Protecting your digital life

Avast annual report 2018

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We delivered growth and high profitability

Adjusted Billings[1]
$846.7m
+8.6%[2]

Adjusted Revenue[1]
$811.5m
+8.3%[2]

Adjusted EBITDA
$447.7m
+6.7%

Adjusted Net Income
$270.8m
+6.2%

Unlevered Free Cash Flow
$394.0m
+14.0%

Net Debt/LTM Adjusted Cash EBITDA
2.4x

1 Excluding Discontinued Business.
2 Excluding FX and Discontinued Business.

Statutory Revenue
$808.3m
+23.8%

Statutory Net Income
$241.2m
+Fav%[3]

3 "Fav" in change % represents a favourable growth rate figure over 100 per cent.

Note: To enable a better understanding of the business performance, this report contains certain alternative performance measures not defined under IFRS. The items are more fully explained in the section Presentation of Results and Definitions.

Keeping people safe and private online is what we do

Faster connections, mobile apps, online services and the growth of connected homes mean the internet is increasingly central to our lives. However, most consumers are not technology experts and they don't always look after their devices... until something goes wrong.

That's why improving the safety and quality of digital lives is such an important job. At Avast, our products are designed to deliver industry-leading consumer security, privacy and performance to more than 435 million users globally.

To find out how this works, see our business model description 16 >

Introducing Avast

Avast is one of the world's largest consumer cybersecurity companies

435m+

users worldwide[1]

Avast protects

35%

of the world's PCs outside China[2]

68

countries have

1m

or more Avast users

1 User is defined as a unique device that has one or more Avast free or paid products installed and has been in contact with our servers in the last 30 days.

2 Source: based on Company products on PCs globally and Gartner Research for number of PC customers by total PC penetration outside China, "Forecast: PCs, Ultramobiles and Mobile Phones, Worldwide, 2016-2022, 4Q 18 Update" published by Gartner, 20 December 2018.

Our strong investment in R&D results in award-winning products

Industry leading, independent testers choose us for product excellence.

50% of our employees are in research and development roles contributing to the strength of our products.

Avast was recognised in the PwC 2018 Global Innovation 1000 Report for its high level of R&D investment

We reach our global market through highly recognised product brands:

Introducing Avast

We have delivered on our financial commitments

We fully delivered on FY18 guidance of high single-digit revenue growth and increased EBITDA margin percentage

£2.4bn
flotation valuation

The largest software IPO in the history of the London Stock Exchange[4]

1 Excluding Discontinued Business.
2 Excluding FX and Discontinued Business.
3 Adjusted EBITDA divided by Adjusted Revenue including Discontinued Business.
4 Source: Dealogic.

We are the most profitable publicly traded software company[1]

A profitable platform model

Our platform strategy underpins our sustainable growth. We make money by up-selling and cross-selling our Avast, AVG and CCleaner paid products and services to our massive free user base.

Cleaning

Improve performance

VPN

Increase privacy

Free antivirus

Expand protection

Smart home

Industry-leading margins[1], strong and predictable cash flow and a robust balance sheet

Subscription model drives high revenue visibility.

User acquisition, support and servicing are low

A high level of automation ensures efficiencies.

1 Study presented to Company by external financial adviser in February 2019 comparing expected 2019 EBITDA margins of 87 publicly traded software companies using market data and consensus estimates as at 22 February 2019.

Introducing Avast

Our global user base and next generation technology gives us a competitive advantage

Huge amounts of threat data are needed to successfully identify vulnerabilities and anticipate focused attacks that could otherwise be missed. We use 'next-generation' machine learning and artificial intelligence to process our data at lightning speed to protect all of our users in real-time once a new threat is detected.

In addition to the requirement for such a considerable amount of data being an obstacle for new entrants, building a profitable distribution model to consumers is even more difficult. This is why so few others are successful in our market. A massive user base is a significant, sustainable competitive advantage for Avast.

We protect millions of users from billions of attacks

To find out how we do this, see section on our technology 28 ›

Number of websites scanned each month	Monthly attacks prevented by Avast
200bn	1.5bn

Attracting more users with stronger protection

User base

435m+

global active users of our security, privacy and performance products.

Support

2¢ per year

service cost for each PC user

The reach of our free products has given us a large base of potential customers to target via cross-selling and up-selling.

More users

More security data

More trust

More demand

Best Antivirus

#1

brand and Editor's Choice

Avast is highly regarded among influential personal technology experts; we are consistently one of the most recommended antivirus brands.

Machine learning

Each month, we analyse:

200bn URLs

300m new files

Chairman's statement

Your Board is committed to ensuring an attractive return on investment

Dear Shareholder

It is a pleasure to introduce Avast's first annual report, following the Group's entry to the public markets in May 2018.

Our stock market debut in London was one of the largest from the technology sector in 2018 and attracted global institutional investors to our shareholder base. The confidence shown in Avast by new and existing shareholders alike has been very gratifying.

Avast made its debut by developing the first antivirus programmes in order to guard data and personal computer security. The Company has grown into a global enterprise that helps protect the digital experience of over 435 million users worldwide, always striving for excellence with the customer as the focus of our endeavour.

