8
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted earnings per share (pence per share)	8.6	2.6
	2017	2016
Adjusted Earnings attributable to equity holders of the Company (£'000s) (note 4)	32,976	24,069
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted Adjusted earnings per share (pence per share)	11.0	8.0

## 10. Property, plant and equipment

**10.1 Property, plant and equipment** is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Furniture and fittings	3-10 years
IT equipment	3-5 years
Motor vehicles	10 years, or over life of the lease.

The assets' residual values and useful lives are reviewed and adjusted if necessary at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Repairs and maintenance are charged to the income statement as incurred. Any gains or losses on disposals are recognised within "Sales, general and administrative expenses" in the income statement unless otherwise specified.

**10.2 Impairment**, finite lived non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**Notes to the consolidated financial statements  
for the year ended 31 December 2017 continued**

**10. Property, plant and equipment continued**

	<b>Fixtures and fittings</b>	<b>IT equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>				
At 1 January 2016	1,160	2,845	40	4,045
Additions	85	317	–	402
Disposals	–	–	–	–
At 31 December 2016	1,245	3,162	40	4,447
<b>Depreciation</b>				
At 1 January 2016	406	2,284	15	2,705
Charge for the year	127	302	8	437
Disposals	–	–	–	–
At 31 December 2016	533	2,586	23	3,142
<b>Net book value</b>				
At 31 December 2016	712	576	17	1,305
<b>Cost</b>				
At 1 January 2017	1,245	3,162	40	4,447
Additions	43	610	–	653
Disposals	(247)	(1,261)	–	(1,508)
At 31 December 2017	1,041	2,511	40	3,592
<b>Depreciation</b>				
At 1 January 2017	533	2,586	23	3,142
Charge for the year	103	384	8	495
Disposals	(247)	(1,261)	–	(1,508)
At 31 December 2017	389	1,709	31	2,129
<b>Net book value</b>				
At 31 December 2017	652	802	9	1,463

**11. Goodwill**

Goodwill arose on the acquisition of subsidiaries by AFSGL 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.

<b>£'000s</b>	<b>2017</b>	<b>2016</b>
<b>Cost</b>		
At 1 January	24,737	24,737
At 31 December	24,737	24,737

Impairment of goodwill – The Group tests annually whether goodwill has suffered any impairment on an annual basis in accordance with the accounting policy stated above. The Group has one CGU, being the Group, as its geographical operations do not have separate or distinct cash inflows. The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections based on financial budgets for a five-year period using a discount rate of 10%. 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 additional 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 represents the Group's weighted average cost of capital adjusted for tax effect to determine the pre-tax rate as required by IFRS.

Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount.

At 31 December 2017 and 2016 the carrying amount of the goodwill was £24.7 million.

## 12. Amounts owed by related parties

Amounts owed by the Parent, as defined in note 24, were settled during the year ended 31 December 2017 (2016: £27.0 million).

## 13. Trade and other receivables

**Trade receivables** are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recognised in the income statement within "Sales, general and administrative expenses". Subsequent recoveries are credited in the same account previously used to recognise the impairment charge.

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.

**Accrued income** represents fees earned but not yet invoiced at the reporting date.

**Amounts owed by related parties** are unsecured, bearing interest at 2% above base rate and repayable on maturity, being 17-20 years.

£'000s	2017	2016
Trade receivables	6,887	9,606
Provision for impairment	-	-
Trade receivables – net	6,887	9,606
Accrued income	5,505	3,623
Prepayments	1,731	953
Other receivables	602	943
Derivative financial instruments	108	-
Amounts owed by related parties	-	27,043
<b>Total trade receivables, accrued income and other receivables</b>	<b>14,833</b>	<b>42,168</b>

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.

Ageing of net trade receivables £'000s	2017	2016
Less than 30 days	5,596	7,922
Past due 31-90 days	1,291	1,684
Past due 91+ days	-	-
<b>Trade receivables – net</b>	<b>6,887</b>	<b>9,606</b>

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation.

Currency of trade receivables £'000s	2017	2016
GBP	2,833	3,120
USD	3,109	5,291
SEK	433	910
Other	512	285
<b>Trade receivables – net</b>	<b>6,887</b>	<b>9,606</b>

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 14. Cash and cash equivalents

**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	2017	2016
Cash at bank and in hand	30,283	45,921
Short-term deposits	984	345
<b>Cash and cash equivalents</b>	<b>31,267</b>	<b>46,266</b>

Short-term deposits relate to deposit accounts held in relation to financial instruments.

