

Alfa Financial Software Holdings PLC

2020 Full Year Report

Developing Momentum

Alfa Financial Software Holdings PLC (“Alfa” or the “Company”), a leading developer of software for the asset finance industry, today publishes its audited results for the twelve months ended 31 December 2020.

Financial highlights:

Results £m, unless otherwise stated	Years ended 31 December		Movement %
	2020	2019	
Revenue	78.9	64.5	22%
Operating profit	23.9	13.7	74%
Profit before tax	23.2	13.0	78%
Earnings per share – basic (pence)	6.93	3.50	98%
Earnings per share – diluted (pence)	6.79	3.41	99%
Special Dividend paid (15p per share)	44.2	-	-
Cash	37.0	58.8	(37)%
Proposed ordinary dividend (p)	1.0p	-	-
Key measures ⁽¹⁾ £m, unless otherwise stated	2020	2019	Movement %
Revenue – constant currency	78.9	64.4	22%
Operating profit – constant currency	23.9	13.8	73%
Operating free cash flow conversion (%)	114%	138%	(17)%
Total Contract Value (TCV)	112.9	80.5	40%

(1) See definitions section for further information regarding calculation of measures not defined by IFRS.

Financial highlights:

- Revenue and profit significantly ahead of original expectations for 2020 and significantly ahead of last year
- Revenue and profit slightly ahead of most recent trading update
- Revenues included one-off licence income of £5.6m (2019: £5.5m), so underlying revenues are £73.3m (2019: £59.0m)
- TCV up 40% year on year to £112.9m as a result of good wins and successful go-lives
- Robust balance sheet position with £37m of cash and no debt
- Special dividend of 15 pence per share paid in November 2020 (£44.2m)
- Commencement of regular dividend, proposed 1.0p per share for Full Year 2020
- No employees furloughed, and no government funds accessed

Operational Highlights:

- Six new customers won, with total number of customers increased from 26 to 32 as sales momentum picked up during the year

- Covid-19 disruption minimised; high performance delivery, strong support for our customers from our people and product
- Strong culture maintained through pandemic with engagement scores improved
- Continuing to invest in people and product for future growth
- Good growth in Cloud Hosting and maintenance, improving recurring revenues
- Tech leadership through Alfa iQ launch

Outlook:

We currently expect 2021 revenues to be in line with 2020 underlying revenues on a constant currency basis. We will continue to invest for the future by growing our team further to enable us to convert our sizeable late stage pipeline. In addition profitability will be further impacted as some travel and marketing expenses rebuild as lockdowns ease. We continue to believe in our strategy of attracting the best people and investing in our product to support our long term ambitions.

Andrew Denton, Chief Executive Officer

"I reflect on 2020 as being a difficult year for many people, but a year in which Alfa made real progress in developing momentum for future success. We delivered for our customers, continued to improve our digitally-enabled world class software and strengthened and supported our internal and external communities, whilst continuing to grow both revenues and our order book.

On behalf of myself and the rest of the Board, I would like to thank all of our people for their dedication and commitment in difficult circumstances. They have supported each other and our customers and delivered a strong financial performance."

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Investor and analyst webcast

The Company will host a conference call today at 09:00 a.m. To obtain details for the conference call, please email alfa@tulchangroup.com.

Please dial in at least 10 minutes prior to the start time.

An archived webcast of the call will be available on the Investors page of the Company's website, <https://investors.alfasystems.com>

Notes to editors

Alfa has been delivering software systems and consultancy services to the global asset and automotive finance industry since 1990. Our best practice methodologies and specialised knowledge of asset finance facilitates delivery of large software implementations and highly complex business change projects. With an excellent delivery track record spanning three decades, Alfa's experience and performance is unrivalled in the industry.

Alfa Systems, our class-leading technology platform, is at the heart of some of the world's largest asset finance companies. Key to the business case for each implementation is Alfa Systems' ability to replace multiple customer systems with our single platform. Alfa Systems supports both retail and corporate business for auto, equipment, wholesale and dealer finance on a multijurisdictional basis, including leases/loans, originations and servicing. An end-to-end solution with integrated workflow and automated processing using business rules, Alfa Systems provides compelling solutions to asset finance companies.

Alfa Systems is currently used by customers or has live implementations in 26 countries and Alfa has offices in Europe, Australasia and North America. For more information, visit www.alfasystems.com.

Forward-looking statements

This Full Year Report (FYR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The FYR should not be relied on by any other party or for any other purpose. This report contains certain forward-looking statements. These include statements regarding Alfa's intentions, beliefs or current expectations, and those of our officers, directors and employees, concerning (without limitation), with respect to the financial condition, results of operations, liquidity, prospects, growth, strategies and businesses of Alfa. These statements and forecasts involve known and unknown risks, uncertainty and assumptions because they relate to events and depend upon circumstances that will or may occur in the future and should therefore be treated with caution. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Alfa has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Definitions

Constant currency - we provide percentage increases or decreases in revenue and operating profit to eliminate the effect of changes in currency values as we believe it is helpful to the understanding of underlying trends in the business. When trend information is expressed herein 'in constant currencies', the comparative results are derived by re-calculating non-pound sterling denominated revenue and/or expenses using the average monthly exchange rates of this year and applying them to the comparative year's results, excluding gains or losses on derivative financial instruments. The average rates are as shown in note 1.4 to the financial statements.

Operating free cash flow **conversion** - is calculated as cash from operations, less capital expenditures, less the principal element of lease payments in respect of IFRS16 (applied for the first time in the year ended 31 December 2019). Operating free cash flow conversion represents Operating free cash flow generated as a proportion of Operating profit.

Total contract value (TCV) - is calculated by analysing future contract revenue based on the following components: (i) an assumption of three years of maintenance and Cloud Hosting payments assuming these services continued as planned (actual maintenance and Cloud Hosting contract length varies by customer); (ii) the estimated remaining time to complete any software implementations and recognise deferred licence amounts (which may not all be under a signed statement of work). Where licence is paid on a monthly subscription it has been assumed to continue for three years assuming these services continued as planned; and (iii) ODS work which is contracted under a statement of work. Given this KPI is forward looking, in calculating the TCV we have used the budget 2021 exchange rates. These budget rates are set out below:

USD – 1.29

EUR – 1.11

AUD – 1.84

NZD – 1.96

CEO'S REVIEW

Strong financial and operational performance

2020 has been a volatile year from an economic and societal perspective. However, one thing which has remained constant throughout the year is the resilience and strength of our people and their consistent delivery to our customers, which has been largely unaffected by the events around us.

The year started with some encouraging signs from new contract announcements, but was then overshadowed by the impact of the Covid-19 pandemic. As part of our strong risk management processes we implemented working from home for all employees in early March in advance of government-imposed lockdowns. The switch to remote working was accomplished smoothly and without disruption, across all of our offices, reflecting the investments we had made in our infrastructure, the flexibility of our systems and the dedication of our people.

We engaged with our customers throughout the year to ensure we understood how the pandemic was impacting their ongoing business and, where relevant, their plans for implementing and developing Alfa Systems. In the early stages of the crisis there was inevitably a lot of uncertainty around these plans, including the cancellation of a newly won contract with a US Auto customer. Whilst we were cautious about the short term outlook for the business, we remained confident in our medium to long term outlook and so continued with our plans to grow the business, recruit into our client-facing teams, and invest in our technology. Towards the end of Q2 and into Q3 we saw customers recommit to plans and a number of customers look to upgrade from Alfa Version 4 to Version 5. We also saw an increase in interest from potential new customers. This was triggered in part by remote working highlighting the need for a digital technology.

We exited 2020 with a strong late stage pipeline, and with a renewal of interest in digital transformation from potential customers particularly in relation to our Alfa Start proposition and our Cloud Hosting services with 24/7 support.

We showed progress across all areas of the business, but with particularly strong growth in ODS and maintenance revenues. ODS revenues were boosted by pre-implementation work, along with post go-live support for a number of large customers. Maintenance revenues benefited from our growing customer base along with strong growth in our Cloud Hosting revenues. As a consequence, we have seen a strong financial performance with revenues up 22% on the prior year at £78.9m (2019: £64.5m).

We have increased the total number of customers from 26 at the end of last year to 32 at the end of 2020, and this has helped to continue to diversify our customer base. The Top 5 customers accounted for 48% of revenues in the period, down from 61% in 2019. We had ten customers contributing revenues of more than £2m in the period, up from seven last year. Average headcount for the period was 341 (2019: 313) which along with the pay increases awarded last year drove higher salary costs but this was partially offset by reduced expenditure on travel, conferences, and marketing resulting in an overall increase in Operating profit of £10.2m to £23.9m (2019: £13.7m).

Increasing our technology advantage

Alfa Systems is a market leading, digitally enabled platform, with functionality that we believe is unrivalled on a modern technology stack. This is enabled by continued investment and the quality of our engineers and subject matter experts.

During 2020 we continued to invest in Alfa Systems, and launched Version 5.6 which included a comprehensive redesign of the user experience along with many other features, enhancements and technical innovations.

Alfa Systems' new "Mercury" user interface enables users to complete their daily tasks with ease in an environment that is fresh, clean and uncluttered. The new interface draws on end-user experience and Design Thinking to give users a more positive experience.

We have improved Alfa POSkit, our component-based toolbox for building Point of Sale applications with maximum agility.

We have also continued to deliver new functionality;

- Usage-based billing, a pay-per-mile mobility solution that allows end customers to be billed only for the distance travelled by using real-time data collected through telematics devices installed in each vehicle
- Cash accounts, a new product for wholesale funders that pays interest on account balances, or uses the interest on account balances to pay off the interest on a loan
- New reference interest rates such as SONIA and SOFR to support the move away from existing money market based rates like LIBOR.

We continue to invest in further modularisation for our software. This initiative simplifies our code-base, which reduces the cost of maintenance whilst increasing speed of development for new functionality and features. We are also investing in our software development lifecycle by improving the tooling and processes for making changes to the system, giving quicker developer feedback from our extensive automated testing, and ensuring that our development is more efficient.

Accelerating growth with Alfa Start

Alfa Start is our Cloud Hosted entry level version of the Alfa Systems platform. It uses a predefined, leading practice configuration and process catalogue which allows any finance company to take full advantage of the proven Alfa Systems platform, which until now has only been within the reach of larger, more established operators. This optimised approach accelerates systems change, maximises value and minimises risk, and enables lean businesses to automate and innovate. Alfa Start customers can be in live production with their new system in less than 20 weeks, quickly leveraging Alfa's functionality and performance. It can also be used as an accelerator for all implementations, cutting the time to get even large scale customers live using a Minimum Viable Product approach.

In the first half of 2020 we successfully went live with an Alfa Start implementation for Hampshire Trust Bank in the UK, delivering within 19 weeks.

We have continued to refine the Alfa Start package, and during the year, Alfa Start was formally launched for the US Auto Finance sector, where we are building on our long-established experience of working with market leading companies in that market. In October we announced that we had achieved a

successful go-live for a US Automotive Manufacturer, our first Alfa Start for a US Auto customer, in under 23 weeks. We have an implementation underway for another UK Equipment customer, due to go-live in Q1 2021.

Cloud Hosting growing

Cloud Hosting is becoming an increasingly important part of our business. It not only provides a predictable, accretive revenue stream for us and a great service for our customers, but also allows us to provide environments quickly to enable projects to get started.

During the year we announced four new contract wins for our Cloud Hosting solution. These were with a major South African bank to support a multi-phase implementation, a leading UK provider of auto finance solutions and two UK equipment finance companies. One of the UK Equipment finance companies was an existing customer that is upgrading from Version 4 to Version 5 as well as moving to our Cloud Hosting solution.

We now host a total of ten customers. Two of these are in pre-implementation, four are in implementation projects, and four are in live production. Monthly revenues grew from £0.1m per month in January 2020 to £0.4m per month by the end of the year.

Growing partnerships

A key component of our growth strategy is to develop strategic alliances with selected partners. The partners increase our operational capacity with flexible resource, and also enhance our capacity to target new customers in both existing markets and markets where we are not currently present.

