

Final Results

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Alfa Financial Software Hldgs PLC
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7 March 2019

Alfa Financial Software Holdings PLC
2018 Preliminary Results Announcement

Alfa Financial Software Holdings PLC ("Alfa" or the "Company"), a leading developer of mission critical software for the asset finance industry, today publishes its audited results for the year ended 31 December 2018.

Business Highlights:

- Improved revenue and profit performance in H2 2018, with top line increasing by 16% on H1 2018
- Sales pipeline conversion progressing well with:
 - one new customer implementation engagement underway; and
 - planning underway for the rollout of the second phase of an existing multi-national engagement
- Number of late-stage pipeline opportunities increased in comparison to June 2018
- Discussions ongoing with the paused software implementation customer
- Organisational changes made, including in our sales and commercial departments and progress with partner relationships

Financial Highlights:

Statutory Highlights	2018 £million unless otherwise stated	2017 £million unless otherwise stated	Movement %
Revenue	71.0	87.8	(19%)
Operating profit	22.4	33.8	(34%)
Profit for the period	18.2	25.9	(30%)
Earnings per share - basic	6.3 pence	9.1 pence	(31%)
Net cash	44.9	31.3	43%

Financial Highlights (1)	2018 £million unless otherwise stated	2017 £million unless otherwise stated	Movement %
Revenue - constant currency	71.2	84.4	(16%)
Adjusted EBIT	22.4	41.2	(46%)
Adjusted EBIT - constant currency	22.5	38.3	(41%)
Adjusted earnings per share - diluted	6.1 pence	11.0 pence	(45%)
Operating Free Cash Flow Conversion	86%	69%	n/a

(1) See Definitions section for further information of the calculation of measures not specifically defined by IFRS

Andrew Denton, CEO of Alfa, commented:

"While 2018 was a challenging year for Alfa, with the delay of one of our significant software implementations and a slower than expected conversion of our sales pipeline, we continue to focus on converting sales opportunities into successful customer implementation projects.

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

We remain confident in the long-term opportunities for Alfa and are comfortable that the company will perform in line with the Board's expectations in the year to come. Notwithstanding the challenges of driving growth, Alfa remains a strongly profitable, cash generative and well capitalised business with outstanding staff and intellectual property."

PresentationAlfa management will be hosting an analyst presentation at Numis Securities, 10 Paternoster Square, EC4M 7LS at 9.00am GMT on 7th March 2019.Following the presentation on 7 March 2019, results information will be available on the Alfa investor site: investors.alfasystems.com.**Enquiries**

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Notes to Editors

Alfa has been delivering systems and consultancy services to the global asset and automotive finance industry since 1990. Our best practice methodologies and specialised knowledge of asset finance mean that we deliver the largest software implementations and most complex business change projects. With an excellent delivery history over nearly three decades in the industry, Alfa's track record is unrivalled.

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 client systems on a single platform. Alfa Systems supports both retail and corporate business for automotive, 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, the opportunities that Alfa Systems presents to asset finance companies are clear and compelling.

Alfa Systems is used by customers in more than 25 countries and Alfa has offices in Europe, Asia-Pacific and North America. For more information, visit www.alfasystems.com.

Forward-looking statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Alfa. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. 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

Adjusted Earnings - Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and pre-IPO share-based compensation, less the tax effect of these adjustments. Adjusted Earnings is used in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believes affect shareholder value and in-year return, such as income tax expense and net finance income.

Adjusted EBIT - Adjusted EBIT is defined as profit from continuing operations before income taxes, finance income, IPO-related expenses and pre-IPO share-based payments. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of the Group or adding items which are reflective of the overall trading operations.

Billings - Billings are amounts invoiced in the year.

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

Average exchange rates for the period	2018	2017
USD	1.3355	1.2887
Euro	1.1303	1.1414
Swedish Krona	11.5953	11.0001
New Zealand Dollar	1.9311	1.8140
Australian Dollar	1.7862	1.6811

Diluted Adjusted Earnings per share - Adjusted Earnings is used for the purposes of calculating Diluted Adjusted Earnings per share. Management uses diluted Adjusted Earnings per share to assess total Company performance on a consistent basis at a per share level.

ODS - Ongoing development and services, which is one of the Alfa revenue segments.

Operating Free Cash Flow Conversion - Operating Free Cash Flow Conversion is calculated as cash from operations less gains and losses on settlement of derivative instruments and margin calls and capital expenditures and adding back IPO-related expenses and Pre-IPO share-based compensation, as a percentage of Adjusted EBIT.

CHIEF EXECUTIVE'S REVIEW**CEO's review of the year - 2018**

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

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

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

We highlighted that one of our larger existing customers looked likely to extend its decision point regarding the expansion of its multi-country implementation. As of today, the first phase of this customer's implementation is going well, with completion expected in the first half of 2019 and we are now engaged to design the second phase of the roll out which will start this year.

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

Sales execution

We have combined the sales and commercial teams to simplify reporting lines and to increase communication speed, with the objective of improving contract execution and increasing the pace and rate of our sales conversion. We have also assessed whether there were common themes or factors that were slowing the customer decision-making process which we could impact by adapting our go-to-market strategy. Following this review, we found no reason to make significant changes to pricing and proposition, although we continue to see more focus on hosted solutions, a requirement for systems to be digital ready and customers looking for global solutions.

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

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

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

Product offering and strategy

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

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

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

Partners and people

Historically our people have delivered 100% of our software implementations and ongoing support efforts to our customer base. As of now, we have three agreed partnership framework agreements in place which provides us with the ability to decouple our future growth from headcount. It will also provide us with a more flexible cost base and extend our geographic reach in areas where we do not have a presence. We are negotiating framework agreements with two additional partners, have submitted two co-bids for prospective customers and hope to extend the partner network further during 2019.

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

2018 results

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

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

Looking forward

Moving into 2019, our focus remains on converting sales opportunities to contracted customers. We are currently progressing contractual discussions with a new European customer and planning a second phase implementation for an existing multi-national customer. We have also seen an increase in the overall size of the pipeline across

geographies and verticals since we last reported at our half year results. Following an assessment of a number of different areas across the business - including our sales and commercial processes - we have made a number of organisational changes which we believe will strengthen the business going forward.

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

Andrew Denton
CEO
7 March 2019

FINANCIAL REVIEW

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

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

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

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

Group results	2018 £'000s	2017 £'000s	Movement %
Software implementation	30,391	43,654	(30%)
ODS	23,920	20,831	15%
Maintenance	16,846	21,617	(22%)
Revenue from customers	71,157	86,102	(17%)
(Loss)/gain on derivative financial instruments	(119)	1,675	(107%)
Group revenue from customers *	71,038	87,777	(19%)

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

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

Software implementation revenue	2018 £'000s	2017 £'000s
New	3,301	198
Ongoing	25,986	22,097
Paused	1,104	5,194
Completed	-	16,165
Software implementation revenue from customers*	30,391	43,654

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

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

This decline was offset partly by £3.3 million of new implementation customer revenue from our win of a multi-national customer in March 2018 and ongoing implementation revenue increasing by £3.9 million. With an average number of implementation customers of four during 2018 (2017: six), revenue per customer increased by 4% reflecting the maturity of our implementation portfolio. Average number of customers is calculated based on the number of months of implementation activities in each year.

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

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

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

ODS revenue	2018 £'000s	2017 £'000s
New	9,069	2,163
Ongoing	11,661	12,833
Completed or non-recurring	3,190	5,835
ODS revenue from customers*	23,920	20,831

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

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

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

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

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

Maintenance

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

Geographical overview

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

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

UK

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

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

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

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

US

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

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

Rest of World

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

Operating profit

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

Expenses by activity	2018 £'000s	2017 £'000s	Movement %
Implementation and support expenses	18,924	20,971	(10%)
Research and product development expenses	16,341	13,963	17%
Sales, general and administrative expenses	13,457	19,076	(29%)
Other operating income	(66)	(62)	7%
Total operating expenses	48,656	53,948	(10%)

Operating expenses excluding 2017 Pre-IPO share-based compensation and IPO related expenses	48,656	46,548	5%
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Implementation and Support ("I&S") expenses decreased by £2.0 million, or by 10%, to £18.9 million (2017: £21.0 million). I&S expenses are predominantly personnel costs, accounting for 66% of total activity costs. In the year, average I&S headcount remained stable with average headcount of 110, with personnel related costs decreasing by £2.1 million. This decrease was as a result of the geographical mix of personnel changing. In addition to the decrease in personnel related costs, travel costs decreased by £0.2 million following the pausing of one of our significant software implementations while there has been a £0.3 million increase in overhead recharges predominantly due to increased property costs.

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

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

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

Adjusted operating expenses, excluding 2017 non-recurring items

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

Profit after taxation

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

Tax policy

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

Key financial metrics

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

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

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

New customer revenue

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

Constant currency

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

	2018	2017
USD	1.3355	1.3554

Euro	1,1303	1,2163
Swedish Krona	11,5953	11,5210
New Zealand Dollar	1,9311	1,9497
Australian Dollar	1,7862	1,6811

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

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

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

Billings

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

Operating Free Cash Flow Conversion

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

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

Funding and liquidity

At 31 December 2018 the Group had cash reserves of £44.9 million (2017: £31.3 million). Cash balances were denominated predominantly in GBP and US dollars, being 46% and 38% of the total cash and cash equivalents balance respectively.