Currency of cash and cash equivalents	2017	2016
£'000s		
GBP	19,341	39,668
USD	9,955	2,724
SEK	334	2,289
AUD	472	541
Other	1,165	1,044
<b>Cash and cash equivalents</b>	<b>31,267</b>	<b>46,266</b>

### 15. Trade and other payables – current liabilities

**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.

**Deferred revenue** includes license or annual maintenance amounts invoiced in advance and subsequently recognised as revenue in line with the percentage of completion of the software implementation process.

**Amounts owed to related parties** are unsecured, non-interest bearing and repayable on demand.

**Trade and other payables** are initially recorded at fair value and subsequently measured at amortised cost. As the total carrying amount is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals the contractual amount or the fair value initially recognised.

Accounts payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

£'000s	2017	2016
Trade payables	7,417	8,686
Corporation tax	3,956	3,088
Deferred revenue	6,719	14,019
Provisions for other liabilities	87	58
<b>Total trade and other payables</b>	<b>18,179</b>	<b>25,851</b>
Less non-current portion	(87)	(58)
<b>Total current trade and other payables</b>	<b>18,092</b>	<b>25,793</b>

### 16. Provisions

**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.

A provision for onerous leases is recognised when the expected benefits to be derived from a lease are lower than the unavoidable costs of meeting the obligations under the contract. The onerous lease provision comprises future rent and rate expenses in relation to a vacated property. Provisions are not recognised for future operating losses.

£'000s	Onerous lease provision	Dilapidation provision	Total
<b>At 31 December 2015</b>	303	140	443
Provided in the period	–	29	29
Utilised in the period	(303)	(111)	(414)
<b>At 31 December 2016</b>	–	58	58
Provided in the period	–	29	29
<b>At 31 December 2017</b>	–	87	87

The onerous lease provision is in relation to a vacated property where the lease was terminated and the property vacated during 2015. The final lease payment was made in September 2016, at which point the provision was utilised in full.

Dilapidation provisions are made for expected future expenditure of the Alfa headquarters at Moor Place in London in accordance with lease obligations and are based on the Group's best estimate of the likely committed cash outflow. These costs are expected to be incurred at the end of the lease.

## 17. Financial assets and liabilities (including financial instruments)

**17.1 Financial assets and liabilities** are recognised in the statement of financial position when the Group becomes party to the contractual provision of the instrument.

**17.2 Financial assets** are classified as either financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are initially recognised at fair value plus, in the case of financial assets not subsequently reported at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement – Financial assets at fair value through profit or loss (FVTPL).

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within "Revenue." FVTPL financial assets are classified as current assets.

**Loans and receivables** – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents (notes 13 and 14).

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, except for the current portion where the recognition of interest would be immaterial. The effective interest income is recognised in profit or loss within "Finance income".

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

**Impairment of financial assets** – Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted. The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets carried at amortised costs with the exception of trade receivables, where the carrying amount may be reduced through the use of an allowance account (note 13).

## Notes to the consolidated financial statements for the year ended 31 December 2017 continued

### 17. Financial assets and liabilities (including financial instruments) continued

**17.3 Financial liabilities** are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised costs, net of directly attributable costs.

Subsequent measurement – Financial liabilities at fair value through profit or loss (FVTPL) – Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

Financial liabilities measured at amortised cost – such liabilities are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The resulting discounted interest charge is recognised in profit or loss within "Finance costs".

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

**17.4 Derivative financial instruments** are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at fair value at each reporting date. The method of recognising the gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item. The Group designates derivatives as held for trading. While providing effective economic hedges under the Group's risk management policies, certain derivatives are not designated as hedging instruments according to IAS 39 "Financial Instruments: Recognition and Measurement".

They are classified as held for trading and the changes in the fair value are immediately recognised within "Revenue". 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.

**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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Group's consolidated financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs: Inputs for the asset or liability that are not based on observable market data.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

#### **Fair values of financial instruments**

For the following financial assets and liabilities : trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits, cash at bank and in hand and other financial liabilities, the carrying value amount approximates the fair value of the instrument.