In February 2020 we announced a global partnership agreement with a leading international professional services firm and at the end of the year we agreed a global partnership agreement with another international professional services firm which took our total number of implementation partners to six. These agreements will help us to accelerate our ability to deliver Alfa to customers who want the operational and financial advantages that Alfa Systems can bring.

During 2020 partners worked with us across six different projects with customers in four different countries, and since the year end we have partners now working on an additional project.

Exploring opportunities in AI through Alfa iQ

In May we formed Alfa iQ, a 51:49 joint venture between Alfa and Bitfount, a company founded by Blaise Thomson. The joint venture structure allows Alfa iQ to address the widest possible market.

Blaise was a founder and CEO at VocallIQ, which was sold to Apple in 2015. He then led the Apple Engineering office in Cambridge, UK until he left in 2019 to start Bitfount. The joint venture has been created to greatly enhance Alfa's ability to develop artificial intelligence solutions for the auto and equipment finance industries. We believe that this has the potential to be transformational for our customers in how they use and understand data to make better decisions and improve their performance.

Alfa iQ is working on three engagements already, understanding data and exploring potential options for development.

During 2021, Alfa iQ plans to build a decision support architecture that is tightly integrated with business process automation tooling and includes real-time, intelligent proactive and reactive decision making as well as informed strategic decision making.

This joint venture is at an early stage and is aiming to impact revenues in 2022.

As Alfa iQ meets the definition of a joint venture as per IFRS 11, all profits and losses made by Alfa iQ will be equity method accounted for in line with IAS 28.

In September 2020 Alfa also published its second position paper on artificial intelligence titled "Using Machine Learning in the Wild". This paper describes two machine learning related projects that Alfa engineers had pursued as part of Alfa's innovation framework. It has interesting insights into the trade-offs between adopting off-the-shelf approaches and building up models internally, as well as showing how much can be done with a relatively small investment.

Board evolution and governance

In the first half of 2020, two new Non-Executive Directors, Adrian Chamberlain, and Charlotte de Metz, were appointed to the Board and Duncan Magrath was appointed Chief Financial Officer. Below Board level, the addition of Vicky Edwards as Chief People Officer completed the Company Leadership Team which now comprises eight people and blends deep Alfa experience with new external expertise. I am delighted with the Board and leadership team we have assembled and I am enjoying working with them, albeit remotely at the moment.

On 22 July 2020 we announced that as a result of a competitive tender process we had appointed RSM UK Audit LLP ("RSM") as our new auditor. To ensure that we can work with the widest range of partners possible, Deloitte, our previous auditor, which is one of the leading service providers to the global asset and automotive finance market, was not considered as part of the tender process for our audit. The appointment of RSM as auditor for the 2021 financial year will be subject to approval by shareholders at the next Annual General Meeting of the Company to be held on 10 May 2021.

Strong engagement with our people

In response to Covid-19, we did not furlough any staff, have not taken any government support through the pandemic, and provided funds to support home working. We proactively moved to remote working in advance of government-imposed lockdowns, and our offices generally remained closed through the year. Where safe to do so and where allowed under local rules, we reopened offices for those who wished to return to an office environment. Where needed we have supported home schooling by providing time off. We currently do not expect full scale office working to return before September 2021 at the earliest and are considering what our working model will be once the impact of the pandemic has eased.

Along with the Board and Company Leadership Team changes noted above we have continued to invest in our people, both by continuing to recruit but also committing time and effort to ensure we maintain engagement despite the difficulties of remote working. We held both our annual global conference and global Christmas meeting remotely, and we have continued to encourage feedback through regular company meetings, and engagement surveys. We also held live video meetings where the whole Company can ask questions of the senior management and, on one occasion, the Non-Executive Directors as well.

We continue to monitor the engagement of our people through our bi-monthly Pulse Surveys. Through active communication to ensure that our people understand our strategy, objectives and performance and keeping them up to date with developments, our engagement rating has consistently been above 70% since March 2020, and continued to improve through 2020.

We recognise that the Covid-19 pandemic has imposed many difficulties on our people, but they have tackled them with great commitment so we would like to thank them for all their efforts this year and we are confident that they will continue to do so as the situation develops.

Making a positive impact

One of our core values is “Making a positive impact” and I am delighted that despite the challenges of 2020, we have continued to live this value throughout the organisation and we have made exceptional progress in the year.

We have been more focused in our environmental and social efforts using four of the United Nations Sustainable Development Goals to help direct our work. The four goals we chose to work with initially are: Quality Education, Gender Equality, Climate Action and Partnerships.

We have provided the environment to help the formation and growth of new communities within Alfa, for example, the growth of the Women’s Community and the formation of the Alfa for Racial Equity Group. These communities and others have organised many social talks and events for us to engage the company and support wellbeing. Externally we have highlighted important issues by using our corporate voice to support and champion bodies such as the Black British Network, Stonewall and the Women’s Association and we have supported our supply chain through a difficult year.

Special Dividend and initiation of regular dividend payments

We remain a strongly cash generative business and have excess capital for our present and predicted needs.

Having carefully considered both our short and medium term requirements including a number of downside scenarios, the Board decided to declare a Special Dividend of 15 pence per share which was paid on 6 November 2020 to shareholders on the register as at 16 October 2020 with the shares going ex-dividend on 15 October 2020. This amounted to a total return of capital to shareholders of £44.2m.

We continue to be cash generative, and our cash balance was £37.0m at the year end, even after the payment of the special dividend.

Looking forward, we believe that Alfa will continue to be able to sustainably support investment in growth and its technology through organic means. Therefore, the Board has concluded that it would be appropriate to start a regular program of dividends, starting with an initial dividend of 1.0 pence per share for the full year ended 31 December 2020. The Board intends to progressively increase the dividend as the company grows, whilst ensuring that we retain a strong balance sheet.

Resilience of underlying asset finance market

The underlying asset finance market tends to be relatively resilient in economic downturns, because it is a more secure form of lending, meaning its share of the overall finance market tends to increase. We saw greater resilience in the US than the UK and Europe although there were reductions in new lending in all

regions in the first half of the year, but with significant improvement in the second half. The medium term resilience in the auto and equipment finance market means that in the related software market, big systems projects that are underway tend not to get stopped, although projects can look to save money in the short term which can change plans. We do however expect that the pandemic is accelerating opportunities from those businesses that have found their systems have not been flexible enough to cope with remote working, changes in regulation, and the need quickly to reschedule payments. These organisations are now looking to digital technologies to improve operational efficiencies and transform their business.

Good pipeline development in target markets

2020 was a successful year for pipeline development in our core target markets of US Auto, US Equipment, European multinational and the UK. Continuing to be successful in these core markets, reduces new customer development efforts, and therefore allows us to deliver more implementations more quickly.

We are also becoming a leading supplier for global brands. For some customers we increasingly support them across multiple continents, and we can provide a seamless joined up approach that few of our competitors can rival. Lifting and shifting a product from country to country allows us to go faster and is in line with our vision of delivering more concurrent implementations.

We define our early stage and mid stage pipeline as prospects where there is active engagement through either a product demo or responding to an RFI (Request for Information). Our late stage pipeline includes prospects where we are at the workshop stage or where the work has been won subject to completion of contracts.

During the first half of the 2020 we saw a reduction in our early and mid stage pipeline, partly as a result of good progress of opportunities into the later stage of the pipeline but also because of an absence of lead activity which we believe was a result of the impact of Covid-19 on customers' appetite for initiating large new systems projects.

The second half saw a return of new prospects and we see the early-stage pipeline largely back to the levels of last year end.

The late stage pipeline from the beginning of the year developed well with five opportunities progressing to signed contracts, offset by one small project being cancelled, and one large project which did not progress beyond pre-implementation work. With the good flow through to the late stage pipeline, we have ten opportunities with final negotiations/discussions underway.

Outlook

During 2020 we have started to build real momentum in the business despite the impacts of the pandemic. We have continued to develop our product, we have recruited more implementors and engineers, we have successfully delivered five Go-Lives, and we have started to get real traction with our Cloud Hosted solution. This combined with a cash generative business model and a very strong balance sheet means that we have the structures and resources in place that would enable us to see further revenue growth in 2021 if the pipeline converts

The nature of our current business model is that whilst we have good visibility for the next six months, contractual cover reduces thereafter and so, whilst positive about our prospects, in the current environment we remain cautious in setting expectations. Consequently, we currently expect 2021 revenues to be in line with 2020 underlying revenues on a constant currency basis. We will continue to invest for the future by growing our team further to enable us to convert our sizeable late stage pipeline. In addition profitability will be further impacted as some travel and marketing expenses rebuild as lockdowns ease. We continue to believe in our strategy of attracting the best people and investing in our product to support our long term ambitions.

FINANCIAL REVIEW

We started 2020 expecting to see a drop in both revenue and profit compared with 2019 as a result of the economic uncertainty. However, as the year progressed our expectations for the full year increased. Through a number of trading updates issued in the second half of the year we highlighted the increasing expectations for full year revenue and profit. Our final result is ahead of our 17th December 2020 trading update principally due to the licence fee revenue recognition in respect of a five year contract extension that was agreed towards the end of the year and which was confirmed in a trading update on 26 February 2021. Overall the results show strong growth over FY19.

Revenues increased by £14.4m to £78.9m in the twelve months ended 31 December 2020 (2019: £64.5m) with increases across all revenue streams, but with particularly strong growth in ongoing development & services (ODS) revenues, up 38% to £32.4m and maintenance which was up 29% to £19.2m. ODS revenues increased as a result of work with pre-implementation customers, along with increases in post-go live support work for some of our key customers. In 2020 ODS revenue benefited from £5.6m of one-off licence revenues associated with a five year contract extension. This was almost exactly matched by the £5.5m one-off licence revenues recorded in 2019. Maintenance revenues increased in 2020 due to increased levels of hosting activity, inflationary increases and a higher volume of contracts being supported for certain customers.

Operating profit increased by £10.2m to £23.9m (2019: £13.7m), due to the £14.4m increase in revenues, partially offset by a £4.1m increase in expenses, of which £3.2m was as a result of an increase in research and product development expenses, £2.5m was as a result of an increase in SG&A expenses, net of a £1.6m decrease in implementation and support expenses.

Net finance expense of £(0.7)m (2019: £(0.7)m) resulted in profit before tax of £23.3m (2019: £13.0m) and with an effective tax rate of 12.4% (2019: 21.7%) the resulting profit for the period was £20.4m (2019: £10.2m).

Software implementation revenues

Software implementation revenues increased by £1.2m, or by 5%, to £27.3m in 2020 (2019: £26.1m), reflecting the six ongoing implementation projects from the end of 2019 and three additional projects that were commenced during 2020. One of these continuing projects was our first Alfa Start implementation which was completed and moved to the ODS revenue category during the period. Of the three additional projects that commenced during 2020, one was a customer who signed a contract but then cancelled before significant activity was underway as a result of the pandemic, one related to a customer who had previously put their implementation project on hold during 2018 and one was our

second Alfa Start implementation. As such, the Group has seven ongoing implementation projects as at 31 December 2020.

One of the projects classified as ongoing as at end of 2020 completed its pre implementation phase in October 2019. This customer contributed £6.7m to ongoing software implementation revenue in 2020 (2019: £1.2m). Revenue from the remaining implementation projects, classified as ongoing as at the end of 2020, contributed £18.2m in 2020, a decrease of £5.6m compared with £23.8m in 2019. This decrease is primarily due to the fact that during 2019 the largest of these ongoing implementation projects was running two phases concurrently, however the larger of the two phases went live in January 2020 and as a result moved to the ODS category at this time. This decrease was then partially offset by write-backs of licence revenues in the prior year. These write backs resulted from the deferral of certain go-lives dates and the establishment of material right to use liability, reflecting discounts of the right to use renewal payments customers will be required to make in future years.