Cash flow	2018 £'000s	2017 £'000s
Cash generated from operations	20,954	28,853
Settlement of derivative financial instruments and margin calls	(108)	(2,683)
Income taxes paid	(5,846)	(6,888)
Net cash generated from operating activities	15,000	19,282
Net cash (used in) generated by investing activities	(1,564)	26,413
Cash used in financing activities	-	(60,743)
Effect of exchange rate changes	219	49
Movement in year	13,655	(14,999)
Cash and cash equivalents at the beginning of the year	31,267	46,266
Cash and cash equivalents at the end of the year	44,922	31,267

Net cash generated from operating activities

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

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

Movements in working capital	2018 £'000s	2017 £'000s
Movement in trade and other receivables	(1,237)	252
Movement in trade and other payables and provisions (excluding derivative financial instruments and contract liabilities)	(114)	(1,148)
Movement in contract liabilities	(1,379)	(7,300)
Movement in working capital	(2,730)	(8,196)

Trade and other receivables in 2018 represented an outflow of £1.2 million. This movement is made up of a £2.2 million decrease due to earlier invoicing of fourth quarter fees for some customers, while accrued income increased by £3.7 million. Accrued income represents unbilled work in progress in relation to our ODS customers and certain settlement amounts where there is contractual agreement to invoice in 2019. In relation to customers which had accrued income balances at 31 December 2018, £10.8 million had been invoiced and £3.8 million collected at 28 February 2019.

Movement in contract liabilities relates to deferred license fees and maintenance amounts. The outflow in 2018 decreased to £1.4 million due to a decrease in deferred maintenance amounts due to our paused contract and a change in maintenance year of one of our ongoing implementation customers. Liabilities in relation to software implementations remained at £1.6 million due to license revenue recognised in the year being offset by license fees collected in the year of £4.1 million.

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

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

Currency hedging

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

Capital expenditure and contractual obligations

The Group's capital expenditure is primarily invested in the UK and invested £0.4 million in equipment (2017: £0.7 million) and £0.6 million on a new HR and finance system and capitalised £0.4 million of internally generated digital capability assets.

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

Distributions to shareholders

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

Related party transactions

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

Subsequent events

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The disclosed figures are not statutory accounts in terms of section 434 of the Companies Act 2006. The statutory accounts give full disclosure of the Group accounting policies and are scheduled to be posted to shareholders on or around 19 March 2019 and will be filed with the Registrar of Companies in due course. On the statutory accounts for the year ended 31 December 2018, the auditor gave an unqualified opinion that did not contain an emphasis of matter and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Condensed consolidated statement of profit or loss and comprehensive income for the year ended 31 December 2018

£'000s	Note	2018	2017
Continuing operations			
Revenue	2/3	71,038	87,777
Implementation and support expenses	4/5	(18,924)	(20,971)
Research and product development expenses	4/5	(16,341)	(13,963)
Sales, general and administrative expenses	4/5	(13,457)	(19,076)
Other operating income		66	62
Operating profit		22,382	33,829
Finance income	7	74	33
Profit before taxation		22,456	33,862
Taxation	8	(4,306)	(7,996)
Profit for the financial year		18,150	25,866
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Exchange differences on translation of foreign operations	11(b)	376	-
Total comprehensive income, net of tax		376	-
Total comprehensive income for the period		18,526	25,866
Earnings per share (in pence) for profit attributable to the ordinary equity holders of the company			
Basic	17	6.3	9.1
Diluted	17	6.1	8.6
Weighted average no. of shares - basic	17	285,962,898	283,134,180
Weighted average no. of shares - diluted	17	300,000,000	300,000,000

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

Condensed consolidated statement of financial position as of 31 December 2018

£'000s	Note	2018	2017
Assets			
Non-current assets			
Goodwill	10(b)	24,737	24,737
Other intangible assets	10(c)	1,203	-
Deferred tax assets	10(d)	8	-
Property, plant and equipment	10(a)	1,455	1,463
Total non-current assets		27,403	26,200
Current assets			
Trade and other receivables	9(a)	4,651	6,887
Accrued income	9(b)/16	9,162	5,505
Prepayments	9(b)	1,452	1,731
Other receivables	9(b)	947	619
Derivative financial assets	9(e)	-	108
Cash and cash equivalents	9(c)	44,922	31,267
Total current assets		61,134	46,117
Total assets		88,537	72,317
Liabilities and equity			
Current liabilities			
Trade and other payables	9(d)	7,588	7,417
Corporation tax	9(d)	2,448	3,956
Contract liabilities - software implementation	3/16	1,662	1,673
Contract liabilities - deferred maintenance	3	3,772	5,046
Total current liabilities		15,470	18,092
Non-current liabilities			
Deferred tax liabilities	10(d)	-	17
Provisions for other liabilities	9(d)	152	87
Total non-current liabilities		152	104
Total liabilities		15,622	18,196
Capital and reserves			

Ordinary shares	11(a)	300	300
Translation reserve	11(b)	376	-
Retained earnings		72,239	53,821
Total equity		72,915	54,121
Total liabilities and equity		88,537	72,317

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 7 March 2019.

Condensed consolidated statement of changes in equity for the year ended 31 December 2018

£'000s	Note	Share capital	Share premium	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2017		27	11,123	-	73,448	84,598
Profit for the financial year		-	-	-	25,866	25,866
Total comprehensive income for the year		-	-	-	25,866	25,866
Capital reduction		(27)	(11,123)	-	11,150	-
Reorganisation of share capital		300	-	-	(300)	-
Dividends paid to parent		-	-	-	(60,743)	(60,743)
Employee share schemes - value of employee services	6	-	-	-	4,400	4,400
Balance as at 31 December 2017		300	-	-	53,821	54,121
Profit for the financial year		-	-	-	18,150	18,150
Other comprehensive income		-	-	376	-	376
Total comprehensive income for the year		-	-	376	18,150	18,526
Employee share schemes - value of employee services	6	-	-	-	268	268
Balance as at 31 December 2018		300	-	376	72,239	72,915

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

Condensed consolidated statement of cash flows for the year ended 31 December 2018

£'000s	Note	2018	2017
Cash flows from operations			
Operating profit		22,382	33,829
Adjustments:			
Depreciation and amortisation	10(a)(c)	876	495
Employee share scheme charge	6	305	4,400
Loss on disposal of property, plant and equipment		2	-
Unrealised loss/(gain) on derivative financial instruments	2/9(e)	119	(1,675)
Movement in working capital:			
Movement in trade and other receivables		(1,237)	252
Movement in trade and other payables and provisions (excluding derivative financial instruments and contract liabilities)		(114)	(1,148)
Movement in contract liabilities		(1,379)	(7,300)
Cash generated from operations		20,954	28,853
Settlement of derivative financial instruments and margin calls		(108)	(2,683)
Income taxes paid		(5,846)	(6,888)
Net cash generated from operating activities		15,000	19,282
Cash flows from investing activities			
Payments for property, plant and equipment	10(a)	(622)	(663)
Payments for software intangible assets	10(c)	(609)	-
Payments for software development costs	10(c)	(407)	-
Repayment of loan by parent company		-	27,043
Interest received		74	33
Net cash (used in)/generated by investing activities		(1,564)	26,413
Cash flows from financing activities			
Dividends paid to parent	15(c)	-	(60,743)
Cash used in financing activities		-	(60,743)
Effect of exchange rate changes		219	49
Net increase/(decrease) in cash		13,655	(14,999)
Cash and cash equivalents at the beginning of the year		31,267	46,266

Cash and cash equivalents at the end of the year	9(c)	44,922	31,267
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements for the year ended 31 December 2018

1. Significant changes in the current reporting period and going-concern

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The adoption of the new accounting standards
- Delay in software implementation projects
- Loss of a significant maintenance customer as of the fourth quarter of 2018

(i) **Adoption of new accounting standards** - The Group has updated its accounting policies as a result of adopting IFRS 15 "Revenue from Contracts with Customers". The Group has applied IFRS 15 using the modified retrospective method of adoption and there have been no resultant changes to the quantum of revenue recognised on application of IFRS 15.

Alfa has also voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15. Contract liabilities such as license amounts collected ahead of implementation completions were previously presented as deferred license amounts.

The other standards, including the application of IFRS 9 "Financial Instruments" on 1 January 2018, did not have any impact on the Group's accounting policies and did not impact the six months to 30 June 2018 or require retrospective adjustment to prior periods presented.

(ii) **Delay in software implementation projects** - On 1 June 2018, we announced that one of our major customers had decided to delay its software implementation project for internal reasons with our understanding from the customer being that a restart is expected in 2019. This pause has impacted our results for the year ended 2018 in that software implementation revenue has decreased by £4.1 million and maintenance revenue by £1.2 million.

(iii) **Loss of a significant maintenance customer as of the fourth quarter of 2018** - As at 31 October 2018, one of our significant maintenance customers confirmed that they were terminating their agreement for maintenance and right-of-use of Alfa Systems. This customer contributed £2.5 million of maintenance revenue annually and £0.4 million of ODS revenue in 2018. As there is no right of clawback on the contractual amounts, £2.5 million of non-recurring maintenance revenue was recognised in 2018 with no revenue expected to be recognised in 2019.