Since the IPO, the Executive Team, led by CEO Vince Steckler and President, Consumer, Ondrej Vlcek, has been executing on the strategy presented to investors, producing innovative products, ensuring operational predictability and making continuous improvement across the business. This dedication has resulted in another year of strong growth and profitability, and further consolidated Avast's leadership position in cybersecurity.

"Our stock market debut in London was one of the largest from the technology sector in 2018 and attracted global institutional investors."

John Schwarz
Chairman of the Board

Dividend

8.6 US cents per share

For the post-IPO period 15 May 2018 to 31 December 2018

Governance

As part of the IPO process, our governance structure has evolved to meet the needs of a public company. In preparation for working under the UK Corporate Governance Code, we established an Audit and Risk Committee, a Nomination Committee, a Remuneration Committee and a Disclosure Committee. The effective running of the Group is enhanced by the wealth of experience, diversity and expertise of its members, and we are continuing to strengthen the Board by appointing new independent directors. We were pleased to welcome Belinda Richards, formerly a senior corporate finance partner at Deloitte LLP, as a new independent Non-Executive director in June 2018.

Two additional independent directors have since been appointed in 2019, Maggie Chan Jones, formerly CMO of SAP, and Tamara Minick-Scokalo, formerly President, Growth Markets at Pearson plc.

Capital structure

The Board is committed to ensuring attractive returns on the investment of capital. The Group has a strong balance sheet and has excellent and predictable free cash flow generation. With a clear strategy for sustainable and profitable growth, the Board will continually stress core business growth, targeting new adjacent markets by value-enhancing acquisitions and a focus on shareholder returns.

Shareholder returns

In accordance with the policy affirmed at IPO to make dividend payments of approximately 40 percent of levered free cash flow, the Board recommends a maiden dividend of 8.6 cents per share, to cover the period since listing on 15 May 2018 to the end of the financial year 2018. This is expected to be paid in June following receipt of approval at our Annual General Meeting, to be held in May 2019. In future years, dividend payments will be made on an approximate one-third: two-thirds split for interim and final dividends respectively.

Thank you

I would like to thank our employees for their innovation, customer focus and loyalty. The success of any technology business is dependent on the commitment of its people. It is also thanks to the backing of our employees that the Avast Foundation is able to actively support beneficial causes around the world.

During the year, we launched a new Share Matching Plan that offers employees the opportunity to participate in Avast's success going forward. It has been very well received.

I take this opportunity also to thank Vince Steckler, who after 10 successful years as our CEO, has decided to retire effective 30 June 2019. He leaves behind a company that is immeasurably stronger than the one he joined. Ondrej Vlcek, the Board's unanimous choice to succeed Mr. Steckler and a member of our executive team for many years, will be taking on a business that is positioned well for continued success.

Looking forward

As we continue our growth into new and existing markets, I am confident we will continue to create value and opportunity for all of our stakeholders, including customers, partners, shareholders and employees. Avast operates in attractive markets and benefits from a unique business model, a proven ability to innovate and a dynamic management team.

I look forward to the next stage of our journey.

John Schwarz
Chairman of the Board

We operate globally, in large and attractive business markets

Consumer direct

The foundation of our success is a strong direct-to-consumer brand and business, where users pay us for our products.

Consumer indirect

Our indirect consumer business, where partners pay us for distribution and access to our user base, continues to grow as people spend more time online. We have also extended our market reach through a healthy ecosystem of partners, such as mobile carriers, that take our solutions to market.

Small to mid-size business

We sell to businesses directly online, and via our channel partner networks. Growth is stable on endpoint (device) protection, while network security is on the cusp of a large-scale transition from on-premise equipment to more convenient and flexible Software-as-a-Service (SaaS), cloud-based solutions.

Our core addressable market segments of consumer security, SMB security and analytics are expected to grow to over $21 billion by 2021.[1,2]

$21.3bn

$14.6bn

~10%
Compound annual growth rate (CAGR)

Consumer direct[1]

~7%
CAGR

Consumer indirect[2]

~11%
CAGR

Small to mid-size business[2]

~15%
CAGR

1 Source: Gartner Research, "Forecast: Information Security and Risk Management, Worldwide, 2016-2022, 3Q18 Update."
2 Source: Company Market Study, 2018.

Markets & threat landscape

Lives lived increasingly online carry greater security and privacy risks

Our offline and digital lives are coalescing: routine activities like shopping, banking, chatting with friends, accessing news or entertainment, working and learning are all increasingly conducted online.

This expanding and ever-changing online ecosystem makes it extremely difficult to keep people safe while they are using the internet.

Consumers are monitored and tracked as they use the internet, compromising privacy as never before. Hacks and mass privacy breaches are becoming more common as attackers grow more sophisticated and more personal data is stored online. Just in the last twelve months, privacy and security breaches have become a common news item, and many people are now very worried about these issues.

> "Threats are becoming more sophisticated and damaging."
>
> Jiri Bracek
> Vice President, Threat Labs

People are increasingly concerned about cybercrime

Growth in ransomware, identity theft, and socially engineered malware like phishing attacks is becoming a top of mind concern. Consumers reported worrying more about digital crimes such as identity theft and online financial hacking compared to physical crimes such as car theft, home burglary and terrorism.