During the year one implementation project that had previously been paused in 2018 restarted and contributed turnover of £1.3m in 2020 (2019: £(0.2)m).

Revenue from the implementation projects that were completed or cancelled in the period contributed £1.0m (2019: £1.3m). The ongoing revenue from these projects has moved to the ODS category following implementation completion.

ODS revenues

ODS revenues increased by 38% or £8.9m to £32.4m in 2020 (2019: £23.5m). This significant increase was the result of:

- An increase in revenue from customers from pre-implementation work of £1.4m. During H1 2020 the Group had three customers who were undertaking pre-implementation work. One of these moved to implementation during the first half but as previously noted was subsequently cancelled due to the economic uncertainty at the time. In the second half of 2020 we mutually agreed with one customer to bring the project to an end due to differing views on contractual terms. The third contract moved into implementation in early 2021. During H2 2020, three new pre-implementation projects commenced.
- An increase of £4.0m due to new ODS customers. This includes revenue from those customers who on completing their implementation project, or one phase of their implementation project, transitioned to the ODS category during the period.
- An increase of £3.4m of revenue from ongoing ODS customers resulting from the current mix of ODS project in 2020 compared to the prior year. In particular several key customers have ongoing ODS specific projects to either upgrade from v4 to v5 of the Alfa Systems or expand the use of Alfa to new geographical regions.
- An increase in one-off licence revenues of £0.1m. In 2019 we recorded £5.5m of one-off licence revenue due to £1.6m received when a customer exceeded their current licence band, and £3.9m due to the extension of a previously terminated contract. In 2020 this same customer chose to extend for a further five years through to October 2025. This resulted in £5.6m of additional licence revenue which was recognised in 2020 on agreement of the five year extension.

Maintenance revenues

Maintenance revenues increased by £4.3m, or by 29% to £19.2m in 2020 (2019: £14.9m). This increase was partly due to inflationary annual maintenance price rises, a higher volume of contracts being supported for certain customers and an increased number of customer utilising the Group's relatively new Cloud Hosting offering. The Group's hosting revenue is included within the maintenance revenue category.

TCV

Total contract value (TCV) at 31 December 2020, is £112.9m (30 June 2020: £96.4m, 31 December 2019: £80.5m). Implementation TCV has remained relatively stable compared to H1 2020 due to the further completion of ongoing software implementation projects which has been almost completely offset by the addition of a new software implementation project that commenced in January 2021. ODS TCV has increased compared to H1 2020 as a result of a number of new statements of work being contracted prior to 31 December 2020. The largest movement compared to H1 2020 has been to the maintenance TCV which is principally due to the maintenance element of the new five year contract extension referred to above, and more of our clients moving to a Cloud Hosted solution, (we have included three years' worth of the maintenance, from the five year extension contract, and of planned hosting revenues within the maintenance TCV figure). Of the £112.9m total TCV at 31 December 2020, £52.5m is anticipated to convert into revenue within the next 12 months, assuming contracts continue as expected and are not cancelled or delayed. This includes £17.6m of software implementation revenues, £12.2m of ODS revenues and £22.7m of maintenance and hosting revenues.

Operating profit

The Group's operating profit increased by £10.2m, or 75%, to £23.9m in 2020 (2019: £13.7m) primarily reflecting the £14.4m increase in revenues, partially offset by an increase in the Group's cost base as we continued to invest in the business, through increased headcount and partner costs, offset by reductions in travel, conference and marketing costs, as a consequence of the pandemic. The Group's operating profit on a constant currency basis increased by 73%.

Headcount numbers as at 31 December 2020 were 360 (2019: 316), and our staff retention rate has been 93% over the 12 months to that date.

Operating costs

Implementation and support (I&S) expenses have decreased by 9%, to £15.3m (2019: £16.9m). I&S expenses predominantly comprise personnel costs, travel and partner costs, with the total of these contributing 88% of the total I&S expenses (2019: 87%). In the year the average software implementation headcount decreased by 6, to 102 employees (2019: 108 employees). In addition, the Group's travel costs also significantly decreased as our project teams were not travelling due to the global pandemic, which also resulted in some reduced customer billings. The corresponding reduction in personnel related and travel costs was partially offset by the increase in partner costs of £1.5m during 2020, reflecting the Group's focus on delivering on its strategic objectives of utilising partners. In 2020 we deployed partners on six of our customer projects, including pre-implementation, implementation and v4 to v5 upgrade projects.

Research and product development (R&PD) expenses increased by £3.2m, or 21%, to £18.9m (2019: £15.7m). 86% of R&PD expenses are personnel costs (2019: 84%) and the average number of people in the team increased in the year by 22 to 156 employees (2019: 134 employees). In addition to the increase in the average headcount, the personnel related costs have also increased due to the above inflationary pay rises that were awarded in November 2019 as part of the Group's overall strategy to invest in its people.

As in prior periods, our development efforts centred primarily on customer project development. In addition to this customer development, for which the amounts are expensed in the profit and loss, during 2020 a total of £0.7m (2019: £1.1m) of development costs were capitalised. The key amounts capitalised related to £0.3m in relation to enhancements of the Alfa user interface and £0.1m in relation to the changes required to prepare Alfa for the new interest rates such as SONIA and SOFR.

Sales, general and administrative (SG&A) expenses increased in the year by £2.5m to £21.3m (2019: £18.8m). This included increased salary costs through strengthening some of the support functions; increases in the share-based payment charges in 2020 to £1.3m (2019: £0.6m) in relation to LTIPs granted in May 2018, November 2019 and June 2020; and increased amortisation costs of £0.8m (2019: £0.4m) reflecting the higher amounts of intangible assets capitalised over the past two years. These increases have been partially offset by the decrease in foreign currency differences of £0.8m, which moved from a loss of £(0.3)m in 2019 to a gain of £0.5m in 2020.

Overall in 2021 we expect to continue to increase our headcount, to see some bounce back in the circa £2m reduction in cost that resulted from the Covid-19 lockdown, and also some increased IT hosting costs as this business grows.

Finance costs

Net finance costs of £(0.7)m (2019: £(0.7)m) remained relatively unchanged. Income on cash balances remained low given the current low interest rate environment.

Profit for the period

Profit after taxation increased by £10.2m, or 100%, to £20.4m in 2020 (2019: £10.2m). The effective tax rate decreased to 12.4% in 2020 against the effective tax rate for the 2019 year end (2019 21.7%) primarily due to Research & Development tax credits arising in respect of the 2018 and 2019 claims. These claims were finalised during 2020.

Earnings per share

Basic earnings per share increased by 98% to 6.93 pence in 2020 (2019: 3.50 pence). Diluted earnings per share increased by 99% to 6.79 pence (2019: 3.41 pence).

Cash flow

Net cash (including the effect of exchange rate changes) decreased by £21.8m to £37.0m at 31 December 2020, from £58.8m at 31 December 2019. The most significant impact was the payment of the special dividend of £44.2m on 6 November 2020. This more than offset the increase driven by cash generated from operations of £30.1m. In 2020 we received £3.6m of one-off licence revenue items recognised during FY19 along with £4.5m from the five year contract extension which was behind revenue recognition by £1.4m. Continued focus on cash management by the Group saw net change in

working capital of £2.9m. Taken together, the Group's Operating Free Cash Flow Conversion (FCF) was 114% (2019: 138%).

In addition to the cash generated from operations of £30.1m, the Group incurred £1.0m on capital expenditure (2019: £2.1m), provided funding of £0.4m to its newly set up joint venture, Alfa iQ, and made tax payments of £3.8m (2019: £4.1m) during the period. The Group has no external bank borrowings.

In 2020 there were net cash outflows of £45.9m (2019: £1.6m) from financing activities related to the principal element of lease payments and the 15 pence per share special dividend, amounting to £44.2m which was paid on 6 November 2020. No ordinary dividends were paid during the year.

Operating free cash flow conversion		
£m	2020	2019
Cash generated from operations	30.1	22.5
<i>Adjusted for:</i>		
Capital expenditure	(1.0)	(2.1)
Principal element of the lease payments in respect of IFRS 16	(1.7)	(1.6)
Operating free cash flow	27.4	18.9
Operating profit	23.9	13.7
Operating free cash flow conversion	114%	138%

Balance sheet

The significant movements in the Group's balance sheet, aside from the cash balance which is described above, from 31 December 2019 to 31 December 2020 are detailed below.

The trade and other receivables balance decreased by £0.2 to £13.7m (2019: £13.9m). At the end of 2019 there had been some delays in invoicing overseas customers and a higher accrued income balance as a result of £3.6 from non-recurring revenue items. Both of these issues were resolved in 2020 and the cash collected. This improvement was offset by the impact of the overall increase in revenue during 2020 and the increase in accrued income of £1.4m from the five year right to use and maintenance extension contract.

The trade and other payables balance increased by £2.2m to £8.1m (2019: £5.9m) principally due to an increase in the sales tax payable, including VAT and the overseas equivalents, of £0.8m (largely as a result of increased customer invoicing activity in the last two months of 2020 compared to the same months in the prior year), an increase in the holiday pay accrual of £0.3m reflecting the impact of fewer holidays being taken during the year as a result of the pandemic and an increase in the bonus accrual of £1.7m

Contract liabilities have decreased by £1.6m to £7.0m (2019: £8.6m) with a decrease in the deferred software implementation contract liabilities of £2.6m, reflecting work progressing on the current software implementation projects, being offset by a £1.0m increase in deferred maintenance liabilities, reflecting the higher maintenance revenues charged in the year.

Capital allocation and distributions

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

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

Having reviewed the strategy of the business and the resources required to support its growth, the Directors concluded that there was excess capital in the Group and paid a special dividend amounting to £44.2m in 2020 (2019: nil). Looking forwards the business continues to be cash generative with a healthy net cash balance and as a consequence the Directors concluded it was appropriate to start a regular dividend program, commencing with proposing a final dividend of 1.0 pence per share for the 2020 full year, which will be paid in July 2021. The Board intends to progressively increase the dividend as the Group grows, whilst ensuring that we retain a strong balance sheet.

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

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

Related party transactions

The ultimate parent undertaking is CHP Software and Consulting Limited (the 'Parent'). There was no trading between the Group and the Parent. There were no balances outstanding from, or to, the Parent at 31 December 2020 and 31 December 2019.

Going concern

The financial statements are prepared on the going concern basis. The Group continues to be cash-generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance including the possible impacts of Covid-19, show that the Group has sufficient cash reserves to continue to operate for a period of not less than 12 months from the date of approval of these financial statements.