Assessing the impact of these events - In assessing the application of a going-concern basis in the preparation of these financial statements, the Directors reassessed that the Group meets its day-to-day working capital requirements through its cash reserves, which were £44.9 million at 31 December 2018 (see note 9(c)). The Group's forecasts and projections take into account reasonably possible changes in due to operational, legal, macro-economic risks or reputational risks.

Having assessed the principal risks, and other matters discussed in the viability statement, the Directors have a reasonable expectation that Alfa has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of signing of this report, and therefore they continue to adopt the going-concern basis of accounting in preparing these consolidated financial statements.

Following the recent decision by the UK population to exit, in due course, from the European Union ("Brexit"), the Directors have considered whether or not this will manifest itself as an additional risk to the Group. While it is difficult to predict the impact of an exit, there may be an impact on the way Alfa does business. The Directors do not consider this to constitute a principal risk to the business however they will continue to monitor and assess it.

How the numbers are calculated

2. Segments and principal activities

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

The CODM regularly reviews the Group's operating results in order to assess performance and to allocate resources. The CODM considers the business from a product perspective and, therefore, recognises one operating and reporting segment, being the sale of software and related services. The Group is choosing to present revenue segmentation by type of project and a consolidated adjusted Earnings Before Interest and Taxation ("Adjusted EBIT") measure, as presented to the CODM, as additional information in this note, along with the required entity-wide disclosure.

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

- a) **Software implementation projects** - An implementation process contains three types of billing stream; the recognition of a license, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from nine months to five-years depending on the complexity of the implementation or size of customer.

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

Implementation and development fees are invoiced based on a daily-rate basis.

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

- c) **Maintenance revenue** is invoiced periodically in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer's portfolio increases.

See note 3 for details of our revenue recognition accounting policy and related critical accounting judgements and key sources of estimation uncertainty in relation to revenue recognition.

2.2 **Adjusted EBIT and Adjusted Earnings** The CODM analyses the financial performance of the business on two adjusted profit measures, being adjusted earnings before interest and tax ("Adjusted EBIT") and adjusted earnings ("Adjusted Earnings"). Adjusted EBIT and Adjusted Earnings are not measures defined by IFRS. The most directly comparable IFRS measure to both Adjusted EBIT and Adjusted Earnings is operating profit for the relevant period.

Adjusted EBIT - Adjusted EBIT is defined as profit from continuing operations before income taxes, finance income, pre-IPO share-based compensation and IPO-related expenses. Management utilises this measure to monitor performance as it illustrates the underlying performance of the business by excluding items considered by management not to be reflective of the underlying trading operations of the Group or adding items which are reflective of the overall trading operations, as applicable.

Adjusted Earnings - Adjusted Earnings is defined as profit for the period from continuing operations attributable to equity holders of the Company, before IPO-related expenses and pre-IPO share-based compensation, less the tax effect of these adjustments. Adjusted Earnings is used by the CODM in measuring profitability because it represents a Group measure of performance which excludes the impact of certain non-cash charges and other charges not associated with the underlying operating performance of the business, while including the effect of items that management believe affect shareholder value and in-year return, such as income tax expense and net finance costs.

Management use Adjusted EBIT and Adjusted Earnings to (i) provide senior management with a monthly report of operating results that is prepared on an adjusted earnings basis and (ii) prepare strategic plans and annual budgets on an adjusted-earnings basis. Senior management's annual compensation may also be reviewed, in part, using adjusted performance measures.

In addition, Adjusted Earnings is used for the purposes of calculating diluted Adjusted Earnings per share. Management uses diluted Adjusted Earnings per share to assess performance on a consistent basis at a per share level. See note 17.

2(a) Revenue by type

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

£'000s	2018	2017
Software implementation	30,391	43,654
ODS	23,920	20,831

Maintenance	16,846	21,617
Operating revenue	71,157	86,102
(Loss)/gain on derivative financial instruments	(119)	1,675
Total revenue	71,038	87,777

2(b) Adjusted EBIT and Adjusted Earnings

The following tables reconcile profit for the period to Adjusted EBIT and profit for the period attributable to equity holders of the Company to Adjusted Earnings for the periods presented:

£000s	2018	2017
Profit for the year	18,150	25,866
Adjusted for:		
Taxation	4,306	7,996
Finance income	(74)	(33)
Pre-IPO employee share schemes ⁽¹⁾	-	4,400
IPO-related expenses ⁽²⁾	-	3,000
Adjusted EBIT	22,382	41,229
£000s	2018	2017
Profit for the period attributable to equity holders of the Company	18,150	25,866
Adjusted for:		
Pre-IPO employee share schemes ⁽¹⁾	-	4,400
IPO-related expenses ⁽²⁾	-	3,000
Tax effect adjustments ⁽³⁾	-	(290)
Adjusted Earnings	18,150	32,976

1) Relates to pre-IPO employee share schemes expense as detailed in note 6.

2) Relates to costs related to the IPO.

3) IPO-related professional fees, where applicable, were tax-effected based on the applicable rate in the UK in the period in which incurred. Pre-IPO employee share schemes were not deductible for tax purposes and therefore have not been tax-effected.

2(c) Non-current assets geographical information

Non-current assets (other than financial instruments and deferred tax assets) attributable to each geographical market:

£000s	2018	2017
UK	27,096	25,855
US	269	310
Rest of world	30	35
Total non-current assets (other than financial instruments and deferred tax assets)	27,395	26,200

Revenue by geographical market is contained within note 3.

3. Revenue from contracts with customers

3.1 Revenue

The Group derives revenue from the following sources:

- (1) software implementation revenue which includes software licenses, software development and other software implementation services;
- (2) software maintenance (help desk and other support services); and
- (3) ongoing development and support services.

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

Alfa assesses whether there are distinct performance obligations at the start of each contract and throughout the performance of the implementation, development and services projects and maintenance period. These performance obligations are laid out below.

3.2 Accounting policy, performance obligations and critical accounting judgements and key sources of estimation uncertainty

The Group has identified the following separate performance obligations:

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

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

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

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

(iv) Periodic right to use Alfa Systems - This represents the stand-alone selling price of the periodic option to renew the right to use Alfa Systems. If there is the right of clawback of the annual right to use, such amounts are recognised throughout the annual period. If there is no right of clawback, then the annual right to use amount is recognised in full when there is a right of collection.

(v) Periodic maintenance amounts - This represents the stand-alone selling price of the ongoing support or maintenance of Alfa Systems, which is recognised throughout the period as the services are delivered.

Critical judgements in applying the Group's accounting policies

Revenue recognition - Assessing performance obligations - The Group is required to make an assessment as to whether the implementation process, which includes license, implementation and development revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. In doing so, the Group assesses each software implementation contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements before Alfa Systems can be utilised by the customer. Therefore there is a judgement required in determining what efforts relate to the implementation process, by assessing whether these efforts can be delivered by a third party and what efforts could be determined to be development and services which change or enhance the underlying code. In making this judgement, the Group assesses the contractual terms and the original project plan for the implementation but also uses historical evidence of what is core implementation work.

Key sources of estimation uncertainty

Revenue recognition - percentage of completion estimate - The Group estimates the number of days required to complete the relevant software-customisation effort at the outset of the project and at each balance sheet date implementation. Estimates of total project days required for a relevant project are based on historical evidence of past implementations, knowledge of the customer's systems being replaced and scope of customisation being requested. The Group applies the percentage-of-completion method when calculating development services revenue and updates estimates at each quarter end accordingly. At 31 December 2018, if the Group's estimates of project days to complete increased by 5% in relation to ongoing software implementation projects, this would result in development services revenue decreasing by £0.3 million in 2018.

Key sources of estimation uncertainty

Revenue recognition - Assigning a stand-alone selling price for implementation services day rates - The Group assesses the value of the implementation services delivered by assessing the effective day rate for an implementation contract, taking into account all revenue streams from implementation contracts against day rates of similar projects in the same geographies. If the stand-alone selling price in relation to implementation day rate decreased by 5%, this would result in operating profit decreasing by £0.4 million.

3.3 Unrealised gains or losses on derivative financial instruments. The Group has made an accounting policy election to recognise unrealised gains or losses on derivative financial instruments within revenue, therefore such gains or losses are shown net of revenue where instruments have been entered into match the US dollar denominated projected cash flows. £0.1 million of unrealised losses on derivative financial instruments were recognised in the year ended 31 December 2018 (2017: £1.7 million of unrealised gains).

Disaggregation of revenue from contracts with customers

3(a) Customer concentration - Customers with revenue accounting for more than 10% of total revenue are as follows:

£000s	2018	2017
Customer A	21%	23%
Customer B	13%	3%
Customer C	10%	10%
Customer D	9%	10%

See note 9(a) for outstanding trade receivables from those customers with revenue accounting for more than 10% of total revenue.

3(b) Timing of revenue - The Group derives revenue from the transfer of goods and services over time and at a point in time in the following revenue segments:

2018 - £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time - fixed price	-	2,461	-	2,461
Over time - time and materials	30,391	21,459	-	51,850
Over time - fixed price	-	-	16,846	16,846
Total revenue from customers*	30,391	23,920	16,846	71,157

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

2017 - £'000s	Software implementation	ODS	Maintenance	Total revenue
Over time - time and materials	43,654	20,831	-	64,485
Over time - fixed price	-	-	21,617	21,617
Total revenue from customers*	43,654	20,831	21,617	86,102

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

All goods and services are sold directly to the customer.