The Group has £0.1 million of foreign currency financial instruments assets outstanding at 31 December 2017 (2016: £4.0 million liability). The Group uses Level 2 inputs for determining and disclosing the fair value of financial instruments. See note 22.2 for settlement profiles of such instruments.

## 18. 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	2017	2016
Deferred tax assets due within 12 months	21	20
Deferred tax liabilities due within 12 months	(38)	(42)
<b>Total provision</b>	<b>(17)</b>	<b>(22)</b>

There are no balances due after 12 months

£'000s	2017	2016
Balance as at 1 January	(22)	70
Adjustments in respect of prior period	–	(102)
Deferred income taxes recognised in the income statement	5	(10)
Balance as at 31 December	(17)	(22)
Consisting of		
Depreciation in excess of capital allowances	38	42
Other timing differences	(21)	(20)

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 £4.0 million at 31 December 2017 (2016: £3.2 million).

## 19. Called up share capital

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

	2017	2016		
	Shares	£'000s	Shares	£'000s
<b>Issued and fully paid</b>				
Ordinary shares – 0.1 pence (2016: 1pence)	300,000,000	300	2,663,690	27
A shares – 0.1 pence	–	–	91,020	–
A1 shares – 0.1 pence	–	–	75,689	–
<b>Balance as at 31 December</b>	<b>300</b>		<b>27</b>	

See note 2.5 for further information on the 2017 Group Reorganisation and movements in the period. No additional shares have been issued or cancelled after 1 June 2017.

## 20. Share based compensation

**Share based payment** arrangements where the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions. The grant date fair value of awards granted to any Director or employee is recognised as an associated expense, with a corresponding increase in equity, over the period that any Director or employee becomes unconditionally entitled to the awards. The fair value of the awards granted is measured using the Black-Scholes valuation model, taking into account the terms and conditions upon which the awards were granted.

The Group granted 91,020 Ordinary A shares and 75,689 Ordinary A1 shares to employees in 2014 and 2015, which were subsequently fair valued when a listing event became probable in the fourth quarter of 2016. The share based compensation charge in relation to these grants has been recognised in full as at Admission and the charge in the year ended 31 December 2017 was £4.4million.

## 21. Dividends

Dividends are recognised through equity when approved by Alfa's shareholders or on payment, whichever is earlier.

In February and May 2017, dividends of £31.5 million and £29.2 million were declared and paid to the ultimate parent company (2016: £1.0 million). All dividends have been paid as at 31 December 2017 and no final dividend has been declared.

# Notes to the consolidated financial statements for the year ended 31 December 2017 continued

## 22. Financial risk management

### 22.1 Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. 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 uses financial instruments to hedge certain risk exposures. Risk management is carried out by the finance function under policies approved by the Chief Financial Officer ("CFO"). The finance function identifies, evaluates and mitigates financial risks when deemed necessary.

#### Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to those described below. Revenue is predominantly denominated in pounds sterling and US dollar. Operating costs are influenced by the currencies of the countries where the Group's subsidiaries are based and the pounds sterling and the US dollar are the currencies most significantly influencing operating costs.

Foreign exchange risk arises from:

- Forecasted 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.

The policy of the Group is to hedge committed and highly probable forecasted foreign currency operational transactions. The Group uses foreign exchange forwards for this purpose. At any point in time, the Group's policy is to mitigate the next 12 months of future cash flows in foreign currency. The Group uses forward contracts as hedging instruments.

The notional principal amounts of the outstanding commercial foreign exchange contracts at 31 December 2017 and 2016 were as follows:

Forward exchange contracts – notional	2017 \$'000s	2017 £'000s	2016 \$'000s	2016 £'000s
USD	9,000	6,726	41,000	29,014

Hedge accounting is not applied and therefore the mark-to-market impact is recorded net of revenue as disclosed in note 4.3. For the year ended 31 December 2017, the impact of these derivatives was an unrealised gain of £1.7 million (2016: loss of £3.8 million) as the US dollar depreciated against pounds sterling in 2017 compared to 31 December 2016. The offsetting loss related to the forecasted revenue is not visible due to the sales not yet being recorded in the books of the Group as a significant amount of US dollar denominated revenue is in relation to license and maintenance which are recognised rateably in the income statement.