The going concern assessment also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given

the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is continued uncertainty surrounding the future impacts of Covid-19, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Subsequent events

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

Duncan Magrath

Chief Financial Officer

22 March 2021

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

The consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial information contained in this announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information has been extracted from the financial statements for the year ended 31 December 2020, which have been approved by the Board of Directors and on which the auditors have reported without qualification. The financial statements will be delivered to the Registrar of Companies after the Annual General Meeting. The financial statements for the year ended 31 December 2019, upon which the auditors reported without qualification, have been delivered to the Registrar of Companies. The audit report did not contain anything to which the auditors drew attention by way of emphasis and that the audit reports did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

Consolidated statement of profit or loss and comprehensive income

£'000s	Note	2020	2019
Continuing operations			
Revenue	5	78,870	64,480
Implementation and support expenses	6	(15,302)	(16,894)
Research and product development expenses	6	(18,901)	(15,662)
Sales, general and administrative expenses	6	(21,249)	(18,792)
Other operating income		528	577
Operating profit		23,946	13,709
Share of net loss of joint ventures	19	(15)	–
Profit before net finance costs and tax		23,931	13,709
Finance income	10	109	143
Finance expense	10	(800)	(852)
Profit before taxation		23,240	13,000
Taxation	11	(2,871)	(2,818)
Profit for the financial year		20,369	10,182
Other comprehensive income:			
Exchange differences on translation of foreign operations	27	65	(350)
Other comprehensive income net of tax		65	(350)
Total comprehensive income for the year		20,434	9,832
Earnings per share (in pence) for profit attributable to the ordinary equity holders of the Company			
Basic	12	6.93	3.50
Diluted	12	6.79	3.41
Weighted average no. of shares (m) – basic	12	293.8	290.6
Weighted average no. of shares (m) – diluted	12	300.1	298.8

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

£'000s	Note	2020	2019
Assets			
Non-current assets			
Goodwill	14	24,737	24,737
Other intangible assets	15	2,153	2,255
Property, plant and equipment	16	885	1,166
Right-of-use assets	17	14,841	16,402
Deferred tax assets	18	1,794	596
Interests in joint ventures	19	394	–
Total non-current assets		44,804	45,156
Current assets			
Trade receivables	20	5,812	4,050
Accrued income	21	4,992	7,214
Prepayments	21	2,065	1,613
Other receivables	21	799	1,020
Cash and cash equivalents	22	37,020	58,839
Total current assets		50,688	72,736
Total assets		95,492	117,892
Liabilities and equity			
Current liabilities			
Trade and other payables	23	8,120	5,884
Corporation tax	23	1,266	1,355
Lease liabilities	24	1,701	1,672
Contract liabilities – software implementation	23/32	1,947	4,581
Contract liabilities – deferred maintenance	23/32	5,047	4,060
Total current liabilities		18,081	17,552
Non-current liabilities			
Lease liabilities	24	15,790	17,330
Provisions for other liabilities	25	1,392	667
Total non-current liabilities		17,182	17,997
Total liabilities		35,263	35,549
Capital and reserves			
Share capital	26	300	300
Translation reserve	27	91	26
Retained earnings		59,838	82,017
Total equity		60,229	82,343
Total liabilities and equity		95,492	117,892

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf.

ANDREW DENTON
Chief Executive Officer

DUNCAN MAGRATH
Chief Financial Officer

Alfa Financial Software Holdings PLC – Registered number 10713517

Consolidated statement of changes in equity

£'000s	Note	Share capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2019		300	376	72,239	72,915
Effect of initial application of IFRS 16		–	–	(1,459)	(1,459)
Deferred tax impact of initial application of IFRS 16		–	–	419	419
Adjusted balance at 1 January 2019		300	376	71,199	71,875
Profit for the financial year		–	–	10,182	10,182
Other comprehensive expense		–	(350)	–	(350)
Total comprehensive (expense)/income for the year		–	(350)	10,182	9,832
Equity-settled share-based payment schemes	28	–	–	636	636
Balance as at 31 December 2019		300	26	82,017	82,343
Profit for the financial year		–	–	20,369	20,369
Other comprehensive income		–	65	–	65
Total comprehensive income for the year		–	65	20,369	20,434
Equity-settled share-based payment schemes	28	–	–	1,321	1,321
Equity-settled share-based payment schemes – deferred tax impact	18	–	–	369	369
Dividends	30	–	–	(44,238)	(44,238)
Balance as at 31 December 2020		300	91	59,838	60,229

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

£'000s	Note	2020	2019
Cash flows from operating activities			
Profit before tax		23,240	13,000
Net finance costs		691	709
Share of net loss from joint venture		15	–
Operating profit		23,946	13,709
Adjustments:			
Depreciation	6/16/17	2,253	2,388
Amortisation	6/15	842	428
Share-based payment charge	28	1,515	724
Loss on disposal of assets		61	–
Movement in provisions	25	532	515
Movement in contract liabilities	23	(1,945)	3,110
Movement in working capital:			
Movement in trade and other receivables	20	646	2,532
Movement in trade and other payables (excluding contract liabilities)	23	2,249	(858)
Cash generated from operations		30,099	22,548
Interest element on lease payments	10/24	(787)	(852)
Other interest paid	19	(13)	–
Income taxes paid	11	(3,757)	(4,074)
Net cash generated from operating activities		25,542	17,622
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(240)	(376)
Purchases of computer software	15	(117)	(565)
Payments for internally developed software	15	(650)	(1,135)
Investment in joint venture	19	(336)	–
Loan to joint venture	19	(64)	–
Interest received	10	109	143
Net cash used in investing activities		(1,298)	(1,933)
Cash flows from financing activities			
Dividends paid to Company shareholders		(44,238)	–
Principal element on lease payments	24	(1,700)	(1,610)
Cash used in financing activities		(45,938)	(1,610)
Net (decrease)/increase in cash		(21,694)	14,079
Cash and cash equivalents at the beginning of the year	22	58,839	44,922
Effect of foreign exchange rate changes on cash and cash equivalents		(125)	(162)
Cash and cash equivalents at the end of the year	22	37,020	58,839

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements for the year ended 31 December 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group, consisting of Alfa Financial Software Holdings PLC (Alfa or the Company), its subsidiaries and joint operation and are presented to the nearest thousand.

The principal activity of the Group is to provide software solutions and consultancy services to the asset finance industry in the United Kingdom, United States of America, Europe and Australasia.

1.1 Basis of preparation

Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, other than the revaluation of financial assets and financial liabilities recorded at fair value through profit or loss.

Going concern

The financial statements are prepared on the going concern basis. The Group continues to be cash-generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance including the possible impacts of Covid-19, show that the Group has sufficient cash reserves to continue to operate for a period of not less than 12 months from the date of these financial statements.

The going concern assessment also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is continued uncertainty surrounding the future impacts of Covid-19, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

New and amended standards adopted by the Group

Effective for periods commencing on or after 1 January 2020:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)
- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)

The above standards have been endorsed by both the EU and the UK (from 1 January 2021). EU-IFRS at 31 December 2020 were adopted for use within the UK by Regulation 4 of Statutory Instrument 2019/685. The adoption of the above standards had no material impact.

New standards, amendments and interpretations not yet adopted

Effective for periods commencing on or after 1 June 2020:

- Amendments to IFRS 16 Leases: Covid 19-Related Rent Concessions

EU-IFRS at 31 December 2020 were adopted for use within the UK by Regulation 4 of Statutory Instrument 2019/685. The adoption of this standard is not expected to have a material impact.

1.2 Group structure

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Unless otherwise stated, subsidiaries have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also each subsidiary's principal place of business.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. All subsidiaries have a 31 December year end.

Joint arrangements

A joint arrangement is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is, when the relevant activities that significantly affect the investee's returns require the unanimous consent of the parties sharing control.

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control. Judgement is required in determining this classification through an evaluation of the facts and circumstances arising from each individual arrangement. Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement.

Alfa only has one joint venture, namely Alfa iQ, which was formed in May 2020. The investment in the joint venture is accounted for using the equity method. The Group's share of the joint venture's net profit/ (loss) is based on its most recent financial statement drawn up to the Group's balance sheet date. The total carrying value of investment in joint venture represents the cost of the investment, including loans which form part of the net investment in the joint venture, plus the share of post-acquisition retained earnings and any other movements in reserves less any impairment in the value of the investment.

The carrying values of joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired. The Group's share of the joint venture's losses in excess of its interest in that joint venture is not recognised to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. Unrealised gains arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Loans to the joint venture are measured at fair value on initial recognition, and subsequently carried at amorised cost. Any surplus between the nominal and fair value of the loan is recognised as an investment in the joint venture.

1.3 Segment reporting

Operating and reporting segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Group's Chief Executive Officer (CEO), who is responsible for allocating resources and assessing performance, has been identified as the CODM.

The CODM regularly reviews the Group's operating results in order to assess performance and to allocate resources. The CODM considers the business from a product perspective and, therefore, recognises one operating and reporting segment, being the sale of software and related services. The Group is choosing to present revenue segmentation by type of project and a consolidated Operating Profit measure, as presented to the CODM, along with the required entity wide disclosure.

The Group discloses revenue split by type of project being Software implementation, Ongoing development and services (ODS) and Maintenance.

- a. Software implementation project revenue – An implementation process contains three types of billing streams, being licence fee, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from a few months to several years depending on the complexity of the implementation and the size of customer.

The licence element is generally invoiced and collected at the beginning of the project and the licence amount is banded by the number of geographies, modules taken by the customer and the number of contracts or agreements to be written and managed on Alfa Systems.

Implementation and development fees are invoiced monthly in arrears based on a daily rate basis.

- b. ODS revenue represents the ongoing development and services efforts which are either ad hoc projects with existing customers or relate to development or services delivered after a new implementation. The services can be: pre-implimentation work; support following an implementation; further development for customer specific functionality; or change management assistance. Such services are generally provided on a shorter contractual term.

- c. Maintenance revenue is primarily invoiced periodically in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer's portfolio increases. Certain of the Group's customers have maintenance invoiced on a monthly basis. Maintenance revenue also includes any revenue generated from the Group's Cloud Hosting activities which are invoiced on a monthly basis.

See note 1.5 for details of our revenue recognition accounting policy and note 2 for the critical accounting judgements and estimates in relation to revenue recognition.

1.4 Foreign currency translation

Functional currency

Items included in the consolidated financial statements of each of the Group's subsidiaries are measured using their functional currency. The functional currency of the parent and each subsidiary is the currency of the primary economic environment in which the entity operates. See applicable exchange rates used in 2020 below:

	2020		2019	
	Closing	Average	Closing	Average
USD	1.37	1.28	1.32	1.28
EUR	1.11	1.13	1.18	1.14
NZD	1.89	1.98	1.96	1.94
AUD	1.77	1.86	1.88	1.84

Presentation currency

The consolidated financial statements are presented in pounds sterling. Alfa's functional and presentation currency is pounds sterling.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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. See applicable exchange rates used by the Group above.

1.5 Revenue recognition

The Group derives revenue from the following sources:

- Software implementation revenue which includes software licences, software development and other software implementation services;
- Ongoing development and support services; and
- Software maintenance (help desk and other support services) and Cloud Hosting services.

The Group provides the right to use, software development services, core implementation services and ongoing support of its product, Alfa Systems. The Group's contractual arrangements contain multiple deliverables or services, such as the development or customisation of the software to the customer's requirements, implementation services such as migration of data and testing and certain project management services.

Alfa assesses whether there are distinct performance obligations at the start of each contract and throughout the performance of the implementation, development and services projects and maintenance period. These performance obligations are laid out below. Any one contract may include a single performance obligation or a combination of those listed below:

a. Software implementation services

Where implementation services are considered to be distinct, i.e. when relatively straightforward, do not require additional development services and could be performed by an external third party, the implementation services are accounted for as a separate performance obligation from any development services. The transaction price is allocated to each performance obligation based on the stand-alone selling prices, derived from day rates and is recognised over time based on the effort incurred, limited to the amount to which Alfa has a right to payment.

b. Development services

The second performance obligation is the granting of a right to use Alfa Systems, which includes the delivery of the related software licence and any development efforts which change the underlying code. The total revenue attributable to this performance obligation is estimated at the outset of the relevant software implementation project and recognised as the effort is expended, on a percentage of completion basis, limited to the amount to which Alfa has the right to payment. A percentage-of-completion basis has been used because customers obtain the ability to benefit from the product from the start of the implementation project, the development or customisation of the asset has no alternative use to the Group; and the customer is entitled to the benefits of the efforts as at the date the efforts are delivered, so recognition over time is appropriate.

Development services are valued using the residual value method as there are no stand-alone selling prices which are observable as each project is customised.

c. Option over the right to use Alfa Systems

In the event that customers have to pay periodic maintenance fees in order to keep using Alfa Systems, a component of these future maintenance fees is attributable to the right to use the software. In these circumstances the licence granted by Alfa is considered to renew in future periods. There may be a material right in respect of discounts in future periods. In order to ascribe a value to this option management initially determine the periodic value of the development services during the software implementation period and estimate the remaining expected customer life.