3(c) Revenue geographical information - Revenue attributable to each geographical market based on where the license is sold or the service is as follows:

£'000s	2018	2017
UK	22,847	30,686
US	33,124	40,492
Rest of world	15,186	14,924
Total revenue from customers*	71,157	86,102

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

3(d) Revenue by currency - Revenue by contractual currency is as follows:

£'000s	2018	2017
GBP	23,608	34,349
USD	36,532	40,695
Euro	5,830	2,481
Other	5,187	8,577
Total revenue from customers*	71,157	86,102

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

3(e) Assets and liabilities from contracts with customers

£'000s	2018	2017
Contract liabilities - deferred license	1,662	1,673
Contract liabilities - deferred maintenance	3,772	5,046
	5,434	6,719

Significant changes in contract liabilities - Contract liabilities have remained relatively constant as the Group has collected \$5.4 million (£4.1 million) in relation to license fees from software implementation customers and adjusted £1.7 million in relation to reassessment of total time to complete the implementation, offset by £4.3 million recognised in the year.

4. Operating profit

4.1 Operating profit is calculated after items such as personnel costs (including training and recruitment), cost of hardware not capitalised, research and development costs and other infrastructure expenses.

Implementation and Services expenses - Such expenses relate to the remuneration of personnel assigned to software implementation services, in addition to project-related travel and accommodation expenses and an appropriate portion of relevant overheads.

Research and product development expenses - The Group invests a substantial part of its time in research and product development work in relation to the enhancement of its product platform and capabilities. Research and product development work is charged to the client where it is linked to specific client projects such as initial software implementations. The Group's research and product development costs include remuneration costs and an appropriate portion of relevant overheads.

Internally generated research and product development costs only qualify for capitalisation if the Group can demonstrate all of the criteria explained in note 10(c), which presents capitalised development costs, disclosed as internally generated intangible assets. If the criteria are not met, such expenditure is recognised as an expense in the period in which it is incurred. The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

All other operating costs are recorded through "Sales, general and administrative expenses."

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

£'000s	2018	2017
Personnel costs	33,361	31,197
Training and recruitment	516	1,036
Other personnel related expenses	2,726	2,320
Advertising, sponsorship and marketing expenses	822	855
Depreciation and amortisation (note 10(a) and 10(c))	876	495
Property costs	2,750	1,857
Travel costs	3,862	4,057
IT expenses	1,498	1,241
Professional advisor costs	1,670	4,579
Insurance	216	193
Foreign currency differences	(523)	1,100
Employee share schemes (note 6)	268	4,400
Other	680	680

A further split by function is set out below:

£'000s	2018	2017
Personnel costs	12,522	14,620
Travel costs	3,862	4,057
IT expenses	1,213	1,241
Overhead allocation	1,327	1,053
Implementation and support expenses	18,924	20,971

Personnel costs	14,723	12,445
Overhead allocation	1,618	1,518
Research and product development expenses	16,341	13,963

Personnel costs	8,842	6,452
Advertising, sponsorship and marketing expenses	822	855
Professional advisor costs	2,128	4,579
Depreciation and amortisation (note 10(a) and 10(c))	876	495
Foreign currency differences	(523)	1,100
Employee share schemes (note 6)	268	4,400
Overhead allocation	1,044	1,195
Sales, general and administrative expenses	13,457	19,076

5. Personnel costs

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

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

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

Employee share schemes - Expense in relation to employee share schemes is recognised in line with the accounting policy in note 6.

Personnel costs £'000s	2018	2017
Wages, salaries and short-term benefits	28,366	24,524
Social security	4,322	5,050
Post-employment benefits	2,094	1,624
Employee share schemes	268	4,400
Total personnel costs	35,050	35,598

Average monthly number of people employed (including Directors)	2018	2017
UK	235	218
US	72	67
Rest of World	20	16
Total average monthly number of people employed	327	301

Average monthly number of people employed (including Directors)	2018	2017
Software implementation	110	110
Research and product development	152	142
Sales, general and administrative	65	49
Total average monthly number of people employed	327	301

6. Employee share schemes

Employee share schemes are schemes in which the Group receives goods or services as consideration for its own equity instruments. These are accounted for as equity-settled share-based payments. The grant date fair value of the employee share scheme is recognised as a personnel cost, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model where required, taking into account the terms and conditions upon which the options were granted and is charged to the income statement on a straight-line basis over the vesting period of the award. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The Group has two schemes in existence, being the 2018 LTIP plan granted in May 2018 and the 2014/2015 pre-IPO plan.

£'000s	2018	2017
Employee share schemes - value of services	268	4,400
Expense in relation to fair value of social security liability on employee share schemes	37	-
Total cost of employee share schemes	305	4,400

Year of grant	Vesting date	2018 Number of shares	2017 Number of shares
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2018 LTIP plan	2018	1 June 2021		-
			1,733,375	
2014/2015 pre-IPO plan	2014/2015	4 equal tranches from 1 June 2018	11,627,878	16,744,191
		2018 LTIP	2014/2015 pre-IPO plan	
Number of shares	2018	2017	2018	2017
Issued and outstanding at the beginning of the year	-	-	16,744,191	16,854,351
Granted during the year				
	1,745,250			
Vested during the year	-	-	(4,867,716)	(110,160)
Forfeited during the year	(11,875)	-	(248,597)	-
Issued and outstanding at the end of the year	1,733,375	-	11,627,878	16,744,191

2018 LTIP plan - Under the 2018 LTIP plan, awards in the form of nil cost options over ordinary shares in Alfa were granted on 31 May 2018 to selected employees in accordance with the Group's Long-Term Incentive Plan approved by shareholders at the annual general meeting on 24 April 2018. Shares in the company are transferred to participants at the end of the three-year service period if they continue to be employed by the Group throughout the period.

Calculation of the fair value of the 2018 LTIP plan - None of the outstanding options have an exercise price. The weighted average contractual life is 3 years (2017: 3.5 years).

The 2018 LTIP plan is valued using the grant date share price as a proxy for fair value of the option adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the option scheme and as such no performance conditions are included in the fair value calculations. The market price of the shares at the grant date which was £1.43, which is the weighted average fair value of those share options at the measurement date. Assumptions used in relation to fair value include no dividends expected to be paid on the shares in the next three-years. Employee attrition has been assumed at 45%.

The Group's shares have only been quoted since June 2017, therefore the amount of historical share price data was considered insufficient to determine the expected volatility parameter at the time of valuation. This was therefore assessed based on the volatilities of certain quoted companies that were considered to offer some degree of comparability to the Company. These volatilities were assessed based on a measurement period of the past 10 years. The fair value of the Company's shares was the intrinsic value at the date of grant as the exercise price was nil.

The appraisal value at the date of grant (being 4 October 2018), with a three-year vesting period, was determined to be the intrinsic value at that date.

2014/2015 pre-IPO plan - The Group granted 91,020 Ordinary A shares and 75,689 Ordinary A1 shares to employees in 2014 and 2015, which were subsequently re-measured to fair value when a listing event became probable in the fourth quarter of 2016. The share-based compensation charge in relation to these grants has been recognised in full in the year ended 31 December 2017.

7. Finance income

Finance income is recognised on related party loans using the effective interest method. See note 9.2 for further details on effective interest method.

£000s	2018	2017
Interest income on cash or short-term bank deposits	74	33

8. Income tax expense

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

- i) **Current tax** - The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
- ii) **Deferred tax** - Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Analysis of charge in the year	2018	2017
£000s		
Current tax		
Current tax on profit for the year	3,800	7,326
Adjustment in respect of prior years	(73)	(63)
Foreign tax on profit of subsidiaries for the current year	605	728
Current tax	4,332	7,991
Deferred tax		
Origination and reversal of temporary differences	(29)	5
Adjustment in respect of prior years	3	-
Deferred tax	(26)	5
Total tax charge in the year	4,306	7,996

The effective tax rate for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

Analysis of charge in the year	2018	2017
£000s		
Profit on ordinary activities before taxation	22,456	33,862
Profit on ordinary activities at the standard rate of corporation tax	4,267	6,518
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	84	353
Expenses not deductible for tax purposes	51	383
Income not taxable for tax purposes	(26)	(26)
Share-based payment	-	847
Adjustment in respect of prior years	(70)	(63)
Group relief	-	(16)
Total tax charge for the year	4,306	7,996

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017 on 6 September 2016. These include reductions to the main rate of corporation tax to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these consolidated financial statements.

9. Financial assets and liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the Group;
 - Trade receivables (note 9(a));
 - Other financial assets at amortised cost (note 9(b));
 - Cash and cash equivalents (note 9(c));
 - Trade and other payables (note 9(d)); and
 - Derivative financial instruments (note 9(e))
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial assets and liabilities:

£'000s	Notes	2018	2017
Financial assets at amortised cost			
Trade receivables	9(a)	4,651	6,887
Other financial assets at amortised cost	9(b)	11,561	7,855
Cash and cash equivalents	9(c)	44,922	31,267
Derivative financial assets - used for hedging	9(e)	-	108
Total financial assets		61,134	46,117
Financial liabilities at amortised cost			
Trade and other payables	9(d)	7,588	7,417
Contract liabilities		5,434	6,719
Total financial liabilities		13,022	14,136

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

9.2 Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are initially recognised at fair value plus, in the case of financial assets not subsequently reported at fair value through profit or loss, transactions costs that are attributable to the acquisition of the financial asset.