The scale and magnitude of cybercrime is increasing

Avast is now blocking over 1.5 billion malware attacks each month across our network of hundreds of millions of connected users. Cybercriminal earnings through ransomware attacks have been on the rise over the last five years, although disruption rather than profit is sometimes the motivation behind some of these attacks.

Businesses are worried too

In the small business world, Avast research[1] found SMBs are very worried about cybercrime. As cybercrime becomes more sophisticated and prevalent, this is likely to increase.

Top security concerns amongst SMBs

- Malware, spyware and ransomware
- Corporate data security and data theft
- Password hacks
- Wi-Fi Security

1 Source: Company study with SMB user base, 2018.

Smart Home technology is red-hot, and so are the risks

"Mobile carriers are asking for Internet of Things solutions to keep their subscribers safe."

Leena Elias
Vice President, Product Delivery

There are currently over 600 million connected devices across 90 million smart homes; these numbers are expected to roughly triple to over 1.8 billion devices across 250 million homes by 2021.[1,2]

From smart speakers and entertainment systems to a wide range of connected home safety products such as video doorbells, security cameras, smoke detectors, and baby monitors, in 2019, most newly-purchased household devices can be connected to the internet in some way.

Solutions for IoT security are starting to be available through channels including carrier and retail, as well as direct to consumers.

40%

of smart homes worldwide contain at least one vulnerable device[3]

60%

of routers worldwide have security issues[3]

1 Source: ABI Research, Internet of Everything Market Tracker, Q3 2018.
2 Source: ABI Research, Smart Home Systems Q3 2018.
3 Source: Avast Smart Home Report, February 2019.

The threat landscape is becoming more complex

Five key trends will impact users in 2019:

1. The sophistication and platformification of malware: hackers are designing self-defending malware, especially in IoT, to operate for longer. This malware acts as a platform used to launch other attacks, rather than causing the harm itself.
2. Hijacking PCs to generate cryptocurrency: with CoinHive going out of business, coin mining persists through misuse of legitimate mining apps. It is possible threat actors will tweak the code to build the infrastructure to replace CoinHive but likely on a smaller scale and without legitimate users.
3. More mobile malware: mobile Banking Trojans rose 150% in 2018 and account for 7% of all mobile malware. Aggressive ad-based malware rose by 49 percent and fake apps rose by 24 percent[4].
4. Devices targeted at point of manufacture: consumer electronics devices are being infected within the supply chain, during manufacturing and shipment, as most recently happened to the compromised automated ASUS Live Updater system. Hackers exploit vulnerable devices, as the market for them is highly cost sensitive, leading to insufficient investment in security controls.
5. The bad guys use artificial intelligence too: we are researching this new class of threat where bad hackers use Artificial Intelligence within their malware, giving it the ability to adapt and evade existing controls and detection mechanisms.

4 Source: Avast Threat Landscape Report, January 2019.

Business model

We offer our customers protection, performance and privacy

Protection

Our protection products range from our flagship Avast Free Antivirus through to our full-featured subscription security suites for PC, Mac, Android and iOS devices. Family safety and smart home (Internet of Things or IoT) security are emerging services within our protection portfolio.

Our flagship security product won several prestigious awards in 2018 including 'Product of the Year' from AV Comparatives, PCMag Editor's Choice in the U.S., and a Which? Best Buy recommendation in the UK.

Our small to mid-size business portfolio for end users and channel partners offers a range of layered security network and endpoint protection products. Industry analyst Frost & Sullivan recognised Avast Business with its 'Global Endpoint Management Growth Excellence Leadership Award' in 2018.

Performance

The average age of a PC today is six years old[1], so the need to improve performance on these devices is growing. Our performance products clean waste data off devices to keep them running like new. Our product line-up is led by Avast's popular Avast Cleanup for PCs and Macs, which also includes a mobile version for Android phones and tablets. Our CCleaner brand is also a favourite among users, and generates strong customer loyalty.

Privacy

We offer products including Avast AntiTrack, Avast SecureLine VPN (Virtual Private Network) and Avast Secure Browser.

Our products are cross-platform, working on PCs, Macs, smartphones (Android and iPhone) and tablets to meet the needs of our users.

Launching AntiTrack for Avast and AVG

1 year

2 brands

22 countries

- **5.6 billion** cleaned trackers
- **412k+** paying customers and growing

New products for 2018

Avast Secure Browser

Sets a new benchmark for providing a private, fast and safe browsing experience to all users.

Avast Mobile Security

iPhone app which provides a range of data and identity protection tools to keep users safe and private on their Apple products.

AVG Secure VPN

Dedicated Virtual Private Network product provided to AVG users through our cross-sell channel.