As the US dollar appreciates against pounds sterling, the derivative contracts entered into with financial institutions have a negative mark-to-market. The Group's financial derivative counterparties require margin call should its mark-to-market exceed a pre-agreed contractual limit. In order to protect from the potential margin calls for significant market movements, the Group holds a liquidity buffer in cash and monitors margin requirements on a daily basis for adverse movements in the US dollar versus pounds sterling.

At 31 December 2017 and 2016, the margin requirement related to foreign exchange hedges was nil and £0.5 million respectively.

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2017 would impact revenue and operating profit (excluding share based payments) by 5% and 9% respectively.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk with financial institutions and other parties as a result of cash at bank, cash deposits, mark-to-market on derivative transactions and customer trade receivables arising from the Group's operating activities. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. The Group does not generally hold any collateral as security.

##### (i) Credit risk related to transactions with financial institutions

Credit risk with financial institutions is managed by the Group's finance function in accordance with a Board approved policy. Management is not aware of any significant risks associated with financial institutions as a result of cash and cash equivalents deposits (including short-term investments) and financial derivative transactions.

All financial counterparties where assets held are over £250,000 are AA rated or above (as per Parent ratings from Moody's Investor Services).

##### (ii) Credit risks related to customer trade receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, change of strategy and default or delinquency in payments are considered indicators that the trade receivable could be impaired. Given the complexity, the size and the length of certain software implementation of service-related projects, a delay in the settlement of an open trade receivable does not constitute objective evidence that the trade receivable is impaired.

The Group has a relatively diverse customer base geographically and by industry. The responsibility for customer credit risk management rests with management of the Group. Payment terms are set in accordance with practices in the different geographies and end-markets served, typically being 30 days from the date of the invoice. Trade receivables are actively monitored and managed. Collection risk is mitigated through the use of upfront payments of licenses and maintenance. Historically, there has been a very low level of customer default as a result of 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.

See note 13 – Trade and other receivables for the ageing of trade receivables.

### 22.2 Capital risk management and liquidity

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 14) 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.

		31 December 2017				
£'000s		Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
Trade and other payables	7,417	–	–	–	–	–
Provisions	–	–	–	–	–	87
		31 December 2016				
£'000s		Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
Trade and other payables	8,141	545	–	–	–	–
Provisions	–	–	–	–	–	58
Financial instruments	13,835	8,453	6,726	–	–	–

### 22.3 Fair value measurement

Forward foreign exchange contracts are the only financial assets held at fair value through the profit and loss. These have been valued using Level 2 of the fair value hierarchy and there have been no transfers between levels during the periods presented.

### 23. Contingencies and commitments

The Group has no capital commitments, no contingent liabilities and no contingent assets. See note 5 for details of the Group's total commitments under non-cancellable operating leases.

### 24. Related party transactions

Details of key management remuneration is set out in note 6. Details of interests in subsidiaries are set out in note 2.4.

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. There was no trading between the Group and the Parent.

In the year ended 31 December 2017, the amounts owing from the Parent were settled in full, as disclosed in note 12, and the balances outstanding from the Parent at 31 December 2017 and 31 December 2016 were nil and £27.0 million 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 (2016: £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.

### 25. Subsequent events

There have been no subsequent events.

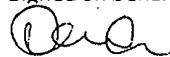
# Company statement of financial position

as at 31 December 2017

£'000s	Note	2017
<b>Assets</b>		
Investment in subsidiary companies	4	424,560
<b>Total non-current assets</b>		<b>424,560</b>
<b>Current assets</b>		
Other receivables	5	43
Amounts owed by subsidiaries	6	116
Cash and cash equivalents	7	106
<b>Total current assets</b>		<b>265</b>
<b>Total assets</b>		<b>424,825</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Amounts owed to subsidiaries	6	932
Other payables	5	60
<b>Total current liabilities</b>		<b>992</b>
<b>Non-current liabilities</b>		
Amounts owed to subsidiaries	6	30,535
<b>Total non-current liabilities</b>		<b>30,535</b>
<b>Total liabilities</b>		<b>31,527</b>
<b>Capital and reserves</b>		
Ordinary shares	8	300
Retained earnings		392,998
<b>Total equity</b>		<b>393,298</b>
<b>Total liabilities and equity</b>		<b>424,825</b>

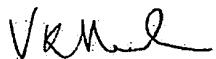
The company financial statements on pages 114 to 119 were approved by the Board of Directors and authorised for issue.