Subsequent measurement - Financial assets at fair value through profit or loss (FVTPL).

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Revenue.' FVTPL financial assets are classified as current assets.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents (notes 9(a) and 9(c)).

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, except for the current portion where the recognition of interest would be immaterial. The effective interest income is recognised in profit or loss within 'Finance income.'

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Impairment of financial assets - Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted. The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets carried at amortised costs with the exception of trade receivables, where the carrying amount may be reduced through the use of an allowance account (note 9(a)).

9.3 Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised costs, net of directly attributable costs.

Subsequent measurement - Financial liabilities at fair value through profit or loss (FVTPL) - Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near-term;
- A derivative not designated and effective as a hedging instrument.

Financial liabilities measured at amortised cost - Financial liabilities measured at amortised cost are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The resulting discounted interest charge is recognised in profit or loss within 'Finance costs'.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

9.4 Fair value measurement - The Group measures certain financial instruments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market or the most advantageous market must be accessible to or by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Group's consolidated financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs: Inputs for the asset or liability that are not based on observable market data.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

9 (a) Trade receivables

9.5 Trade receivables are amounts due from customers for licenses sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recognised in the income statement within 'Sales, general and administrative expenses' and subsequent recoveries are credited in the same account previously used to recognise the impairment charge.

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

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

£000s	2018	2017
Trade receivables	4,651	6,887
Provision for impairment	-	-
Trade receivables - net	4,651	6,887

Ageing of trade receivables

Ageing of net trade receivables £000s	2018	2017
Less than 30 days	3,976	5,596
Past due 31-90 days	643	1,291
Past due 91+ days	32	-
Trade receivables - net	4,651	6,887

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation.

Currency of trade receivables

£000s	2018	2017
GBP	1,109	2,833
USD	2,993	3,109
Other	549	945
Trade receivables - net	4,651	6,887

Trade receivables due from significant customers - Customers with revenue accounting for more than 10% of total revenue have outstanding trade receivables as follows:

£000s	2018	2017
Customer A	2,228	1,541
Customer B	-	-
Customer C	542	658
Customer D	475	372

As at issuance of these financial statements, 86% of amounts relating to customers accounting for more than 10% of total revenue had been collected.

Impairment and risk exposure - Information about the impairment of trade receivables and the Group's exposure to market risk (specifically foreign currency risk) and credit risk can be found in note 13(a) and (b).

9 (b) Other receivables held at amortised cost

£000s	2018	2017
Accrued income	9,162	5,505
Prepayments	1,452	1,731
Other receivables	947	619
Total other receivables held at amortised cost	11,561	7,855

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

Accrued income increased by £3.7 million representing an increase due to termination settlements of £1.8 million to be invoiced in 2019 and an increase in ODS customer activity. In relation to customers which had accrued income balances at 31 December 2018, £10.8 million had been invoiced and £3.8 million collected at 28 February 2019.

9(c) Cash and cash equivalents

9.7 Cash and cash equivalents include cash at bank and in hand as well as short-term deposits with original maturities of three months or less.

£000s	2018	2017
Cash at bank and in hand	44,922	30,283
Short-term deposits	-	984
Cash and cash equivalents	44,922	31,267

Short-term deposits relate to deposit accounts held in relation to financial instruments.

Currency of cash and cash equivalents

£000s	2018	2017
GBP	20,882	19,341
USD	16,877	9,955
Euro	4,751	591
SEK	206	334
AUD	1,813	472
Other	393	574
Cash and cash equivalents	44,922	31,267

9(d) Trade and other payables

9.8 Trade payables are obligations to pay for goods or services which have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method.

Trade and other payables are initially recorded at fair value and subsequently measured at amortised cost. As the total carrying amount is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals the contractual amount or the fair value initially recognised.

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

9.9 Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. When the effect of the time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

£000s	2018	2017
Trade payables	7,588	7,417
Corporation tax	2,448	3,956
Deferred tax liabilities	-	17
Contract liabilities - software implementation	1,662	1,673
Contract liabilities - deferred maintenance	3,772	5,046
Provisions for other liabilities	152	87
Total trade and other payables	15,622	18,196
Less non-current portion	(152)	(87)
Total current trade and other payables	15,470	18,109

See note 8 for further information on corporate tax liabilities
See note 3 and 16 for further information on contract liabilities

£000s	Provision for wear and tear
At 1 January 2017	58
Provided in the period	29
At 31 December 2017	87
Provided in the period	65
At 31 December 2018	152

Provisions for general wear and tear are made for expected future expenditure of the Alfa headquarters at Moor Place in London in accordance with lease obligations and are based on the Group's best estimate of the likely committed cash outflow. These costs are expected to be incurred at the end of the lease and therefore have been classified as non-current.

9(e) Derivative financial instruments

9.9 Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently re-measured at fair value at each reporting date. The method of recognising the gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item. The Group designates derivatives as held for trading. While providing effective economic hedges under the Group's risk management policies, certain derivatives are not designated as hedging instruments according to IFRS 9 'Financial Instruments'.

They are classified as held for trading and the changes in the fair value are immediately recognised within 'Revenue'. See note 3 for further information. Related cash flows are reported as cash flows from investing activities. Derivatives not designated for hedge accounting are classified as a current asset or liability.

The Group has nil foreign currency financial instruments assets outstanding at 31 December 2018 (2017: £0.1 million assets). The Group has used Level 2 inputs for determining and disclosing the fair value of financial instruments.

10. Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability:
 - Property, plant and equipment (note 10(a));
 - Goodwill (note 10(b));
 - Other intangible assets (note 10(c)); and
 - Deferred income tax (note 10(d))
- accounting policies; and
- information about determining the fair value of the assets and liabilities, including judgements and estimation uncertainty involved.

10(a) Property, plant and equipment

10.1 Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Furniture and fittings	3 -10 years
IT equipment	3-5 years
Motor vehicles	10 years, or over life of the lease

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

10.2 Impairment of finite lived non-financial assets - Finite lived non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

£000s	Fixtures and fittings	IT equipment	Motor vehicles	Total
Cost				
At 1 January 2017	1,245	3,162	40	4,447
Additions	43	610	-	653
Disposals	(247)	(1,261)	-	(1,508)
At 31 December 2017	1,041	2,511	40	3,592
Depreciation				
At 1 January 2017	533	2,586	23	3,142
Charge for the year	103	384	8	495
Disposals	(247)	(1,261)	-	(1,508)
At 31 December 2017	389	1,709	31	2,129
Net book value				
At 31 December 2017	652	802	9	1,463
Cost				
At 1 January 2018	1,041	2,511	40	3,592
Additions	95	527	-	622
Foreign exchange	12	75	-	87
Disposals	(1)	(254)	-	(255)
At 31 December 2018	1,147	2,859	40	4,046
Depreciation				

At 1 January 2018	389	1,709	31	2,129
Charge for the year	121	494	8	623
Foreign exchange	13	79	-	92
Disposals	(1)	(252)	-	(253)
At 31 December 2018	522	2,030	39	2,591
Net book value				
At 31 December 2018	625	829	1	1,455

Sub-lease rentals

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

£'000s	2018	2017
Within one year	427	-
Later than one year but not later than 5 years	900	-
Total sub-lease payments receivable	1,327	-

10(b) Goodwill

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

Goodwill is tested annually for impairment. The carrying amount is allocated to the cash-generating unit ("CGU") that is expected to benefit from investment and which represents the lowest level at which the goodwill is monitored for internal management purposes. The carrying value of the CGU is then compared to the higher of its fair value less costs of disposal and its value in use. Any impairment attributed to the goodwill is recognised immediately as an expense and is not subsequently reversed.

£'000s	2018	2017
Cost		
At 1 January	24,737	24,737
At 31 December	24,737	24,737

Impairment of goodwill - The Group tests annually whether goodwill has suffered any impairment on an annual basis in accordance with the accounting policy stated above. There is one CGU, being the Group, as its geographical operations do not have separate or distinct cash inflows. The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections based on financial budgets for a five-year period using a discount rate of 12%. Cash flows beyond these periods have been extrapolated using a steady 2% average growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Group operates.

Budgeted cash flow projections are based on the expectation of signing new customers in the Group's sales pipeline as well as ongoing projects or ODS projects with existing customers. Budgeted gross margin is based on historical evidence and the expectations of market development and efficiency leverage. Management believes that any reasonable change in any of the key assumptions on which the recoverable amount is based would not cause the reported carrying amount to exceed the recoverable amount of the CGU. The pre-tax discount rate reflects the current market assessment of the time value of money and the risks specific to the Group for which the estimates of future cash flows have not been adjusted, as required by IFRS.

Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount.