The value of this option is built up from the start of the implementation project in line with the percentage of completion of development efforts described in 1.5(b) above. Following the completion of the implementation project, the value of this option is recognised evenly over the expected remaining customer life.

d. Periodic right to use Alfa Systems

This represents the proportion of the annual maintenance fee which relates to the periodic option to renew the right to use Alfa Systems. If there is the right of clawback of the annual right to use, such amounts are recognised throughout the annual period. If there is no right of clawback, then the annual right to use amount is recognised in full when there is a right of collection.

e. Periodic maintenance amounts

This represents the stand-alone selling price of the ongoing support or maintenance of Alfa Systems which is recognised throughout the period over which the services are delivered.

f. Subscription amounts

Certain of the Group's implementation and service contracts include a subscription payment mechanism. This represents a monthly fee charged to the customer covering the following performance obligations; the provision of monthly hosting services; the monthly periodic right to use Alfa Systems and the provision of monthly maintenance services (when this becomes applicable to the customer). The monthly payments are recognised as revenue in the period to which they relate. This reflects the underlying performance obligations of the Group and termination rights of the customer.

g. One-off revenue amounts

From time to time, the Group is entitled to receive one-off licence revenue from its customers as they increase the number of contracts on their version of Alfa Systems. Additionally, there are times when catch-up periodic maintenance amounts are entitled to be received by the Group, also as a result of the increased number of contracts. Generally this revenue is recognised at the point in time it is invoiced, or becomes contractually payable, reflecting the fact that the Group has no remaining performance obligations to satisfy.

Variable consideration

Certain of the Group's licence fees are receivable at the point where the number of contracts held on Alfa Systems exceeds a certain contract band. If these licence revenues relate to customers who already have a live instance of the software, they are recognised at the point in time in which the licence becomes receivable. When these software licences are associated with an implementation project and the customisation of the software, management applies judgement as to when to include these amounts within the associated percentage of completion calculation. In line

with IFRS 15, these amounts are recognised as revenue at the point in time that it is highly probable that the amounts would not be reversed.

Capitalised sales incentive costs

The Group incentivises its sale force for securing sales. In line with IFRS 15, these costs are capitalised and are amortised in line with the percentage of completion of the software implementation project.

1.6 Operating expenses

Operating expenses include items such as personnel costs (including training and recruitment), cost of software not capitalised, research and development costs and other infrastructure expenses. These items have been grouped into the following categories for disclosure purposes:

- Implementation and support expenses – Such expenses relate to the remuneration of personnel assigned to software implementation support, in addition to project-related travel and accommodation expenses and an appropriate portion of relevant overheads.
- Research and product development expenses – The Group invests a substantial part of its time in research and product development work in relation to the enhancement of its product platform and capabilities. Research and product development work is charged to the customer where it is linked to specific customer projects, such as initial software implementations or customisation of the software to the customer's requirements. The Group's research and product development costs include remuneration costs and an appropriate portion of relevant overheads.

Internally generated research and product development costs only qualify for capitalisation if the Group can demonstrate all of the criteria explained in note 1.14, where capitalised development costs are disclosed as internally generated intangible assets. If the criteria are not met, such expenditure is recognised as an expense in the period in which it is incurred. The Group continues to assess the eligibility of development costs for capitalisation on a project by project basis.

- Sales, general and administrative expenses include all the residual operating costs.

1.7 Income tax

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. Current or deferred taxation assets and liabilities are not discounted.

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.8 Leases

Alfa enters into lease contracts in respect of various properties and motor vehicles. These rental contracts are typically made for fixed periods of two to 10 years, and sometimes have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In accordance with IFRS 16, leases are recognised as a right-of-use asset with a corresponding liability, at the date at which the leased asset is available for use by Alfa. These assets and liabilities are initially measured on a present value basis (as set out in more detail below), with each subsequent lease payment allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining

balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Alfa assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability, with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months, or fewer) and leases of low-value assets. For these leases, the Group recognises the lease payments as an expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in separate lines, split between current and non-current liabilities, in the consolidated statement of financial position. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed, or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index, or rate, or a change in expected payment under a guaranteed residual value. In these cases, the lease liability is re-measured by discounting the revised lease payments, using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise:

- The initial measurement of the corresponding lease liability;
- Lease payments made at, or before, the commencement day;
- Any initial direct costs; and
- Restoration cost.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses (if applicable). They are depreciated from the commencement date of the lease and over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects an expectation that the Group will exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Currently, the Group does not have any leases that include a purchase option, or transfer ownership of the underlying asset.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in

circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, there have been no changes in such assessments.

Variable rents that do not depend on an index, or rate, are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as an expense in the consolidated statement of profit or loss and comprehensive income.

1.9 Impairment of assets

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.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.10 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.

Recognition and de-recognition

1.11 Financial assets

Financial assets are recognised in the statement of financial position when the Group becomes party to the contractual provision of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost;
- Fair value through profit or loss (FVTPL); and
- Fair value through other comprehensive income (FVOCI).

In the periods presented, the Group does not have any financial assets categorised as FVTPL or FVOCI. The classification is determined by both:

- The entity's business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within sales, general and administrative expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect their contractual cash flows; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables (notes 20 and 21) and cash and cash equivalents (note 22) fall into this category of financial instruments.

Impairment of financial assets

Under IFRS 9 the requirements are to use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second and third categories.

1.12 Trade receivables

Trade receivables are amounts due from customers for licences sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days of the invoice date and are therefore all classified as current. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The Group considers information developed internally or obtained from external sources that indicates that a debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group) as an indication that a financial asset is not recoverable.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.. The expected impairment loss is recognised in the consolidated statement of profit or loss and comprehensive income within other expenses and subsequent recoveries are credited to the same account previously used to recognise the impairment charge. During the current and prior period the result of the above was immaterial and no impairment loss has been recognised.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The credit qualities of these receivables are periodically assessed by reference to external credit ratings (if available) or to historical information about their default rates. The Group does not hold any collateral as security.

As the total carrying amount of the current portion of the trade and other receivables is due within the next 12 months after the reporting date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals the contractual amount or the fair value initially recognised.

1.13 Property, plant and equipment

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:

Fixtures and fittings: 3-10 years

IT equipment: 2-5 years

Motor vehicles: 10 years

The assets' residual values and useful lives are reviewed and adjusted if necessary at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Repairs and maintenance are charged to the consolidated statement of profit or loss and comprehensive income as incurred. Any gains or losses on disposals are recognised within 'Sales, general and administrative expenses' in the consolidated statement of profit or loss and comprehensive income unless otherwise specified.

Property, plant and equipment 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.

1.14 Goodwill and other intangible assets

Goodwill

Goodwill arose on the acquisition of subsidiaries in 2012 as part of a group reorganisation and represents the excess of the consideration transferred and the amount of any non-controlling interest in the investment over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The Group assesses whether goodwill has suffered any impairment on an annual basis in accordance with the accounting policy stated in note 1.9 above. There is one CGU, being the Group, as its geographical operations do not have separate or distinct cash inflows. The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections from financial budgets and forecasts.

Budgeted cash flow projections are based on the expectation of signing new customers in the Group's sales pipeline as well as ongoing implementation projects or ODS projects with existing customers. Budgeted gross margin is based on historical evidence and the expectations of market development and efficiency leverage. Management believes that any reasonable change in any of the key assumptions on which the recoverable amount is based would not cause the reported carrying amount to exceed the recoverable amount of the CGU. The discount rate used reflects the Group's pre-tax weighted average cost of capital (WACC), as adjusted for region specific risks and other factors as required by IFRS.

Intangible assets

Internally generated product development costs only qualify for capitalisation if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; including how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products, modules or capabilities is not proven until all high-risk development issues have been resolved through testing of the specific development. Development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria, where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense. See note 15 for disclosure of development costs which have met the criteria of IAS 38. The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

Externally acquired intangible assets are initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

The Group amortises intangible assets with a limited useful life, using the straight-line method over the following periods:

Computer software: licence period or 10 years as applicable

Internally generated software: 3-5 years

Research and development which does not meet the criteria set out above is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

1.15 Trade and other payables

Trade payables are obligations to pay for goods or services which have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method. As the total carrying amount is due within the next 12 months from the 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.

The Group's financial liabilities include trade and other payables and lease liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that

are reported in profit or loss are included within finance costs or finance income. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Trade and other payables and lease liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

1.16 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 discounting is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

1.17 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

Short-term benefits

Short-term benefits, including health cover and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Post-employment benefits

The Group operates various defined contribution plans for its employees. A defined contribution plan is a pension plan where the Group pays fixed contributions into a separate independent entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee's service in the current and prior periods.

Employee share scheme expense

The Group makes equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. For those share schemes with market-related vesting conditions, the fair value is determined using the Monte Carlo model at the grant date. For share options issued with EPS (non-market) performance vesting conditions, the fair value of the underlying vehicle is equal to the grant date share price discounted by the expected dividend yield to reflect the lack of dividend accrual over the vesting period. For all other share awards, those with pure employment conditions attached, the fair value is determined by reference to the market value of the shares at the grant date. For all share schemes with non-market vesting conditions, the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

1.18 Equity

Ordinary shares

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

Cumulative translation reserve

Exchange differences arising on translation of the foreign controlled entities are recognised in Other Comprehensive Income and accumulated in a separate reserve within equity. The cumulative amount would be reclassified to profit or loss if the entity was disposed of.

1.19 Earnings per share

Basic 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

Diluted earnings per share includes the ordinary shares which are held in an employee trust on behalf of employees. These shares are treated as having a potentially dilutive effect as these shares have service and performance 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.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted in future periods due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements.

2.1 Critical judgements in applying the Group's accounting policies

Revenue recognition – Assessing performance obligations

The Group is required to make an assessment as to whether the implementation process, which includes licence, implementation and development revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. In addition, the Group is also required to make an assessment as to whether each contract contains an expectation to deliver multiple separate instances of the customised licence which may form separate groups of distinct performance obligations. In doing the above, the Group assesses each software implementation contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements before Alfa Systems can be utilised by the customer. Therefore judgement is required in determining which efforts relate to the implementation process and which efforts could be determined to be development services which change or enhance the underlying code. In making this judgement, the Group assesses the contractual terms and the original project plan for the implementation but also uses historical evidence of what constitutes core implementation work.

Revenue recognition – One-off revenue contract

During the year the Group entered into a new one-off five-year contract with a customer to renew its software licence and maintenance agreements. The Group has identified that this one-off contract contained two distinct separate performance obligations, being the right for the customer to use the software and the ongoing maintenance and support. Both of these performance obligations relate to the five-year period the contract covers. The key judgements applied by management are in the allocation of the five-year contract value to each of the two performance obligations outlined above. A detailed assessment of the expected costs and margin of the support and maintenance over the five-year period was carried out along with an assessment of a typical right to use licence payment. Management then assessed the difference between the total contract value and fair value of the two performance obligations as a premium. The premium has been allocated between the two performance obligations based on their relative proportion of the stand-alone selling prices. As a result of the process outlined above, £5.6m was recognised upfront as the licence component, reflecting the non-cancellable nature of the contract, with the balance of the contract for maintenance recognised over the life of the contract.

Internally generated software development – Assessing whether a project meets criteria of IAS 38

The Group is required to make an assessment of each ongoing project in order to determine at what stage a project meets the criteria outlined in the Group's accounting policies. Such assessment may, in certain circumstances, require significant judgement. In making this judgement, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, the availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

2.2 Key sources of estimation uncertainty

Revenue recognition – Assigning a stand-alone selling price for implementation services day rates

The Group assesses the value of the implementation services delivered by assessing the effective day rate for an implementation contract, taking into account all revenue streams from implementation contracts against day rates of similar projects in the same geographies. If the stand-alone selling price in relation to the implementation day rate increased by 5%, this would result in a cumulative increase to revenue of £0.8m in 2020. As this increase in the implementation day rate estimate will not impact the overall transaction price of the individual implementation contracts, it is expected that this increase of £0.8m would reverse in future periods as the implementation contracts ongoing as at 31 December 2020 complete.