Signed on behalf of the Board.



Andrew Denton  
Chief Executive Officer

8 March 2018



Vivienne MacLachlan  
Chief Financial Officer

8 March 2018

Alfa Financial Software Holding PLC  
Registered number 10713517

# Company statement of changes in equity for the period from incorporation to 31 December 2017

£'000s	Note	Called up share capital	Retained earnings	Total equity
<b>Balance as at 6 April 2017 (date of incorporation)</b>		—	—	—
Total comprehensive loss for the period		—	(2,062)	(2,062)
<b>Total comprehensive loss for the period</b>		—	(2,062)	(2,062)
Issuance of shares in consideration of acquisition of Group company	8	424,560	—	424,560
Capital reduction	8	(424,277)	424,277	—
Dividends paid to parent prior to Admission	9	—	(29,200)	(29,200)
Bonus issue	8	17	(17)	—
<b>Balance as at 31 December 2017</b>		<b>300</b>	<b>392,998</b>	<b>393,298</b>

# Company notes to the financial statements for the period from incorporation to 31 December 2017

## 1. Basis of preparation and accounting policies

### General information

Alfa Financial Software Holdings PLC ("Alfa" or the "Company") is a public company limited by shares and is incorporated and domiciled in England.

The Company was incorporated as a private limited company on 6 April 2017 and was established as a holding company of Alfa Financial Software Group Limited and re-registered as a public limited company on 4 May 2017, prior to the admission of Alfa's shares on the main market of the London Stock Exchange on 1 June 2017 (the "Admission"). The address of its registered office is Moor Place, 1 Fore Street Avenue, London, United Kingdom, EC2Y 9DT. The registration no. of Alfa is 10713517.

The principal activity of the Company is as a holding company.

### Statement of compliance and basis of preparation

The financial statements of Alfa Financial Software Holdings PLC have been prepared in compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified to include the fair value of certain financial instruments. The Directors have used the going concern principle on the basis that the current profitable financial projections of the Company and its subsidiaries (the "Group") will continue in operation for the foreseeable future.

The Company financial statements have been prepared in pound sterling, which is the functional and presentational currency of the Company, and have been presented in £'000s.

As permitted by section 408 of the Companies Act 2006, an entity profit and loss account and cash flow is not included as part of these financial statements. The loss for the financial period from incorporation to 31 December 2017 was £2,062,000.

## 2. Critical accounting estimates and judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Critical accounting estimates

The Company is a holding company and therefore there are no critical accounting estimates or judgements.

## 3. Directors' remuneration

The Company has no employees other than the Directors. Full details of the Director's compensation and interest are set out in the Directors' Remuneration Report.

#### 4. Investments in subsidiaries

A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 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.

Where a subsidiary has different accounting policies to the Company, adjustments are made to those subsidiary financial statements to apply the Company's accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control. Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated statement of financial activities.

£'000s	2017
<b>Cost</b>	
As at 6 April 2017 (date of incorporation)	-
Additions	424,560
<b>At 31 December</b>	<b>424,560</b>

Additions in the year relate to the Group reorganisation as described below.

On 1 June 2017, Alfa's shares were admitted for trading on the main market of the London Stock Exchange. Prior to the admission, the Group was reorganised to insert Alfa, the new holding company of the Group, by way of a share-for-share exchange with Alfa Financial Software Group Limited, the previous parent company of the Group.

At 31 December 2017 the Company owns 100% of Alfa Financial Software Group Limited, which in turn owns 100% of Alfa Financial Software Limited. All other subsidiaries are 100% subsidiaries of Alfa Financial Software Limited. All subsidiaries have a 31 December year end and all trading subsidiaries act as sales offices for the Company's principal activity.

Subsidiaries are defined as entities over which Alfa has control. Alfa controls an entity when Alfa 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 Alfa.