1 Source: Avast PC Trends Report 2019.

We generate revenues in three different ways

Consumer Direct

Customers pay us directly for a product

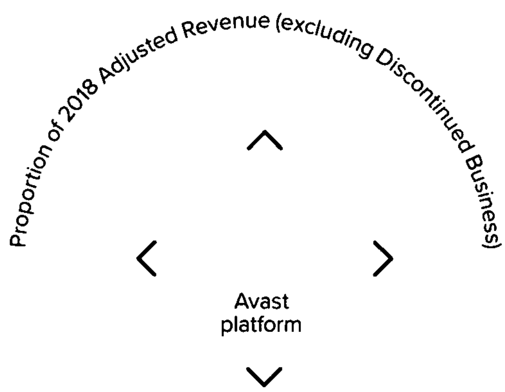
Consumer Indirect

Partners pay us for distribution and access to our user base

+

Small to mid-size business

Business customers either pay us directly for a product, or buy from one of our partners



Business model

Our platform model has revolutionised the industry

Our platform model is simple: high-quality products offered to customers for free create a massive user base, from which we're able to generate revenues in multiple ways.

Consumer Direct

What we do

We offer free and paid-for consumer PC and mobile antivirus security software under the Avast and AVG brands. Our products secure not just our users' devices, but also their data, networks, homes and families.

We also offer applications for PCs and mobile devices that enhance performance and improve privacy under the Avast, AVG and CCleaner brands.

The rapid growth of connected devices, the 'Internet of Things', has created new privacy and security threats, which we have developed products to address.

How we do it

Our antivirus solutions use artificial intelligence and machine learning to conduct behavioural analysis of threats, and improve detection abilities.

In using our products, our users send back a continuous stream of anonymised threat data such as attempted attacks. This means that our software automatically becomes more and more capable of detecting and stopping those threats.

How we make money

1 Convincing users of our free antivirus software to pay for advanced features

2 'Up-selling' existing paying customers a higher tier of paid software, or 'cross-selling' other products, like Virtual Private Network (VPN) access or PC optimisation tools

3 Selling subscriptions directly to consumers through app stores and the Avast website

Building up revenue is significantly easier with a large, growing user base, which we can target with up-selling and cross-selling campaigns.

Our strengths

More than 50% of our employees work in research and development, focusing on improving our products.

An important outcome of that investment is that our users, industry product test organisations, and specialist and generalist press frequently recommend our software, which consistently outranks the competition.

Consumer Indirect

What we do

Our platform is attractive to partners who want to reach our users; in consumer indirect, we make money without direct payment from our product users. Products and services include secure web browsing, distribution of third party software, an e-commerce tool, analytics, and mobile advertising.

How we do it

Avast Secure Browser helps users to stay safe online and achieve better control of their personal online footprint.

Through our partnership with Google, we distribute the Chrome browser to our user base.

Our analytics business uses anonymised and aggregated user data to offer our partners insights into wider consumer behaviour.

How we make money

When users search using Avast Secure Browser, we earn a share of the advertising revenue generated by that user.

Third-party software is distributed to our user base in exchange for a small payment.

Our strengths

As with our other revenue streams, the key is our broad reach, based on a massive global user base that trusts Avast to keep them secure. Access to this user base is an attractive proposition for our carefully-vetted partners.

As more people use their mobile devices to do more online, our mobile platform allows us to target users with products and services that are meaningful and useful to each user.

SMB

What we do

Our endpoint security solutions protect small to mid-sized businesses (SMBs).

Our network security solutions protect corporate networks against the most advanced threats.

All our SMB solutions can be managed either on a client's premises or remotely.

How we do it

We are moving towards a unified, cloud-based solution for our security services. Both endpoint (i.e. access from remote or wireless devices) and network security capabilities are integrated. This means we can meet increasingly complex security demands, in a cost-effective way.

Avast Cloud Secure Web Gateway and Secure Internet Gateway are new products. We have been trialling these with our partners, following our April 2018 agreement with Zscaler to sell integrated, 'white-label' network security services.

We work with many types of partners; including licence resellers, distributors, value added resellers (VARs), Managed Security Partners (MSPs), and strategic manufacturers.

How we make money

We sell premium paid products for businesses through partners that support SMBs, and our own website.

Our unified endpoint and network security solution means we can target larger firms, and increase our total addressable market.

Our strengths

Our antivirus endpoint platform is well-known and respected in the security industry. Our reach means that we are able to collect more data than our competitors, and so our software improves at a faster rate.

By making the most of this strength, and by introducing tailored applications and our Unified Threat Management cloud-based solution, we can protect our customers' corporate networks.

Company 2018 milestones

A milestone year...

Strong full-year financial and operating performance

Adjusted Billings[1]

$846.7m

+8.6%[2]

Adjusted Revenue[1]

$811.5m

+8.3%[2]

1 Excluding Discontinued Business.

2 Excluding FX and Discontinued Business.

Good growth in desktop operational KPIs

Average Products Per Customer (APPC)

1.40[1]

+6.0%

Number of desktop customers

12.19m[2]

+7.2%

Average Revenue Per Customer (ARPC)

$49.24[3]

+8.6%

1 APPC defined as the Consumer Direct Desktop simple average valid licences or subscriptions for the financial period presented divided by the simple average number of Customers during the same period.

2 Desktop customers who have at least one valid paid Consumer Direct Desktop subscription (or licence) at the end of the period.

3 ARPC defined as the Consumer Direct Desktop revenue for the financial period divided by the simple average number of Customers during the same period.

...creating momentum in our business

Strength in up-sell and cross-sell
driven by Avast's sophisticated consumer monetisation platform and 435m+ global user base.

435m+
global user base

Launch of three new integrated family safety products
with mobile carrier partners Verizon, AT&T and Wind.