2.3 Other sources of estimation uncertainty

Revenue recognition – Percentage of completion estimate

The Group estimates the number of days required to complete the relevant software customisation effort at the outset of each project and on an ongoing basis including at each consolidated statement of financial position date. Estimates of total project days required for a relevant project are based on historical evidence of past

implementations, knowledge of the customer's systems being replaced and scope of customisation being requested. The Group applies the percentage-of-completion method when calculating development services revenue and updates estimates at each quarter end accordingly. At 31 December 2020, if the Group's estimates of development days to complete increased by 20% in relation to ongoing software implementation projects, this would result in development services revenue decreasing by £0.1m in 2020.

3. FINANCIAL RISK MANAGEMENT

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Area	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Contracted revenue and costs denominated in a currency other than the entity's functional currency; and Monetary assets and liabilities denominated in a currency other than the entity's functional currency.	Cash flow forecasting	Natural hedging from localised cost base and prompt conversion of foreign currency cash balances into pound sterling
Credit risk – cash balances	Cash and cash equivalents	Credit ratings	Diversification of bank deposits
Credit risk – customer receivables	Trade receivables and accrued income	Ageing analysis Credit ratings	Credit checks and contractual payment terms
Liquidity	Cash and cash equivalents	Cash flow forecasting	Collection of up-front licence fees, ageing analysis of customer receivables

The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has used financial instruments to hedge certain risk exposures in the past. Risk management is carried out by the finance function under policies approved by the Chief Financial Officer. The finance function identifies, evaluates and mitigates financial risks when deemed necessary.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure.

3.1 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currencies, primarily with respect to those described below. Revenue is predominantly denominated in pounds sterling and US dollars. Operating costs are influenced by the currencies of the countries where the Group's subsidiaries are based and pounds sterling and the US dollars are the currencies in which most operating costs are denominated.

The split by currency in relation to trade receivables is set out in note 20.

The Group's exposure to foreign currency risk in relation to revenue is set out in note 5.

The Group has not entered into or utilised any form of hedging against foreign currency exposure during the current or prior period, nor does the Group have any outstanding commercial foreign exchange contracts at 31 December 2020 or 31 December 2019.

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2020 would have impacted revenue and operating profit (excluding share-based payments) by 4% and 9% respectively.

3.2 Credit risk

a. 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.

b. Credit risks related to customer trade receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, change of strategy and default or delinquency in payments are considered indicators that a trade receivable could be impaired. Given the complexity, the size and the length of certain software implementation of related projects, a delay in the settlement of an open trade receivable does not necessarily constitute objective evidence that the trade receivable is impaired.

The Group's customer base predominantly consists of large financial institutions that are financially sound. The responsibility for customer credit risk management rests with management of the Group. Payment terms are set in accordance with practices in the different geographies and end-markets served, typically being 30 days from the date of the invoice. Trade receivables are actively monitored and managed. Collection risk is mitigated through the use of upfront payments of licences and maintenance. Historically, there has been a de minimis level of customer default as a result of the long history of dealing with the Group's customer base and an active credit monitoring function. Where applicable, credit limits may be established based on internal or external rating criteria, which take into account such factors as the financial condition of the customers, their credit history and the risk associated with their industry segment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income. To measure the expected credit losses, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts, other than where the Group has collected upfront payments in the form of licence fees at the start of a software implementation contract. The Group has therefore concluded that the expected loss rates for trade receivables are less than the loss rates for the accrued income.

The expected loss rates of trade receivables are based on the payment profiles of customer invoices over a period of 36 months before 31 December 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates would then be adjusted to reflect current or forward-looking information in relation to any macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has not identified any current factors or forward-looking information which would be relevant to the historical loss rates as all trade receivables have been collected in the past 24 months. Therefore on this basis, the loss allowance as at 31 December 2020 and 31 December 2019 was immaterial for both trade receivables and accrued income.

See note 20 – Trade receivables for the ageing of trade receivables and significant customer credit risk exposure.

3.3 Liquidity risk

The Group's principal objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The capital structure of the Group consists of cash and cash equivalents (note 22) 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 financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	31 December 2020					
£'000s	Carrying value	Less than 6 months	Between 6 to 12 months	Between 1 to 2 years	Between 2 to 5 years	More than 5 years
Trade and other payables	5,576	5,576	–	–	–	–
Lease liabilities – future lease payments	21,081	1,228	1,191	2,364	6,889	9,409

	31 December 2019					
£'000s	Carrying value	Less than 6 months	Between 6 to 12 months	Between 1 to 2 years	Between 2 to 5 years	More than 5 years
Trade and other payables	4,087	4,087	–	–	–	–
Lease liabilities – future lease payments	23,369	1,236	1,221	2,358	6,867	11,687

4. SEGMENTS AND PRINCIPAL ACTIVITIES

4.1 Revenue by type

The Group assesses revenue by type of project, being Software implementation, ODS and Maintenance, as summarised below:

£'000s	2020	2019
Software implementation	27,328	26,128
ODS	32,363	23,460
Maintenance	19,179	14,892
Total revenue	78,870	64,480

4.2 Operating profit

The following tables reconciles profit for the period attributable to equity holders to Operating Profit for the periods presented:

£'000s	2020	2019
Profit for the year	20,369	10,182
Adjusted for:		
Net income from joint venture	15	–
Taxation	2,871	2,818
Finance income	(109)	(143)
Finance expense	800	852
Operating profit	23,946	13,709

4.3 Non-current assets geographical information

Non-current assets attributable to each geographical market:

£'000s	2020	2019
UK	43,960	44,276
USA	661	220
Rest of World	183	64
Total non-current assets	44,804	44,560

Revenue by geographical market is contained within note 5.3.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

5.1 Customer concentration

Customers with revenue accounting for more than 10% of total revenue in the current year are as follows:

£'000s	2020	2019
Customer A	12%	20%
Customer B	10%	9%
Customer C	10%	5%

See note 20 for outstanding trade receivables from those customers with revenue accounting for more than 10% of total revenue.

5.2 Timing of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time as follows:

2020 £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	24,450	–	24,450
At a point in time – fixed price	420	5,688	617	6,725
Over time – time and materials	26,770	–	–	26,770
Over time – fixed price	138	2,225	18,562	20,925
Total revenue	27,328	32,363	19,179	78,870

2019 £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	17,926	–	17,926
At a point in time – fixed price	–	5,534	–	5,534
Over time – time and materials	26,033	–	–	26,033
Over time – fixed price	95	–	14,892	14,987
Total revenue	26,128	23,460	14,892	64,480

All goods and services are sold directly to the customers.

5.3 Revenue geographical information

Revenue attributable to each geographical market based on where the licence is sold or the service provided is as follows:

£'000s	2020	2019
USA	29,176	28,087
UK	25,780	18,618
Rest of EMEA	21,308	16,043
Rest of World	2,606	1,732
Total revenue	78,870	64,480

Following an evaluation of the Group's geographical markets, and to reflect the way in which these are managed internally, the Rest of Europe (excluding UK) segment has been updated to Rest of EMEA (excluding UK). As such, £3m of revenues generated from South Africa have been reallocated from Rest of World to Rest of EMEA (excluding UK) for 2019.

5.4 Revenue by currency

Revenue by contractual currency is as follows:

£'000s	2020	2019
GBP	33,405	21,644
USD	30,222	29,398
Euro	12,636	9,429
Other	2,607	4,009
Total revenue	78,870	64,480

5.5 Liabilities from contracts with customers

£'000s	2020	2019
Contract liabilities – software implementation	1,947	4,581
Contract liabilities – deferred maintenance	5,047	4,060
Total contract liabilities	6,994	8,641

Contract liabilities – software implementation

The majority of the Group's software implementation customers are invoiced an upfront perpetual software licence at the commencement of the implementation project. Customers generally require additional development efforts over the life of the implementation project in order to customise the underlying code within Alfa Systems. Together these two elements form the Group's development services performance obligation. The fair value of this performance obligation is determined using the residual method as set out in note 1.5b and this fair value is recognised as the development effort is expended, on a percentage of completion basis.

As such the software implementation contract liability balance as at 31 December 2020 represents any amounts received in advance for the development service performance obligation being satisfied (including any unrecognised software licence amounts that were received upfront). Additionally, where an option over the right to use Alfa Systems in the future exists, the value of this is also included within the software implementation contract liability. This material right value is increased over the life of the implementation project in line with the percentage of completion of the development efforts and then released on a straight line basis over the expected remaining customer life post completion of the implementation project.

The software implementation contract liability balance will increase during the year as a result of:

- any new upfront software licence payments;
- any write back in previously recognised revenue as a result of project extensions or re-plans; and
- any additional material right balances that are added during the year.

The software implementation contract liability balance will decrease during the year as a result of:

- increasing percentage of completion of development efforts; and
- any release of material right balances following the completion of the implementation project.

Contract liabilities – deferred maintenance

The majority of the Group's customers are invoiced annually in advance for the maintenance and support service provided by the Group. As such, the deferred maintenance contract liability balance will increase during the year as a result of billing and invoices becoming due, and will decrease as the Group satisfies its associated performance obligations. The deferred maintenance contract liability balance as at 31 December 2020 therefore represents the Group's unsatisfied period maintenance performance obligation for which the revenue has been invoiced in advance.

5.6 Unsatisfied Performance Obligations

As outlined in section 2.1, during the current year, the Group entered into a new one-off five-year contract with a customer to renew its software licence and maintenance agreements. The total amount of the contract price from this non-cancellable contract that relates to the performance obligations that are unsatisfied at 31 December 2020 is £10.6m (2019: £ nil). We expect to recognise £2.2m in each of the next four financial years and then the remaining £1.8m in the final financial year of the contract, being 2025.

In addition, the Group has unsatisfied or partially satisfied performance obligations at 31 December 2020 that relate to the licence customisation for those customers that have ongoing implementation projects, or implementation projects that commenced in early 2021 and for which contracts were agreed prior to 31 December 2020. This performance obligation includes the delivery of the related software licence and any development efforts which will change the underlying code. Linked to certain of these ongoing and future projects, and also to certain implementation projects completed during 2020, the Group also has unsatisfied or partially satisfied performance obligations at 31 December 2020 that relate to the option over the right to use Alfa Systems, and in particular any material right in respect of discounts to be received by customer in future periods.

The above includes certain amounts recognised as contract liabilities or accrued income. The transaction price allocated to these unsatisfied or partially satisfied performance obligations as at 31 December 2020 is £9.0m (2019: £10.0m). This amount is expected to be recognised over the remaining life of the implementation projects, in respect of the licence and development efforts, and over the expected customer life (following the completion of the implementation project) in respect of the option over the right to use Alfa Systems.

These unsatisfied or partially satisfied performance obligations are based on management's best judgement and maybe impacted in the future by a number of factors including:

- any possible contract modifications,
- currency fluctuations;
- external market factors; and
- changes to the overall forecast project plan including the overall life of the implementation project and any required development efforts.

It should be noted that these remaining performance obligations are not fully contracted as at 31 December 2020.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about the unsatisfied performance obligations that have original expected durations of one year or less. This includes those performance obligations linked to our ODS and maintenance revenue.

The Group also applies the practical expedient in paragraph B16 of IFRS 15 and does not disclose the amount of the transaction price allocated to the unsatisfied contract performance obligations where consideration will be received directly corresponding to the value of the performance obligation in the future and this consideration aligns to the value received to date for the corresponding performance obligation. This includes those performance obligations linked to our software implementation services.