At 31 December 2017 the Company's related undertakings were as follows:

	Registered address and country of incorporation	Principal activity	Ownership at 31 December
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Software and services	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, NZ	Software and services	100%

## Notes to the Company financial statements for the period from incorporation to 31 December 2017 continued

### 5. Other receivables and payables

**Other receivables** include prepayments for professional fees or other operating expenses.

**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 the contractual amount or the fair value initially recognised.

Receivables and payables are classified as current assets or liabilities if receipt or payment is due within one year or less.

At 31 December 2017, other receivables of £43,000 relate to prepayments of professional fees and other expenses and other payables of £60,000 relate to accruals of social security and other taxes.

### 6. Amounts owed by and to subsidiaries

Amounts owned by subsidiaries of £116,000 relate to value added taxes reclaimed by a subsidiary on the Company's behalf. Current amounts owed to subsidiaries of £932,000 relates to operating expenses owed and non-current amounts owed of £30,535,000 reflects a loan of £29.9 million principal, repayable in 10 years and accrued interest, accruing at 2% over the applicable base rate.

### 7. Cash and cash equivalents

**Cash and cash equivalents** include cash at bank and in hand.

£'000s	2017
Cash and cash equivalents	106

### 8. Called up share capital

**Ordinary shares** are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

The reorganisation also effected the conversion of the A and A1 shares held by an employee trust and the table below summarises the movements in share capital from incorporation to 1 June 2017:

Issued and full paid	Shares - Ordinary	Shares - A	Shares - A1	£'000s
At date of incorporation <sup>(1)</sup>	1	—	—	—
Share-for-share exchange <sup>(2)</sup>	2,663,689	91,020	75,689	424,560
Capital reduction <sup>(3)</sup>	263,705,310	9,010,980	7,493,211	(424,277)
Reorganisation of share capital – bonus issue <sup>(4)</sup>	16,238,969	409,254	311,877	17
Reorganisation of share capital – re-designation of A and A1 shares <sup>(4)</sup>	17,392,031	(9,511,254)	(7,880,777)	—
<b>At 31 December 2017</b>	<b>300,000,000</b>	—	—	<b>300</b>

(1) On 6 April 2017, Alfa Financial Software Holdings PLC was incorporated with one 0.1 pence ordinary share issued.

(2) On 28 April 2017, Alfa was inserted into the Group as the new holding company by way of the share-for-share exchange agreement. The exchange was a 1:1 exchange and the nominal value of shares issued was £150.

(3) On 3 May 2017, Alfa undertook a capital reduction where the nominal value of each share was reduced to 0.1 pence.

(4) On 1 June 2017, Alfa undertook a bonus issue and share reorganisation to re-designate existing A and A1 shares into ordinary shares.

## 9. Dividends

**Dividends** are recognised through equity when approved by Alfa's shareholders or on payment, whichever is earlier.

In May 2017, a dividend of £29.2 million was declared and paid to the ordinary shareholders of the Parent. No final dividend has been declared at 31 December 2017 or subsequent to the year end.

## 10. 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 headed by Alfa Financial Software Holdings PLC.

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.

## 11. Financial instruments

**Financial assets and liabilities** are recognised in the statement of financial position when the Group becomes party to the contractual provision of the instrument.

In respect of other payables excluding tax and social security, other receivables excluding prepayments and accrued income, cash at bank and in hand and other financial liabilities, the carrying value amount approximates the fair value of the instrument.

## 12. Subsequent events

There have been no subsequent events.

# 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 operating profit excluding pre-IPO share based payments and IPO-related costs.

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

**Adjusted Earnings:** Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and share based compensation, less the tax effect of these adjustments. Adjusted Earnings is used by the CODM in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believe affect shareholder value and in-year return, such as income tax expense and net finance costs.

**Adjusted Earnings per share:** Is defined as Adjusted Earnings divided by the weighted average number of shares issued and outstanding.

**AFSGL:** Alfa Financial Software Group Limited.

**AGM:** The Annual General Meeting of the Company, which will be held on 24 April 2018.

**Alfa:** The Group or Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).

**Articles:** The Articles of Association of the Company.

**Automotive finance:** Automotive finance includes new and used cars. Our customers can be banking institutions providing finance to dealers, OEMs or independent sellers of automotive vehicles.

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

**Basic earnings per share:** Calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

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

**Board:** The Board of Directors of Alfa Financial Software Holdings PLC.

**CGU:** Cash-generating unit.

**Companies Act:** The Companies Act 2006 (as amended).

**Company:** Alfa Financial Software Holdings PLC, a company incorporated in England and Wales with registered number 10713517 whose registered office is at Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom.