10(c) Other intangible assets

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

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

Generally, commercial viability of new products, modules or capabilities is not proven until all high risk development issues have been resolved through testing in the marketplace. Development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria, where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

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

Computer software - license period or up to 10 years as applicable
Internally generated software - 3-5 years

£'000s	Computer software	Internally generated software	Total other intangible assets
Net book value			
At 31 December 2017	-	-	-
Cost			
At 1 January 2018	-	-	-
Additions	1,049	407	1,456
At 31 December 2018	1,049	407	1,456
Amortisation			
At 1 January 2018	-	-	-
Charge for the year	253	-	253
At 31 December 2018	253	-	253
Net book value			
At 31 December 2018	796	407	1,203

Significant movement in other intangible assets - During 2018, Alfa implemented a new HR and finance system at a cost of £1.1 million, including £0.6m of subscription costs. The externally acquired computer software will be amortised over either the license period or 10 years, as applicable.

Critical judgements in applying the Group's accounting policies

Internally generated software development - Assessing whether project meets criteria of IAS 38 - Group is required to make an assessment of each ongoing project in order to determine at what stage a project meets the criteria outlined in the Group's accounting policies. Such assessment may, in certain circumstances, require significant judgement. In making this judgement, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

The total research and product development expense for the period was £16.3 million (2017: £14.0 million) and there was £0.2

million capitalised personnel costs in the year and £0.2 million of capitalised external agency costs (2017: nil).

10(d) Deferred income tax

The provision for deferred tax consists of the following deferred tax assets/(liabilities) relating to accelerated capital allowances and short-term timing differences in relation to unpaid pensions accruals and share-based payments.

£'000s	2018	2017
Deferred tax assets due within 12 months	30	21
Deferred tax liabilities due within 12 months	(22)	(38)
Total	8	(17)

There are no balances due after 12 months.

£'000s	2018	2017
Balance as at 1 January	(17)	(22)
Adjustments in respect of prior period	(1)	-
Deferred income taxes recognised in the income statement	26	5
Balance as at 31 December	8	(17)
Consisting of:		
Depreciation in excess of capital allowances	22	38
Other timing differences	(30)	(21)

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as the Group is able to control the timing of these temporary differences and it is probable that they will not reverse in the foreseeable future. Unremitted earnings totalled £7.6 million at 31 December 2018 (2017: £4.0 million).

11. Equity

11(a) Ordinary shares

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

Issued and fully paid	2018		2017	
	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 2018.

11(b) Other reserves

Cumulative translation reserve	£'000s
At 1 January 2017 and 31 December 2017	-
Currency translation of subsidiary	376
At 31 December 2018	376

Exchange differences arising on translation of the foreign controlled entity are recognised in OCI and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

At the end of 2017, the functional currency of one of our subsidiaries changed to the local currency in which it operated due to a change in the underlying contracting method with customers.

12. Critical judgements and key sources of estimation uncertainty

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

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note explains where there have been actual adjustments this year as a result of changes to previous estimates.

The Group's areas involving significant judgements or estimates are as follows:

- Critical judgement - Revenue recognition - Assessing performance obligations (note 3)
- Key sources of estimation uncertainty - Revenue recognition - percentage of completion estimate (note 3)
- Key sources of estimation uncertainty - Revenue recognition - Assigning the transaction value to performance obligations (note 3)
- Critical judgement - Internally generated software development - assessing whether the project meets the criteria of IAS 38 (note 10(c))

13. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Area	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Contracted revenue and costs denominated in a currency other than the entity's functional currency; and Monetary assets and liabilities denominated in a currency other than the entity's functional currency.	Cash flow forecasting	Natural hedging from localised cost base
Credit risk - cash balances	Cash and cash equivalents	Credit ratings	Diversification of bank deposits
Credit risk - customer receivables	Trade receivables and contract assets	Ageing analysis Credit ratings	Diversification of credit limits and letters of credit
Liquidity	Cash and cash equivalents	Cash flow forecasting	Collection of up-front license fees, ageing analysis of customer receivables

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

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

13(a) Market risk

(i) Foreign exchange risk

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

The split by currency in relation to trade receivables is set out in note 10(b).

The Group's exposure to foreign currency risk in relation to revenue is set out in note 4.

All instruments have been settled as of 31 December 2018. The notional principal amounts of the outstanding commercial foreign exchange contracts at 31 December 2017 were \$9.0 million or £6.7 million.

In 2019, the Group intends to naturally hedge exposure to foreign currency risk by entering into customer contracts in local currency, with a matching cost base. Previously the policy of the Group had been to hedge committed and highly probable forecasted foreign currency operational transactions. The Group had used uses foreign exchange forwards for this purpose. Hedge accounting had not been applied and therefore the mark-to-market impact is recorded net of revenue. For the year ended 31 December 2018, the impact of these derivatives was an unrealised loss of £0.1 million (2017: gain of £1.7 million) as the US dollar depreciated against pounds sterling in 2018 compared to 31 December 2017. The offsetting loss related to the forecasted revenue is not visible due to the sales not yet being recorded in the books of the Group as a significant amount of US dollar denominated revenue is in relation to license and maintenance which are recognised rateably in the income statement.

As the US dollar appreciates against pounds sterling, the derivative contracts entered into with financial institutions have a negative mark-to-market. The Group's financial derivative counterparties require margin call should its mark-to-market exceed a pre-agreed contractual limit. In order to protect from the potential margin calls for significant market movements, the Group holds a liquidity buffer in cash and monitors margin requirements on a daily basis for adverse movements in the US dollar versus pounds sterling.

At 31 December 2018 and 2017, the margin requirement related to foreign exchange hedges was nil and nil respectively.

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2018 would impact revenue and operating profit (excluding share-based payments) by 6% and 15% respectively.

13(b) Credit risk

(i) Credit risk related to transactions with financial institutions

Credit risk with financial institutions is managed by the Group's finance function in accordance with a Board approved policy. Management is not aware of any significant risks associated with financial institutions as a result of cash and cash equivalents deposits (including short-term investments) and financial derivative transactions.

All financial counterparties where assets held are over £250,000 are AA rated or above (as per ratings from Moody's Investor Services).

(ii) Credit risks related to customer trade receivables

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

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

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

The expected loss rates of trade receivables are based on the payment profiles of customer invoices over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates would then be adjusted to reflect current or forward-looking information in relation to any macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has not identified any current factors or forward-looking information which would be relevant to the historical loss rates as all trade receivables have been collected in the past 24 months. Therefore, on this basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was nil, for both trade receivables and contract assets.

See note 9(a) - Trade and other receivables for the ageing of trade receivables and significant customer credit risk exposure.

13(c) Liquidity risk

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

The capital structure of the Group consists of cash and cash equivalents (note 9(c)) and equity attributable to equity holders of the parent.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its exposure to liquidity risk through short and long-term forecasts and by seeking to align the maturity profiles of its financial assets with its financial liabilities. The Group's policy is to maintain an adequate level of liquidity to meet its liabilities expected to be settled in the short or near term, under both normal and stressed conditions.

The following table details the remaining contractual maturity of the Group's derivative and non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2018					
	Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
£'000s					
Trade and other payables	7,588	-	-	-	-
Provisions	-	-	-	-	152
31 December 2017					
	Less than 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	More than 5 years
£'000s					
Trade and other payables	7,417	-	-	-	-
Provisions	-	-	-	-	87

14. Unrecognised items

14 (a) Contingencies and commitments

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

14(b) Non-cancellable operating leases

14.1 Operating leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Various buildings, machinery and equipment from third parties are leased under operating lease agreements. Under such operating lease agreements, the total lease payments are recognised as rent expense on a straight-line basis over the term of the lease agreement, and are included in "Sales, general and administrative expenses," reflecting the nature of the leased assets. Lease incentives received to enter into an operating lease are credited to the consolidated income statement, to reduce the lease expense, on a straight-line basis, over the period of the lease. The Group's property lease in respect of its London headquarters has a lease term of ten years, with a five-year extension.

Operating lease commitments relate to property and motor vehicle leases. Operating lease payments in the year amounted to £2.3 million (2017: £1.3 million). Future operating lease payments, in respect of non-cancellable leases, are set out below at the applicable dates:

£'000s	2018	2017
Within one year	2,465	1,302
Later than one year but not later than 5 years	9,306	4,535
Later than 5 years	7,856	3,566

14 (c) Events occurring after the reporting period

There have been no reportable subsequent events.

Other information

15. Related parties

15 (a) Controlling shareholder

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

15 (b) Subsidiaries

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

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

Inter-company transactions and balances between Group companies are eliminated.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. All subsidiaries have a 31 December year end and all trading subsidiaries act as sales offices for the Company's principal activity. The below percentages held by company and Group refer to ordinary shares held.

	Registered address and country of incorporation	Principal activity	Held by Company 2018	Held by Group 2018	Held by Company 2017	Held by Group 2017
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%	100%	100%	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	-	100%	-	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	-	100%	-	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Software and services	-	100%	-	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, NZ	Software and services	-	100%	-	100%
Alfa Financial Software GmbH	Bockenheimer Landstraße 20, 60323 Frankfurt am Main	Software and services	-	100%	-	-

Alfa Financial Software GmbH was established in 2018 and has not traded in the period.

15(c) Transactions with related parties

There was no trading between the Group and the Parent.

The balances outstanding from the Parent at 31 December 2018 and 2017 were nil and nil respectively.

During the period, the Group made arms-length transactions with Classic Technology Limited, a company in which the founder holds an interest. These transactions amounted to £0.04 million (2017: £0.04 million) in relation to fees paid for rental of property. There were no outstanding receivables balances at the end of the reporting period.