6. OPERATING PROFIT

The following items have been included in arriving at operating profit:

£'000s	2020	2019
Personnel costs	38,202	33,246
Partner costs	1,820	355
Training and recruitment	659	1,027
Other personnel-related expenses	1,547	2,075
Advertising, sponsorship and marketing expenses	578	569
Depreciation and amortisation (note 15,16,17)	3,095	2,816
Property costs	1,457	1,449
Travel costs	573	2,349
IT expenses	2,320	1,594
Professional advisor costs	3,601	4,082
Insurance	304	232
Foreign currency differences	(514)	269
Employee share schemes (note 28)	1,321	636
Other	489	649

A further split by nature is set out below:

£'000s	2020	2019
Personnel costs	11,144	12,033
Partner costs	1,820	355
Training and recruitment	200	365
Other personnel-related expenses	469	738
Travel costs	573	2,349
IT expenses	654	522
Overhead allocation including property costs	442	532
Implementation and support expenses	15,302	16,894

£'000s	2020	2019
Personnel costs	16,233	13,104
Training and recruitment	302	433
Other personnel-related expenses	710	875
IT expenses	990	619
Overhead allocation including property costs	666	631
Research and product development expenses	18,901	15,662

£'000s	2020	2019
Personnel costs	10,825	8,109
Training and recruitment	157	229
Other personnel-related expenses	368	462
Advertising, sponsorship and marketing expenses	578	569
Professional advisor costs	3,601	4,082
Insurance	304	232
Depreciation	2,253	2,388
Amortisation	842	428
Foreign currency differences	(514)	269
Employee share schemes	1,321	636
Other office costs	453	587
IT expenses	676	453
Overhead allocation including property costs	385	348
Sales, general and administrative expense	21,249	18,792

To better reflect the nature and function of certain expenses, management has made changes to the classification and allocation of expense line items; comparative figures have also been reclassified accordingly. The main figures, which were previously reported in 2019, affected by this reclassification were: Salary cost; Partner costs; Secondment cost; and the Contractor costs. The impact on the totals, previously reported in 2019, was a decrease of Implementation and support expenses of £1,209k with an increase in both Research and product development cost and Sales, general and administrative expenses of £473k and £737k respectfully. These changes have had no impact on the total expenses or the profit before tax that was disclosed in 2019.

7. PERSONNEL COSTS

£'000s	2020	2019
Wages, salaries and short-term benefits	32,790	28,072
Training and recruitment	659	1,027
Social security	3,632	3,517
Post-employment benefits	2,894	2,676
Other employee expenses	433	1,054
Employee share schemes	1,321	636
Total personnel costs	41,729	36,983

To better reflect the nature of certain expenses, management has made changes to the classification and allocation of expense line items; comparative figures have also been reclassified correctly. The main figures, which had been previously reported in 2019, affected by this reclassification were: wages, salaries and short-term benefits which increased by £0.4m, social security which decreased by £0.5m, post-employee benefits which have increased by £0.1m and other personnel costs which have decreased by £0.5m. Overall the total personnel costs disclosed for 2019 have decreased by £0.5m due to partner costs being classified separately, with the other movement reflecting reclassifications within the individual lines referred to above. These changes have had no impact on the total expenses or the profit before tax that was disclosed in 2019.

Average monthly number of people employed (including Executive Directors)	2020	2019
UK	255	236
USA	66	61
Rest of World	20	16
Total average monthly number of people employed	341	313

Average monthly number of people employed (including Executive Directors)	2020	2019
Software implementation	102	108
Research and product development	156	134
Sales, general and administrative	83	71
Total average monthly number of people employed	341	313

8. KEY MANAGEMENT

Key management compensation (including Directors):

£'000s	2020	2019
Wages, salaries and short-term benefits	2,560	2,428
Social security	250	223
Post-employment benefits	77	61
Share-based payments	213	19
Total key management compensation	3,100	2,731

Key management personnel consists of the Company Leadership Team and the directors. Directors' remuneration is detailed in the Remuneration report.

9. AUDITOR'S REMUNERATION

The Group obtained the following services from the Group's auditor as detailed below:

£'000s	2020	2019
Deloitte LLP		
Audit of the consolidated financial statements	–	165
Audit fees relating to prior year	96	48
Audit of subsidiaries	–	150
RSM UK Audit LLP		
Audit of the consolidated financial statements	170	–
Audit of subsidiaries	150	–
Total audit fees	416	363
Audit-related assurance fees		
Deloitte LLP	48	135
RSM UK Audit LLP	75	–
Total assurance fees	539	498
Non-audit services	–	–
Total audit and non-audit-related services	539	498

10. FINANCE INCOME AND EXPENSE

£'000s	2020	2019
Finance income		
Interest income on cash or short-term bank deposits	109	143

£'000s	Note	2020	2019
Finance expense			
Interest on lease liability	24	(787)	(852)
Other interest expense		(13)	–
Total finance expense		(800)	(852)

11. INCOME TAX EXPENSE

Analysis of charge for the year

£'000s	2020	2019
Current tax		
Current tax on profit for the year	4,528	2,159
Adjustment in respect of prior years	(1,399)	(23)
Foreign tax on profit of subsidiaries for the current year	586	851
Current tax	3,715	2,987
Deferred tax		
Origination and reversal of temporary differences	(325)	(189)
Adjustment in respect of prior years	(520)	–
Effect of changes in tax rates	1	20
Deferred tax	(844)	(169)
Total tax charge in the year	2,871	2,818

The effective tax rate for the year is lower (2019: higher) than the standard rate of corporation tax in the UK. The effective tax rate for the year ended 31 December 2020 was 12.4% (2019: 21.7%). The effective tax rate for the year benefits from favourable adjustments in respect to prior years totalling £1,919k (2019: £23k), predominately due to UK R&D tax claims submitted in respect to 2018 and 2019. Excluding the impact of adjustments in respect to prior years, the effective tax rate for the year was 20.6% (2019: 21.9%). The overall tax charge for the year is reconciled as follows:

Analysis of charge for the year

£'000s	2020	2019
Profit on ordinary activities before taxation	23,240	13,000
Profit on ordinary activities at the standard rate of corporation tax – 19%	4,415	2,470
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	181	274
Expenses not deductible for tax purposes	56	260
Income not taxable for tax purposes	–	(1)
Share-based payments	18	(152)
Adjustment in respect of prior years	(1,919)	(23)
Impact of tax rate changes	1	20
Other	119	(30)
Total tax charge for the year	2,871	2,818

12. EARNINGS PER SHARE

	2020	2019
Profit attributable to equity holders of Alfa (£'000s)	20,369	10,182
Weighted average number of shares outstanding during the year	293,824,145	290,554,694
Basic earnings per share (pence per share)	6.93	3.50
Weighted average number of shares outstanding including potentially dilutive shares	300,069,048	298,812,270
Diluted earnings per share (pence per share)	6.79	3.41

The weighted average number of ordinary shares in issue excludes 6,175,855 shares held by employee benefit trust. The diluted number of ordinary shares outstanding, including share awards, is calculated on the assumption of conversion of all 6,139,161 potentially dilutive ordinary shares.

13. FINANCIAL ASSETS AND LIABILITIES

£'000s	Note	2020	2019
Finance assets			
Financial assets at amortised cost:			
Trade receivables	20	5,812	4,050
Other financial assets at amortised cost	21	5,791	8,234
Cash and cash equivalents	22	37,020	58,839
		48,623	71,123
Finance liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	23	5,576	4,087
Lease liabilities	24	17,491	19,002
		23,067	23,089

14. GOODWILL

£'000s	2020	2019
Cost		
At 1 January	24,737	24,737
At 31 December	24,737	24,737

The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections from financial budgets and forecasts for a five-year period using a discount rate of 11% (2019: 12%). Cash flows beyond these periods have been extrapolated using a steady 2% (2019: 2%) average growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Group operates. 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.

15. OTHER INTANGIBLE ASSETS

£'000s	Computer software	Internally generated software	Total
Cost			
At 1 January 2019	1,049	407	1,456
Additions	345	1,135	1,480
At 31 December 2019	1,394	1,542	2,936
Amortisation			
At 1 January 2019	253	–	253
Charge for the year	275	153	428
At 31 December 2019	528	153	681
Net book value			
At 31 December 2019	866	1,389	2,255
Cost			
At 1 January 2020	1,394	1,542	2,936
Additions	117	650	767
Disposals	(56)	–	(56)
At 31 December 2020	1,455	2,192	3,647
Amortisation			
At 1 January 2020	528	153	681
Charge for the period	321	521	842
Disposals	(29)	–	(29)
At 31 December 2020	820	674	1,494
Net book value			
At 31 December 2020	635	1,518	2,153

Significant movement in other intangible assets

During 2020, Alfa developed new internally generated software at a cost of £0.65m. This software will be amortised over three to five years.

The total research and product development expense for the period was £18.9m (2019: £15.2m), and there were £0.5m capitalised personnel costs in the year (2019: £1.1m) and £0.15m of capitalised external agency costs (2019: £0.1m).

16. PROPERTY, PLANT AND EQUIPMENT

£'000s	Fixtures and fittings	IT equipment	Motor vehicles	Total
Cost				
At 1 January 2019	1,147	2,859	40	4,046
Additions	4	372	–	376
Foreign exchange	67	(54)	–	13
At 31 December 2019	1,218	3,177	40	4,435
Depreciation				
At 1 January 2019	522	2,030	39	2,591
Charge for the year	107	565	1	673
Foreign exchange	25	(20)	–	5
At 31 December 2019	654	2,575	40	3,269
Net book value				
At 31 December 2019	564	602	–	1,166
Cost				
At 1 January 2020	1,218	3,177	40	4,435
Additions	38	202	–	240
Disposals	(50)	(84)	(40)	(174)
Foreign exchange	(4)	(13)	–	(17)
At 31 December 2020	1,202	3,282	–	4,484
Depreciation				
At 1 January 2020	654	2,575	40	3,269
Charge for the year	114	394	–	508
Disposals	(45)	(75)	(40)	(160)
Foreign exchange	(4)	(14)	–	(18)
At 31 December 2020	719	2,880	–	3,599
Net book value				
At 31 December 2020	483	402	–	885

17. RIGHT-OF-USE ASSETS

£'000s	Motor vehicles	Property	Total
Cost			
At 1 January 2019	92	17,898	17,990
Additions	128	4	132
Foreign exchange	(8)	3	(5)
At 31 December 2019	212	17,905	18,117
Depreciation			
At 1 January 2019	–	–	–
Charge for the year	67	1,648	1,715
At 31 December 2019	67	1,648	1,715
Net book value			
At 31 December 2019	145	16,257	16,402
Cost			
At 1 January 2020	212	17,905	18,117
Additions	127	91	218
Disposals	(73)	(62)	(135)
Foreign exchange	7	(9)	(2)
At 31 December 2020	273	17,925	18,198
Depreciation			
At 1 January 2020	67	1,648	1,715
Charge for the year	97	1,648	1,745
Disposals	(53)	(48)	(101)
Foreign exchange	–	(2)	(2)
At 31 December 2020	111	3,246	3,357
Net book value			
At 31 December 2020	162	14,679	14,841

The Group recognised the following amounts in the consolidated statement of profit or loss and comprehensive income in relation to leases under IFRS 16:

£'000	2020	2019
Depreciation	(1,745)	(1,715)
Interest expense	(787)	(852)
Short-term lease expense	(209)	(242)
Low-value lease expense	–	–

Sub-lease rentals

One of the leased properties is sub-leased to tenants under long-term operating leases, with rentals payable quarterly. Minimum lease payments receivable on these sub-leases of property are as follows:

£'000s	2020	2019
Within one year	427	427
Later than one year but not later than 5 years	45	473
Later than 5 years	–	–
Total sub-lease payments receivable	472	900
Income from sub-lease in the year	528	577

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	2020	2019
Balance as at 1 January	596	8
Adjustments in respect of prior period	520	419
Deferred income taxes recognised in the consolidated statement of profit or loss and comprehensive income	325	169
Share-based payments recognised in reserves	369	-
Foreign exchange movements	(16)	-
Balance as at 31 December	1,794	596
Consisting of:		
Depreciation in excess of capital allowances	(88)	359
Other timing differences	1,882	237
Balance as at 31 December	1,794	596

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 £3.1m at 31 December 2020 (2019: £8.9m).

19. INTERESTS IN JOINT VENTURE

At the beginning of May 2020, the Group formed Alfa iQ, a joint venture established to greatly enhance Alfa's ability to develop artificial intelligence solutions for the asset finance and auto finance industries. The joint venture was set up 51:49 between Alfa and Bitfount, a company founded by Blaise Thomson. The financial and operating activities of the Group's joint venture are jointly controlled by the participating shareholders. The participating shareholders have rights to the net assets of the joint venture through their equity shareholdings.