Admission to the Main Market of the London Stock Exchange and entry into the FTSE 250

LSE
FTSE

Expansion of the Group's product portfolio
with successful launch under both Avast and AVG brands of Secure Browser, AntiTrack and Driver Updater, plus release of AVG Secure VPN.

Strong execution on our localisation strategy

Consumer desktop year-on-year customer growth

Russia
+23%

Japan
+56%

Argentina
+22%

Mexico
+17%

New consumer desktop customers in 2018
+823,000

Development of Smart Home initiative well advanced
with launch of first carrier solution planned for around H1 2019.

CEO's strategic review

Thirty years of keeping people's digital lives safe and private

Vince Steckler
Chief Executive Officer

"2018 was a milestone year for Avast."

Founded in 1988, Avast's mission is to create a world that is safe and private for everyone, no matter who they are, where they are based or how they connect.

In May, Avast became a public company. Following our maiden half-year earnings, we were admitted to the FTSE 250. By end of year, we delivered on our stated objectives for growth in revenue and number of customers.

Key 2018 achievements

Product releases

We released innovative products like our Avast Smart Life platform, which allows our carrier partners to offer their subscribers security for their connected devices; privacy products including Avast AntiTrack; and the latest update to our core antivirus Avast and AVG products.

Performance

Over 12 million people are now paying for our PC products, reaching 12.19 million by end of year, demonstrating that our platform model is a sustainable foundation for our business. Average revenue and average number of products per customer grew 8.6% and 6%, respectively.

Carrier partnerships

We signed partnerships with European carriers Vodafone Czech Republic and Wind Italy to deliver our family safety and parental controls app to customers. With mobile devices increasingly popular in the homes of consumers today, we support our carrier partners in offering compelling security services to their subscribers.

An evolving threat landscape

2018 was notable for the number of high-profile data breaches that came to light. Big brands affected by high-profile data breaches this year included Marriott, Twitter, Facebook, British Airways and Quora. Clearly, no one is immune, and digital security has become a hot topic and major concern for businesses and consumers alike.

We are adding customers, launching new products and expanding into different markets

Our approach

We built our reputation on having the best antivirus solution, free or paid. Today, we continue to innovate in this space, even as we lead the market with our established products.

We have one of the largest user bases globally of any security company with over 435 million users. Our strength in antivirus has enabled us to develop a platform model that supports the diversification and delivery of our products and services into new areas including e-commerce, browsing, advertising and distribution, and analytics.

We're also continuing to grow and evolve our performance and privacy offerings. For 2019, our plan is to expand our product portfolio further, cementing our customers' loyalty, while increasing engagement.

1 Extend platform model

Offering our customers valuable new services and premium products in a smart way

Today, the average person spends around six hours a day online across a range of devices. In today's digital world, internet security is no longer optional and we are committed to providing it to our growing user base. We have 30 years of success in delivering frictionless, intuitive protection across multiple devices and technology platforms that simply works.

Our business model drives revenue growth through a cost-efficient delivery approach using viral distribution to build our massive user base. Our leading consumer platform offers premium products to this user base through the Avast, AVG and CCleaner brands. We have refined our contextual messaging to deliver highly relevant offers at the point of engagement. As a result, we have measured adoption rates that are up to 46% more effective than traditional campaigns.

This has been a busy and innovative year for Avast. We launched:

- The Avast and AVG Secure Browsers. These meaningfully expand the reach of our platform, offering users a free product that bolsters our brand messaging on security and privacy.
- Several innovative subscription protection products: anti-phishing protection, a sensitive data shield, and a 'Do Not Disturb' mode.
- Premium products Avast and AVG AntiTrack. These help our users manage tracking cookies for improved online privacy.

We also fine-tuned our cross-selling approach by targeting certain users with messaging around our performance utility and VPN products.

In 2019, we will continue to broaden our product range. We will also look to promote products that address the pressing safety and privacy concerns now at the forefront of many people's minds, following recent well-publicised security incidents.

Smart home spending is forecast to grow by 21% through 2021[1]

Games console

Smart TV

Security cameras

Digital set-top boxes

Refrigerator

2018
$65bn

2021
$116bn

2 Expand layered security

Extending security beyond multiple platforms and devices to the network is becoming critical

The explosion in the number of Internet of Things (IoT) devices opens up new opportunities for bad actors. To close these down, we aim to extend security across platforms, across multiple devices, including home routers, and onto the network. This is what we call 'layered security'.

We already have a robust portfolio of products that can provide such security, and we are also working hard on our IoT security portfolio as consumers become more aware of the implications of constant connectivity.

IoT devices are hard to secure and ABI Research has projected 34.9 billion of them will be installed in homes and businesses by 2021[2]. Consumers are typically upgrading to 'smart' versions of current entertainment, home automation and security devices they already own, like TVs, doorbells and thermostats, digital set-top boxes, games consoles, and other common household goods. ABI also forecasts that consumer spending on Smart Home will rise from $65 billion in 2018 to $116 billion by 2021, a CAGR of 21.9%[3]. Avast is already solving the challenges of securing IoT devices through our Smart Life platform and services available to carriers.