15(d) Key management compensation

Key management compensation (including Directors)

£'000s	2018	2017
Wages, salaries and short-term benefits	1,651	2,236
Social security	229	286
Post-employment benefits	63	31
Share-based payments	-	1,201
Total key management compensation	1,943	3,754

15(e) Directors' compensation

Aggregate Directors' compensation

£'000s	2018	2017
Aggregate emoluments	1,366	1,132
Post-employment benefits	22	15
Total aggregate director compensation	1,388	1,147

For further details on Directors' remuneration, see the Report on Directors' Remuneration in the Governance section of the Annual Report. Key management members of the Executive Committee (including any relevant Directors).

16. Offsetting assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where Alfa currently has a legally enforceable right to offset the recognised amounts, and there is an intention to realise the asset and settle the liability simultaneously.

The following table presents the recognised financial instruments that are offset as at 31 December 2018 and 31 December 2017.

2018 £'000's	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets			
Accrued income	12,301	(3,139)	9,162
Financial liabilities			
Contract liabilities - software implementation	(4,801)	3,139	(1,662)
2017 £'000's			
Financial assets			
Accrued income	8,612	(3,107)	5,505
Financial liabilities			
Contract liabilities - software implementation	(4,780)	3,107	(1,673)

17. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share for the periods presented are the ordinary shares which are held in an employee trust on behalf of employees are treated as having a potentially dilutive effect as these shares have service conditions attaching to them. Should the service conditions not be met, the shares will be forfeited. The shares have no right to voting or to dividends while held in trust.

Diluted Adjusted Earnings per share is defined as Adjusted Earnings, as reconciled below, divided by the weighted average number of shares issued and outstanding, diluted.

As a result of the Group reorganisation in 2017, the basic and diluted earnings per share metrics, actual and adjusted, are calculated with reference to the share structure of the new parent company, as if it has been the parent for all periods presented.

	2018	2017
Profit attributable to equity holders of Alfa (£'000s)	18,150	25,866
Weighted average number of shares outstanding during the year	285,962,898	283,134,180
Basic earnings per share (pence per share)	6.3	9.1
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted earnings per share (pence per share)	6.1	8.6
	2018	2017
Adjusted Earnings attributable to equity holders of the Company (£'000s) (note 2)	18,150	32,976
Weighted average number of shares outstanding including potentially dilutive shares	300,000,000	300,000,000
Diluted adjusted earnings per share (pence per share)	6.1	11.0

18. Auditor's remuneration

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

£'000s	2018	2017
Audit of the consolidated financial statements	117	100
Audit of subsidiaries	108	63
Total audit fees	225	163
Audit related assurance fees	77	61
Total assurance fees	302	224
Non-audit services	-	779
Total audit and non-audit related services	302	1,003

19. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group, consisting of Alfa Financial Software Holdings PLC and its subsidiaries.

A list of subsidiaries is contained in note 15(b). Alfa is a public company limited by shares and is incorporated and domiciled in England. Its shares are listed on the London Stock Exchange.

The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. Alfa's registration no. is 10711517.

These financial statements were authorised for issue by the Directors on 7 March 2019. All press releases, financial reports and other information are available on our website in the Investor Relations section at www.afasystems.com/investors

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

19 (a) Basis of preparation

Compliance with IFRS- The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS.

Prior to the admission of Alfa's shares on the main market of the London Stock Exchange on 1 June 2017 (the "Admission"), the Company obtained control of the entire share capital of Alfa Financial Software Group Limited ("AFSGL") via a share-for-share exchange. In substance, these consolidated financial statements reflect the continuation of the pre-existing Group previously headed by AFSGL, and the consolidated financial statements have been prepared applying the principles of predecessor accounting as this was a common control transaction and therefore outside the scope of IFRS 3 "Business Combinations".

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

Going-concern - The ability of the company to continue as a going-concern is contingent on the ongoing viability of the Group. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. There may be uncertainty in relation to operations, particularly over (a) the level of demand for the Group's software, and (b) the ability to retain existing customers. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group has sufficient cash reserves to operate for a period of not less than 12 months.

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the Directors considered it appropriate to adopt the going-concern basis of accounting in preparing its consolidated financial statements. Further information on cash and cash equivalents is given in note 9(c) to the consolidated financial statements.

New and amended standards adopted by the Group - The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9, 'Financial Instruments';
- IFRS 15, 'Revenue from Contracts with Customers';
- Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2;
- Annual Improvements 2014-2016 cycle; and
- Interpretation 22, 'Foreign Currency Transactions and Advance Consideration'.

Alfa has changed its accounting policies and made certain retrospective adjustments to the presentation of contract assets and liabilities following the adoption of IFRS 15. This is disclosed in note 3. The adoption of IFRS 15 has not had any impact on the amounts recognised in the prior period and is not expected to affect the current or future periods.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards, amendments and interpretations not yet adopted - The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but the Group has not early adopted them. Unless otherwise indicated in note 20, these publications are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019. This new standard supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

19(b) Principles of consolidation

The accounting policy and list of subsidiaries consolidated are contained in note 15(b).

19(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as disclosed in note 2.

19(d) foreign currency translation

- Functional currency - Items included in the consolidated financial statements of each of the Group's subsidiaries are measured using the currency deemed to be their functional currency. Significant subsidiaries are deemed to have a functional currency similar to the currency in which they operate. Certain smaller subsidiaries are deemed to be operating as an extension of the UK trading subsidiary, and therefore have a functional currency of pounds sterling.
- Presentation currency - The consolidated financial statements are presented in pounds sterling. Alfa's functional and presentation currency is pounds sterling.
- Foreign currency transactions - Transactions in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. The average annual rate for the US dollar used was 1.3355 in 2018 (2017: 1.2887). The closing rate for the US dollar used was 1.2736 in 2018 (2017: 1.3493).
- Group companies - the results and financial position of foreign operation's (none of which has the currency of a hyperinflationary economy) which have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
 - income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
 - all resulting exchange differences are recognised in other comprehensive income.

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

19(c) Revenue recognition

The accounting policies for the Group's revenue from contracts with customers are explained in note 3.

19(f) Income tax

The accounting policies for income tax and deferred tax are explained in note 8 and 10(d).

19(g) Leases

The accounting policy for operating leases is explained in note 14(b).

19(h) Impairment of assets

The accounting policy for impairment of long-lived assets is explained in note 10(b).

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

19(i) Cash and cash equivalents

The accounting policy for cash and cash equivalents is explained in note 9(c).

19(j) Trade receivables

The accounting policy for operating leases is explained in note 9(a).

19(k) Investments and other financial assets

The accounting policy for financial assets is explained in note 9.1.

Impairment of financial assets is explained in note 13(b).

19(l) Derivative financial instruments

The accounting policy for derivative financial instruments is explained in note 9(e). Hedge accounting has not been applied.

19(m) Property, plant and equipment

The accounting policy for property, plant and equipment is explained in note 10(a).

19(n) Goodwill and other intangible assets

The accounting policies for goodwill and other intangibles, including the amortisation methods and periods, are explained in notes 10(b) and 10(c) respectively.

Research and development which do not meet the criteria in 10(c) are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

19(o) Trade and other payables

The accounting policy for trade and other payables is explained in note 9(d).

19(p) Provisions

The accounting policy for provisions is explained in note 9(d).

19(q) Employee benefits

Short-term obligations - See accounting policy in note 5.1
 Long-term benefits - See accounting policy in note 5.1
 Pension obligations - See accounting policy in note 5.1
 Employee share scheme expense - See accounting policy in note 6

19(r) Equity

The accounting policies for ordinary shares and other reserves are explained in note 11.

19(s) Earnings per share

The accounting policies for basic, diluted and adjusted earnings per share are explained in note 17.

20. Changes in accounting policies

The Group has applied IFRS 15 using the modified retrospective method of adoption and there have been no resultant changes to the quantum of revenue recognised on application of IFRS 15, and no changes were required to retained earnings on adoption of the new standard on 1 January 2018.

Alfa has also voluntarily changed the presentation of certain amounts in the statement of financial position to reflect the terminology of IFRS 15. Contract assets recognised in relation to software implementation contracts were previously presented as part of trade and other receivables. Contract liabilities such as license amounts collected ahead of implementation completions were previously presented as deferred license amounts.

The Group has also applied IFRS 9 "Financial Instruments" from 1 January 2019 with no material impact.

21. Future changes in accounting policies in relation to standards not yet applied

Application of IFRS 16 "Leases" on 1 January 2019 - IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The statement of profit or loss will also be affected, because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, an operating expense will be replaced with interest and depreciation, so key metrics like EBIT will change.

Alfa has elected to apply IFRS 16, 'Leases', in accordance with the transition provisions in IFRS 16, in that the new rules will be adopted from 1 January 2019, with the cumulative effect of initially applying the new standard recognised on that date. Comparatives for the 2018 financial year will not therefore be restated.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4, 'Determining whether an Arrangement contains a Lease'.

Amended accounting policy for leases under IFRS 16

Alfa leases various properties and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 10 years, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by Alfa. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- o any lease payments made at or before the commencement date less any lease incentives received;
- o any initial direct costs; and
- o restoration costs.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Impact at 1 January 2019 - On 1 January 2019, Alfa will recognise lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities will be measured at the present value of the remaining lease payments, discounted using Alfa's assumed incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.0%.