The interest in the joint venture consists of part investment and part loan to joint venture accounted for as set out in note 1.2.

Investment

£'000s	2020	2019
Carrying amount as at 6 May 2020	336	-
Share of net loss from joint ventures	(15)	-
Carrying amount as at 31 December 2020	321	-

Loan to joint venture

£'000s	2020	2019
Carrying amount as at 6 May 2020	64	-
Interest	9	-
Carrying amount as at 31 December 2020	73	-

The total loss from interest in joint ventures is £15k (2019: £ nil) and the total interest in the joint venture is £394k (2019: £ nil).

20. TRADE RECEIVABLES

£'000s	2020	2019
Trade receivables	5,812	4,050
Provision for impairment	–	–
Trade receivables – net	5,812	4,050

Ageing of trade receivables

Ageing of net trade receivables £'000s	2020	2019
Within agreed terms	5,592	3,398
Past due 1- 30 days	86	243
Past due 31-90 days	–	152
Past due 91+ days	134	257
Trade receivables – net	5,812	4,050

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	2020	2019
GBP	1,833	1,319
USD	3,100	2,073
Other	879	658
Trade receivables – net	5,812	4,050

Trade receivables due from significant customers

Customers with revenue accounting for more than 10% of total revenue have outstanding trade receivables as follows:

£'000s	2020	2019
Customer A	621	737
Customer B	1,153	–
Customer C	–	434

As at issuance of these financial statements, all amounts relating to customers accounting for more than 10% of total revenue had been collected.

Impairment and risk exposure

Information about the impairment of trade receivables and the Group's exposure to market risk (specifically foreign currency risk) and credit risk can be found in note 3.

21. OTHER RECEIVABLES HELD AT AMORTISED COST

£'000s	2020	2019
Accrued income	4,992	7,214
Prepayments	2,065	1,613
Other receivables	799	1,020
Total other receivables held at amortised cost	7,856	9,847

Accrued income represents fees earned but not yet invoiced at the reporting date which has no right of offset with contract liabilities – deferred licence amounts.

Accrued income decreased by £2.2m. The current year balance represents unbilled work in progress in relation to our ODS customers and £1.4m of one-off licence revenue items where there is contractual agreement to invoice in 2020.

22. CASH AND CASH EQUIVALENTS

£'000s	2020	2019
Cash at bank and in hand	37,020	58,839
Cash and cash equivalents	37,020	58,839

Currency of cash and cash equivalents

£'000s	2020	2019
GBP	28,468	48,222
USD	4,835	5,730
AUD	1,076	2,335
Euro	2,102	2,105
Other	539	447
Cash and cash equivalents	37,020	58,839

23. CURRENT AND NON-CURRENT LIABILITIES

£'000s	2020	2019
Trade and other payables	8,120	5,884
Corporation tax	1,266	1,355
Contract liabilities – software implementation	1,947	4,581
Contract liabilities – deferred maintenance	5,047	4,060
Lease liabilities (note 24)	17,491	19,002
Provisions for other liabilities	1,392	667
Total current and non-current liabilities	35,263	35,549
Less non-current portion	(17,182)	(17,997)
Total current liabilities	18,081	17,552

Trade and other payables includes amounts relating to other tax and social security of £2.5m (2019: £1.8m).

24. LEASE LIABILITIES

The following table sets out the reconciliation of the lease liability from 1 January to the amount disclosed at 31 December:

£'000s	2020	2019
Lease liabilities recognised at 1 January	19,002	20,480
Additions	203	132
Disposals	(17)	–
Interest charge	787	852
Payments made on lease liability	(2,487)	(2,462)
Foreign exchange	3	–
At 31 December	17,491	19,002

Additions to lease liabilities include extensions to existing lease agreements.

Below is the maturity analysis of the lease liabilities:

£'000s	2020	2019
Non-current	15,790	17,330
Current	1,701	1,672
Total lease liabilities	17,491	19,002
No later than one year	2,419	2,456
Between one year and 5 years	9,253	9,226
Later than 5 years	9,409	11,687
Total future lease payments	21,081	23,369

Total future interest payments	(3,590)	(4,367)
Total lease liabilities	17,491	19,002

The group's net debt is made up of cash and cash equivalents and lease liabilities. The movement during the year in lease liabilities is set out above. Movements in cash and cash equivalents are set out in the Cash flow statement.

25. PROVISION FOR OTHER LIABILITIES

£'000s	
At 1 January 2019	152
Provided in the period	515
At 31 December 2019	667
Provided in the period	725
At 31 December 2020	1,392

Provisions for other liabilities comprise amounts for office dilapidations, employer taxes on share-based payments and legal costs.

26. SHARE CAPITAL

	2020		2019	
Issued and fully paid	Shares	£'000s	Shares	£'000s
Ordinary shares – 0.1 pence	300,000,000	300	300,000,000	300
Balance as at 31 December	300,000,000	300	300,000,000	300

No additional shares have been issued or cancelled in the year ended 31 December 2020.

27. TRANSLATION RESERVE

£'000s		2020	2019
At 1 January 2020		26	376
Currency translation of subsidiaries		65	(350)
At 31 December 2020		91	26

28. SHARE AWARDS

The LTIP awards granted prior to 2020 are conditional on employment only; the fair value of the awards issued under the 2018 and 2019 LTIP plans have been calculated using the grant date share price as a proxy for fair value of the option adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the option schemes and, as such, no performance conditions are included in the fair value calculations.

On 4 June 2020 the Group awarded an LTIP conditional on performance conditions, 50% based on EPS performance (non-market condition) and 50% on TSR (market condition) as well as three year employment fulfilment. For those share schemes with market-related vesting conditions, the fair value is determined using the Monte Carlo model at the grant date. For share options issued with EPS (non-market) performance vesting conditions, the fair value of the underlying option is equal to the grant date share price discounted by the expected dividend yield to reflect the lack of dividend accrual over the vesting period. The following table lists the inputs to the model used for the awards granted in the year ended 31 December 2020 based on information at the date of grant:

LTIP awards (granted in June)	TSR element	EPS element
Share price at date of grant	74.3p	74.3p
Award price	0p	0p
Volatility	69.2%	–
Life of award	3 years	3 years
Risk free rate	0.02%	–
Dividend yield	9.2%	9.2%
Fair value per award	40.1p	55.6p

All of these Company schemes, as well as any non-cyclical awards, are equity-settled by award of ordinary shares.

The total share-based payment charge relating to Alfa Financial Software Holdings PLC shares for the year is split as follows:

£'000s	2020	2019
Employee share schemes – value of services	1,321	636
Expense in relation to fair value of social security liability on employee share schemes	194	88
Total cost of employee share schemes	1,515	724

The following table summarised the movements in the number in nil cost share-based payment arrangements:

	2020	2019
Outstanding at 1 January	6,482,950	13,361,253
Conditionally awarded in year	2,358,444	1,205,036
Exercised	(2,592,919)	(4,206,093)
Forfeited or expired in year	(109,314)	(3,877,246)
Outstanding at 31 December	6,139,161	6,482,950
Exercisable at the end of the year	-	-

The outstanding share schemes are made up of the following:

Grant date	Expiry date	Exercise price	Share options 31 December 2020	Share options 31 December 2019
June 2014/2015	4 annual tranches from 1 June 2018	0p	1,197,503	3,803,689
June 2018	June 2021	0p	1,378,178	1,474,225
November 2019	November 2022	0p	1,205,036	1,205,036
June 2020	June 2023	0p	2,358,444	-

29. UNRECOGNISED ITEMS

29.1 Contingencies and commitments

The Group has no capital commitments, no material contingent liabilities and no contingent assets.

29.2 Events occurring after the reporting period

There have been no reportable subsequent events.

30. DIVIDENDS

A special dividend of 15 pence per share was paid on 6 November 2020 amounting to £44.2m (2019: £ nil).

Subject to approval at the Annual General Meeting on 10 May 2021, a 2020 dividend of 1.0 pence per share will be paid on 2 July 2021 to holders on the register on 11 June 2021. The ordinary shares will be quoted ex-dividend on 10 June 2021.

31. RELATED PARTIES

31.1 Controlling shareholder

The ultimate parent undertaking is CHP Software and Consulting Limited (the 'Parent'), which is the parent undertaking of the smallest and largest group in relation to these consolidated financial statements. The ultimate controlling party is Andrew Page.

31.2 Basis of consolidation

The principal subsidiaries and joint ventures of the Group and the Group percentage of equity capital are set out below. All these are consolidated within the Group's financial statements.

	Registered address and country of incorporation	Principal activity	Held by Company 2020	Held by Group 2020	Held by Company 2019	Held by Group 2019
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%	100%	100%	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	100%	–	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	–	100%	–	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Services	–	100%	–	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, New Zealand	Services	–	100%	–	100%
Alfa Financial Software GmbH	Bockenheimer Landstraße 20, 60323 Frankfurt am Main, Germany	Software and services	–	100%	–	100%
Alfa iQ	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	51%	–	–

Alfa iQ was established in May 2020 – see note 19 for more detail.

31.3 TRANSACTIONS WITH RELATED PARTIES

See note 8 for further detail on monies paid to key management (including Directors).

Dividends to the amount of £29.6m paid to the Parent (2019: £ nil).

Dividends of 15 pence per share were paid to all shareholders in 2020 (2019: £ nil). Directors and other key management received dividends based on their beneficial interest in the shares of the Company.

The balances outstanding from the Parent at 31 December 2020 and 2019 were £ nil and £ nil respectively.

During the prior period, the Group made arms-length transactions with Classic Technology Limited, a company in which the Chairman holds an interest. These transactions amounted in 2019 to £0.04m in relation to fees paid for rental of property. There were no similar transactions undertaken during 2020.

During the period the Group invested £400,510 in Alfa iQ consisting of: a capital contribution of £335,972; and an interest-free loan fair valued at £64,538. At 31 December the value of the investment is carried at £320,752 and the loan fair valued at £73,525.

There were no other outstanding receivable balances from related parties at the end of the reporting period.

32. OFFSETTING ASSETS AND LIABILITIES

Assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where Alfa currently has a legally enforceable right to offset the recognised amounts, and there is an intention to realise the asset and settle the liability simultaneously.

The following table presents the recognised assets and liabilities that are offset as at 31 December 2020 and 31 December 2019 in the consolidated statement of financial position.

31 December 2020 £000's	Gross amounts	Amounts offset	Net amounts presented
Accrued income	12,548	(7,556)	4,992
Contract liabilities – software implementation	(9,503)	7,556	(1,947)

31 December 2019 £000's	Gross amounts	Amounts offset	Net amounts presented
Accrued income	15,763	(8,549)	7,214
Contract liabilities – software implementation	(13,130)	8,549	(4,581)

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the long-term performance of Alfa Financial Software Holdings PLC and its subsidiaries are set out in our 2019 Annual Report available on our website. No new risks were added in 2020 but four of those included into the 2019 Annual Report are no longer considered to be principal risks and uncertainties and as such have been removed in our 2020 Annual Report. These four risk are set out below:

- Failure to retain or increase market share in our strategic target markets;
- Failure to deliver on our existing implementation or ODS business;
- Failure to develop Alfa Systems to ensure it remains relevant in the market, to lower the cost of development in the future and to allow competitive technological and product development; and
- Brexit and the uncertainty surrounding trading arrangements after the transition period.
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DIRECTORS' RESPONSIBILITIES STATEMENT

The responsibility statement below has been prepared in connection with the annual report and financial statements for the year ended 31 December 2020. Certain parts thereof are not included within this Preliminary Announcement. The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report, contained within the annual report and financial statements for the year ended 31 December 2020, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This directors are responsible for the maintenance and integrity of the corporate and financial information included on the Alfa Financial Software Holdings Plc websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Andrew Denton

Chief Executive Officer

22 March 2021