**Constant currency:** Management provide percentage increases or decreases in revenue or Adjusted EBIT to eliminate the effect of changes in currency values. The comparative results are derived by re-calculating non British pounds denominated revenue and/or expenses using the average monthly exchange rates of this year and applying it to the comparative periods results, excluding gains or losses on derivative financial instruments.

**Corporate website:** [www.alfasystems.com](http://www.alfasystems.com)

**Diluted Adjusted Earnings per share:** Defined as Adjusted Earnings divided by the weighted average number of shares issued and outstanding, diluted.

**Directors:** The Directors of the Company whose names are set out on pages 54 and 55.

**Disclosure and Transparency Rules:** The Disclosure and Transparency Rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

**Equipment finance:** Equipment finance covers a myriad of asset types, although at Alfa we predominantly service the lending for agriculture, manufacturing, mining, construction and transportation equipment.

**EPS:** Earnings per share.

**Exceptional items:** Items that, by virtue of their nature and incidence, have been disclosed separately in order to draw them to the attention of the reader of the financial statements.

**Executive Management Team:** The Executive Management Team, Andrew Denton (Chief Executive Officer), Vivienne MacLachlan (Chief Financial Officer), Lucy Matthews (Chief People Officer), Michael Mayes (Chief Commercial Officer), Ralph Neuff (Chief Information Officer), Steve Taplin (Global Sales and Marketing Director), and Matthew White (Delivery Director).

**FRC:** The Financial Reporting Council.

**FVTPL:** Fair value through profit or loss.

**GHG:** Greenhouse gases.

**Group:** Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).

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

**HMRC:** Her Majesty's Revenue & Customs.

**I&S:** Implementation and Support ("I&S") expense.

**IAS:** International Accounting Standard(s).

**IFRS:** International Financial Reporting Standard(s) as adopted for use in the European Union.

**IFRS IC:** International Financial Reporting Standards Interpretations Committee.

**Independents:** Independent customers are customers who are neither part of a regulated banking group nor manufacturers of the asset being financed.

**IPO:** Initial public offering of the Company's Ordinary Shares immediately post-admission on 1 June 2017.

**KPI:** Key performance indicator.

**LTIP:** The Company's Long Term Incentive Plan.

**Maintenance:** Maintenance revenues are invoiced annually in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer's portfolio increases.

**Non-executive Directors:** The Non-executive Directors of the Company designated as such on page 55.

**OEMs:** Original Equipment and automotive Manufacturers.

**Ongoing development and services (ODS):** ODS revenues represent the ongoing development and services efforts which are either ad hoc projects with existing customers or relate to development or services delivered after a new implementation. The services can be support immediately after an implementation, further development for customer specific functionality or change management assistance.

**Operating Free Cash Flow Conversion:**

Operating Free Cash Flow represents net cash generated from operations less settlement of derivative instruments and margin calls, after the purchase of property, plant and equipment and adding back IPO-related expenses.

**Operating Free Cash Flow Conversion:** represents Operating Free Cash Flow generated as a proportion of Adjusted EBIT. Management uses Operating Free Cash Flow Conversion for monitoring and managing cash flows.

**Ordinary shares:** The ordinary shares with a nominal value of 0.1 pence each in the share capital of the Company.

**Prospectus:** The Company's prospectus dated 26 May 2017 prepared in connection with the Company's Admission.

**R&PD:** Research and product development.

**Retention rate:** Represents the retention of Alfa team members over the previous 12 month period.

**RoW:** Rest of World.

**SG&A:** Sales, general and administrative expenses.

**Shareholder:** A holder for the time being of ordinary shares of the Company.

**Software implementation:** An implementation process contains three revenue streams, being recognition of the perpetual license, implementation fees and development fees. Implementations can take from nine months to five years depending on the complexity.

**The Code:** The UK Corporate Governance Code published by the FRC in September 2014.

**VAT:** UK value added taxation.

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Manufactured at a mill that is FSC® accredited.

Printed by Principal Colour.

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Designed and produced by **SampsonMay**  
Telephone: 020 7403 4099 [www.sampsonmay.com](http://www.sampsonmay.com)

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