We also plan to do more of the heavy-duty work of security processing in the cloud, providing a lightweight security product that provides greater protection without impairing performance. This will further refine our core products and enhance our detection engine capabilities, building out our machine learning and AI technology capabilities to underpin our layered security delivery.

3 New market adaptation

Avast developed its "Go Local" programme to expand our products and services internationally by thinking locally.

Avast developed its "Go Local" programme to deepen its presence in existing markets and expand to new territories by customising the experience to local habits and preferences. We are targeting increased penetration in underserved territories around the globe and see significant opportunity for penetration uplift in both the developed non-English speaking world, as well as emerging markets.

Our adaptive model considers the market forces of any single country including brand preference, key user behaviours, payment options and cultural dynamics. This approach to localise rather than apply a 'one size fits all' model has helped us to effectively position our brand and capture sizeable opportunity in large growth economies like Brazil and Russia, and developed markets such as Japan.

1 Source: ABI, "Smart Home Systems, Q3 2018".
2 ABI Research, "Internet of Everything Market Tracker, 2019 Q1".
3 ABI Research, "Smart Home Systems, Q3 2018".

CEO's strategic review

4 Make new partnerships

We partner with mobile carriers to improve their customers' security.

We hold a leading position in the mobile market, being established with the leading US carriers over many years. We further enhanced our position by announcing partnerships with Vodafone Czech Republic and Wind Italy to deliver our family safety and parental controls app. Our studies[1] indicate the carrier market to be worth $866 million across 220 markets and more than 300 carriers.

5 Grow by acquisition

Making the most of the right opportunities.

M&A activity can enable scale, access to new users, new products and technologies.

In 2018, we completed the integration of the AVG Technologies and Piriform acquisitions from 2016 and 2017 respectively. These provided more products on the Avast e-commerce platform and enabled us to grow average revenue and average product per customer through better pricing and cross-selling. We also acquired a mobile development team, InLoopX, to support our ambitious growth plans in mobile.

1 Source: Company Market Study as of November 2016. Market is defined as unique combination of country and carrier.

Challenges

This year, we have been hard at work integrating the SMB business that was formerly part of AVG. As anticipated, the integration process resulted in a minor negative impact on the division's financial performance, but substantial progress has been made and we enter 2019 with a clear vision of the future.

For 2019, we will launch two major new small to mid-size business products: Secure Web Gateway and Secure Internet Gateway. These have been developed to deliver unified threat management for next generation cloud security. These will be the some of the first in the industry specifically developed for SMBs.

In mobile, the loss of the Sprint contract in 2017 negatively impacted our revenues. Wins in 2018 for four integrated family safety products with our mobile carrier partners, Verizon, AT&T, Vodafone and Wind, partially offset this impact. We anticipate a similar dynamic in 2019 as the Sprint contract winds down and the new products ramp up.

Our future

Having delivered on the promise we made at the time of IPO and demonstrated continued high single-digit revenue growth in 2018, I am confident that 2019 will also be another strong year for Avast. The explosion of IoT devices, growing bandwidth and the increasing sophistication of attacks, means Avast has never been more relevant and needed.

I take this opportunity to wish Ondrej Vlcek, my successor, all the best when he takes over on 1 July 2019. In addition, I personally want to thank all of the Avast employees who made this year a success, and our loyal customers and partners without whom we would not be where we are today.

Vince Steckler
CEO, Avast

> "Thanks to all Avast employees who made this year a success."

Vince Steckler
CEO, Avast

Our sophisticated technology gives us the edge over attackers, and sets us apart from the competition

1988

Avast was founded 30 years ago at the Research Institute for Mathematical Machines in Prague where founders Pavel Baudis and Eduard Kucera worked together. Out of curiosity, Pavel disassembled the Vienna virus, which another colleague gave him on a floppy disk, and subsequently developed a general antivirus programme that would check the integrity of the computer system.

Today

Today, the technology underpinning our products and services is now highly complex. While we have expanded into many new areas, our pioneering, technology-led ethos remains the same.

"We did not realise then, the adventure that we had set out on."

Pavel Baudis and Eduard Kucera
Founders

Unparalleled innovation

Avast attracts some of the smartest cybersecurity experts in the industry who have built an intelligent threat detection network unmatched by our competition. They have contributed to our growing patent portfolio across five key competitive areas:

- Malware Detection and Blocking
- AI and Machine Learning
- Internet of Things
- Device Optimisation and Cleaning
- Location Technologies

Our technology is a crucial competitive advantage

For three decades, we have been developing an ever more sophisticated, market-leading cybersecurity platform, built on five key components:

Our global user base

provides the big data that gives us the leading edge in the fight against cybercriminals

AI and machine learning technologies at scale

process our data in near real-time to gain insights for detecting new and evolving threats

A robust protection engine

comprised of multiple layers of defence keeps our users safe

A large scale operational cloud infrastructure

supports the scale, speed, and sophistication of a world-class threat research and threat labs operation

A dedicated team

focused on delivering market leading IoT and network security

More information on our use of AI is explained on the following pages

Our technology

Artificial intelligence at scale

Machine learning and artificial intelligence rely on a huge amount of high quality data.