The lease liability to be recognised at 1 January 2019 is expected to be £21.9 million. If the standard had been retrospectively applied as of 1 January 2018, lease liabilities of £11.6 million would have been recognised, as the London headquarters expanded during 2018 and therefore an additional lease liability was entered into.

The following sets out the impact on the statement of financial position at 1 January 2019:

	31 December 2018	Impact of IFRS 16	Adjusted 1 January 2019
Non-current assets			
Property plant and equipment	1,455	19,766	21,221
Other non-current assets	25,948	-	25,948
Total non-current assets	27,403	19,766	47,169
Current assets			
Total current assets	61,134	70	61,204
Total assets	88,537	19,836	108,373
Current liabilities			
Total current liabilities	15,470	(961)	14,509
Non-current liabilities			
IFRS 16 lease liability	-	21,943	21,943
Other non-current liabilities	152	-	152
Total non-current liabilities	152	21,943	22,095
Total liabilities	15,622	20,982	36,604
Shareholders' equity	72,915	(1,146)	71,769
Total liabilities and equity	88,537	19,836	108,373

Additionally, if IFRS 16 had been applied from 1 January 2018, it would have increased operating profit by £0.2 million and decreased profit before taxation by £0.4 million. Operating cash flows would have been higher by £1.7 million, since cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC ON THE PRELIMINARY ANNOUNCEMENT OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC

As the independent auditor of Alfa Financial Software Holdings PLC we are required by UK Listing Rule LR 9.7A.1(2)(R) to agree to the publication of Alfa Financial Software Holdings PLC's preliminary announcement statement of annual results for the period ended 31 December 2018.

The preliminary statement of annual results for the period ended 31 December 2018 includes disclosures required by the Listing Rules and any additional content such as highlights, the Chief Executive's review, financial review, narrative disclosures, management commentary and press release. We are not required to agree to the publication of presentations to analysts, trading statement, interim management statement or half-yearly financial report.

The directors of Alfa Financial Software Holdings PLC are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Alfa Financial Software Holdings PLC is complete and we signed our auditor's report on 7 March 2019. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

REVENUE RECOGNITION

Total group revenue recognised for the year ended 31 December 2018 was £71.0 million (2017: £87.8 million).

We have focused our work on the inappropriate recognition of revenue where there is:

- i) risk of incorrect allocation of the transaction price to the different performance obligations;
- ii) risk that revenue is misstated due to estimated days remaining to complete projects used in percentage of completion calculations; and
- iii) timing of recognition of out of period items, contract modifications and right to use licence revenues.

Given the level of judgement involved in the identification of distinct performance obligations, we identified this as a potential fraud risk area.

We consider the key judgements to be the estimation of the standalone selling price of a customised licence in the material right calculations, the allocation of time spent between development and implementation days and the specific judgements on items recognised as out of period adjustments.

Further details are included in the critical accounting estimates and judgements note 3.2 and revenue note 3.1 to the consolidated financial statements and the Audit Committee Report.

How the scope of our audit responded to the key audit matter

In response to this key audit matter, we performed the following procedures:

- Evaluated the design and implementation of controls regarding revenue recognition.
- Reviewed trends in monthly revenue recognised by customer to identify any large deviations from expectations.
- Reviewed a sample of new and ongoing contracts to test the completeness of relevant contractual terms identified in Management's technical analysis.
- Engaged in discussions with the project managers to check for completeness of contracts and other contractual arrangements outside the usual terms and/or any contract modifications.
- Tested the key inputs and mathematical accuracy of the percentage of completion calculations.
- Made enquiries of project managers by challenging their estimates of the projected costs to complete, including the allocation of effort between development and implementation performance obligations.
- Carried out a review of the historical budgeting accuracy of the allocation of development and implementation performance obligations.
- Considered the evidence available for standalone selling prices by reference to day rates offered to post go-live customers for consultancy services.
- We have reviewed a sample of accrued and deferred income and evaluated the impact on the financial statements.
- Reviewed the disclosures in the financial statements for: i) changes to revenue policies are clearly described and explained; ii) performance obligations are identified and explained, and iii) critical judgements and key sources of estimation uncertainty.

Key observations

We identified differences in judgement around estimates of standalone selling prices included within management's assessment of material rights and on the timing of recognition of items that relate to previous periods. On balance, we are satisfied that the balance is free from material misstatement.

CAPITALISATION OF DEVELOPMENT COSTS

The group expends time in research and product development work in relation to the enhancement of its product. In accordance with IAS 38: Intangible assets internally generated research and development costs can only qualify for capitalisation if the group can demonstrate all of the recognition criteria are met. The group considers the eligibility of development costs for capitalisation on a project by project basis.

There is a judgement over the point at which work moves from the research phase to the development phase and over whether development costs are creating an asset which is substantially new in functionality or design. Therefore, there is a risk that development costs are not capitalised for projects that create an enduring enhancement to the software capabilities available for sale to other customers.

Further details are included in the critical accounting estimates and judgements note 3.2 and operating profit note 4.1 to the consolidated financial statements and the Audit Committee Report.

How the scope of our audit responded to the key audit matter

In response to this key audit matter, we performed the following procedures:

- Evaluated design and implementation testing of the controls surrounding the classification of development costs and the assessment of these costs against IAS 38.
- Tested Management's assessment of the customisation and costs incurred on client specific costs, against the criteria set out in the accounting standard, to determine whether an asset is generated for future use with other customers and should be capitalised.
- Made enquiries of the development team as to the activities of both the client specific and the non-client specific costs and assessed whether the criteria for capitalisation as per IAS 38 have been met.
- Performed tests of details on the allocation and valuation of costs capitalised by testing both the associated 3rd party and employee salary costs.
- Reviewed both the numerical and narrative disclosures in the annual report to assess whether there is a fair and balanced presentation of the development costs incurred which is consistent with the accounting judgements applied.

Key observations

From the procedures performed, whilst we consider Management's assessment of those development costs that should be capitalised to be conservative, we are satisfied that the balance is free from material misstatement and that the associated disclosures are appropriate.

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

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Alfa Financial Software Holdings PLC we carried out the following procedures:

- checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;
- considered whether the information (including the management commentary) is consistent with other contents of the annual report;
- considered whether the financial information in the preliminary announcement is misstated;
- considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;
- where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:
 - the use, relevance and reliability of APMs has been explained;
 - the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
 - the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
 - comparatives have been included, and where the basis of calculation has changed over time this is explained.
- read the management commentary, any other narrative disclosures and any interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Richard Howe FCA (Senior Statutory Auditor)
 For and on behalf of Deloitte LLP
 Statutory Auditor
 London, UK
 7 March 2019

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 2017 Annual Report available on our website. Two additional risks have been added in 2018 which will be included in our 2018 Annual Report and are as below:

Principal risk and uncertainty	How it impacts us
Failure to increase market share in relation to large multi-national customers or to retain our existing customer base	<p>We may fail to optimally assess our market, technological changes, customer requirements, capacity needs and competitors' strategies, including launching disruptive technologies, and therefore not target market opportunities or fail to win new contracts.</p> <p>We may fail to effectively address the significant changes going on in the industry, e.g. price, flexibility of product or meeting increased requirements in relation to digital enablement.</p> <p>Our product may not develop sufficiently to meet these market opportunities or may fail to meet customer requirements or needs, or these developments could have delays or cost overruns impacting on our market position, revenue or returns on investment.</p> <p>Our response:</p> <p>We continue to expand our focused sales and marketing capability to effectively deliver new sales and expand our customer base. We have continued to focus on digital offerings as an additional value-add to both new and existing customers to increase our sales potential.</p> <p>We seek to identify new customers and to upgrade existing customers who would benefit from our new services.</p> <p>We have professional, experienced project teams who focus on large scale implementations and develop close relationships within the industries we serve. We are continuing to focus on expanding our partner network which will open up new sales channels and relationships. We critically review the commercial proposals made to new customers before we proceed and regularly assess our progress against the original sales proposal.</p> <p>We assess all product investment projects through a thorough review of business cases before we approve major development programs to ensure they meet our internal commercial targets and the requirements of the market.</p>
High customer concentration	<p>We have significant customer concentration risk due to the size of our software implementation projects, the duration of them and the relatively low percentage of recurring revenues from maintenance contracts. Three customers each account for more than 10% of revenue, contributing 44% of our 2018 revenue, and ten customers account for 77% of our revenue in 2018.</p> <p>Our response:</p> <p>We continue to aim for alignment of key contractual terms across all new contracts which are designed to provide protection where possible against paused or terminated contracts.</p> <p>We ensure that the Group is financially robust and resilient to economic downturns or project pauses by retaining cash reserves and collecting</p>

maintenance and license revenues in advance.

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

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 2018. Certain parts thereof are not included within this preliminary announcement.

The Directors confirm that to the best of their knowledge:

- the consolidated financial statements, from which the condensed financial information within this preliminary announcement have been extracted, are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the asset, 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, from which the CEO review and Financial Review within this preliminary announcement have been extracted, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of Alfa Financial Software Holdings PLC and their respective responsibilities are listed in the 2017 Annual Report. This responsibility statement was approved by the Board of Directors and is signed on behalf of the Board by:

Andrew Denton
Chief Executive Officer
7 March 2019

Vivienne Maclachlan
Chief Financial Officer
7 March 2019

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