At Avast, these smart tools sift through 390 terabytes of threat data collected from our massive user base. We extract over 500 features from each file and run a clustering algorithm to put these files in order.

We prevent 1.5 billion malware attacks against our users every month by checking 300 million files and 200 billion web addresses. In the last two years, we protected our users from some of the highest impact attacks that have ever occurred including the infamous WannaCry ransomware attack, and other major ransomware exploits such as NotPetya and BadRabbit, the Adylkuzz crypto-mining attacks, and banking trojan Emotet, which was the subject of a United States government security alert.

Sophisticated threat prevention requires multiple machine learning engines that work hand-in-hand to defend against attacks. The engines run both in the cloud and on device, using a variety of analysis techniques, and are deployed across our six layers of defense.

The combination of next-gen security technology and the data from our massive user base give us a clear advantage against cybercriminals.

As the demand on our products expands from both our massive user base and the constant march of new threats, so our technology has to adapt. We constantly feed our machine learning engines with real-time threat information to ensure previously unknown "zero day" detection that blocks threats before they can do any harm.

Malware protection: six layers of defence

MACHINE LEARNING
CLOUD

1 Web Shield

processes all web traffic, using algorithms to analyse URLs and protect against phishing, malware and other web-borne attacks.

2 Static Scanner

analyses all executable code prior to it running, using techniques including PE structure analysis, linker analysis, unpacking/de-obfuscation, and similarity, fuzzy, and algorithmic matching. This classifies a file as benign or malicious.

3 Emulators

simulates the environment of a real PC before letting new scripts and files have full access to users' systems. This means we can detect and prevent against previously unknown "zero-day" malware, new variants of known malware, and software vulnerability exploits.

4 DeepScreen

uses machine learning algorithms to identify similarities with known malware families in an isolated 'sandbox' clone of the underlying operating system.

5 CyberCapture

prevents the rarest and most sophisticated malware from infiltrating a user's system. It submits unusual and potentially malicious files to a cloud-based "clean-room" environment for analysis using advanced algorithms. CyberCapture processes over 20,000 such unique files every day.

6 Behavior Shield

this monitors the system for suspicious activities and unusual behaviour while programs are running and stops activity evaluated as malicious before it does any harm. This layer was instrumental in stopping WannaCry in 2017.

We battle adversarial artificial intelligence

Avast is investing heavily in developing artificial intelligence (AI) algorithms to combat the forces of adversarial AI – that is, where our AI algorithms are likely to go up against AI algorithms whose goal is to do harm.

We have learned a great deal in recent years, and our products have benefitted. In the future, we anticipate that cybersecurity will essentially be 'AI versus AI', and the winner will be the party with more advanced algorithms, based on better data sets.

"The problem we face today is that the bad guys have AI too."

Ondrej Vlcek
President, Consumer

"AI enables us to detect and stop threats in real-time."

Monika Seidlova
Threat Labs Researcher

Large-scale cloud infrastructure

Avast boasts one of the world's largest AI-based cloud infrastructures dedicated to security, with approximately 10,000 servers across the globe processing up to 60 million connections simultaneously.

Our infrastructure means that we can rapidly consume and analyse massive amounts of data. Operating at this scale and speed gives us insight into, and the ability to mitigate, threats as soon as they appear.

10,000 servers
serving as a global threat detection network

up to 60 million concurrent connections

50 petabytes of data transmitted

205 gigabits/second peak download speed

265,000 simultaneous VPN connections

2.5 trillion URLs
analysed per year

Threat intelligence research

Our threat intelligence team tracks global threats in real time: analysing new malware; excavating the 'dark web' where cybercriminals trade tools, techniques and stolen data; and identifying attackers' new methods and capabilities.

Some of the leading research from Avast Threat Labs last year included:

- WannaCry: this was the biggest ransomware attack in history, in which Avast detected and blocked 176 million WannaCry infections across 217 countries. In March 2018, Avast identified the ongoing prevalence of the worm, blocking 54 million WannaCry attacks and discovering that nearly one-third of Windows PCs globally are still running with the EternalBlue vulnerability, which WannaCry exploits in order to spread.
- Torii: Avast was the first to share in-depth research on this highly sophisticated and adaptable IoT botnet which appeared in September 2018.
- Cosiloon: in May 2018, Avast partnered with Google to identify and take steps to address the Cosiloon malware we discovered pre-installed on several hundred different Android device models and versions, affecting tens of thousands of new handsets from well-known manufacturers straight out of the box.

CFO's review

A good financial performance in line with expectations

"The Group has achieved good growth and maintained high levels of profitability."

Phil Marshall
Chief Financial Officer

Group Overview

Excluding Discontinued Business[1], the Group's Adjusted Billings increased by $73.9m to $846.7m 1m in the year ended 31 December 2018, driven by the core Consumer Desktop business. This represented an 8.6% increase excluding FX[2] or 9.6% in actual rates. The Group's Adjusted Billings including Discontinued Business increased by $50.8m to $862.1m. This represented a 5.3% increase excluding FX or 6.3% in actual rates. As previously guided, Adjusted Billings in each of the third and fourth quarters delivered a growth trend similar to the first half overall. Subscription billings represented 85.0% of the Group's total Adjusted Billings in FY 2018 (83.1% in FY 2017).

Excluding Discontinued Business, the Group's Adjusted Revenue increased by $70.5m to $811.5m in the year ended 31 December 2018, benefiting from both deferred revenue strength and FY 2018 new billings performance. This represented an 8.3% increase excluding FX or 9.5% in actual rates. The Group's Adjusted Revenue including Discontinued Business increased by $47.4m to $827.0m. This represented a 4.9% increase excluding FX or 6.1% in actual rates. In line with guidance, the Adjusted Revenue contribution from 1H 2018 and 2H 2018 was 49% and 51% respectively.

Adjusted Revenue in the period of $827.0m included $344.6m from the release of prior-period deferred revenue. The Adjusted Deferred Revenue[3] balance at the end of the period was $439.0m, comprising $387.6m that will be recognised within 12 months of the balance sheet date. This compares to $401.0m, including $344.6m to be recognised within 12 months. The average subscription length in the year ended 31 December 2018 was 14 months (15 months in FY 2017).

The Group's statutory Billings increased by $61.7m to $862.1m in the year ended 31 December 2018, which represents a 7.7% increase. The Group's statutory Revenue increased by $155.4m to $808.3m, which represents a 23.8% increase.

Profitability was driven by the Group's scale and operating leverage, and also benefited from synergies generated by the integration of acquired businesses. Adjusted EBITDA increased 6.7% to $447.7m, resulting in Adjusted EBITDA margin[4] of 54.1%, in line with guidance of a slight year-on-year increase (53.8% in FY 2017).

Statutory Operating Profit increase of $124.0m was driven by a more modest impact from deferred revenue haircut from the AVG acquisition of $80.8m, increase in Adjusted EBITDA of $28.2m, lower exceptional costs of $9.2m, lower depreciation and amortisation of non-acquisition intangibles of $7.8m and lower impact of other adjustments of $4.2m, partially offset by higher share-based payments costs of $6.2m.

The table below presents the Group's Adjusted Billings and Adjusted Revenue for the periods indicated:

($'m)	FY 2018	FY 2017[5]	Change %	Change % (excluding FX)
Adjusted Billings	862.1	811.4	6.3	5.3
Consumer	801.7	746.5	7.4	6.4
Direct	698.4	628.7	11.1	10.1
Indirect (excl. Discontinued Business)	87.8	79.3	10.7	10.2
Discontinued Business	15.5	38.5	(59.9)	(60.5)
SMB	60.5	64.9	(6.8)	(7.6)
Adjusted Billings excluding Discontinued Business	846.7	772.8	9.6	8.6
Adjusted Revenue	827.0	779.5	6.1	4.9
Consumer	763.7	711.1	7.4	6.2
Direct	662.5	593.4	11.6	10.3
Indirect (excl. Discontinued Business)	85.8	79.2	8.4	7.9
Discontinued Business	15.5	38.5	(59.9)	(60.5)
SMB	63.3	68.4	(7.5)	(8.2)
Adjusted Revenue excluding Discontinued Business	811.5	741.0	9.5	8.3

1 As the Company is exiting its toolbar-related search distribution business, which had previously been an important contributor to AVG's revenues (referred to above and throughout the Full Year Report, with the Group's browser clean-up business, as "Discontinued Business"), the growth figures exclude Discontinued Business, which the Group expects to be negligible by the end of 2019. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5 since it has not been disposed of but rather it is being continuously scaled down and is considered to be neither a separate major line of business, nor geographical area of operations.

2 Growth rate excluding currency impact calculated by restating 2018 actual to 2017 FX rates (see "Principal exchange rates applied"). Deferred revenue is translated to USD at date of invoice and is therefore excluded when calculating the impact of FX on revenue.

3 Adjusted deferred revenue represents the balance of deferred revenue excluding the effects of the fair value revaluation of the acquiree's pre-acquisition deferred revenues and including the impact of gross-up adjustment.

4 Adjusted EBITDA margin percentage is defined as Adjusted EBITDA divided by Adjusted Revenue.

5 Growth figures exclude the impact of prior year Piriform acquisition through the inclusion of Piriform pre-acquisition results in 2017. Had Piriform, acquired on 18 July 2017, always been a part of the Group, it would have contributed an additional $10.9m to Adjusted Billings, $15.6m to Adjusted Revenue and $10.9m to Adjusted EBITDA in 2017. These amounts are included in the Group's 2017 baseline figures.

Business Unit Performance

Consumer Direct Desktop

The largest component of the Avast business, Consumer Direct Desktop, performed strongly in the year. Excluding FX, Adjusted Billings were up 11.9% to $613.9m, while Adjusted Revenue grew 12.0% to $580.0m, in line with guidance of low double-digit growth.

The consumer monetisation platform remains a key driver, effectively promoting up-sells and cross-sells of products, in particular Utilities and VPN. Performance has been buoyed by the further development of the ecommerce engine and subsequent conversion rates, and expansion of the Avast product portfolio, which includes AntiTrack.

We have also been successful in our strategy to smartly target users in different countries, with localisation of more products, sales flows and partnerships. While some of our strongest absolute growth continues to be in established markets like the US, this has resulted in some notable successes with customer growth of 56% in Japan, 59% in Ukraine & 22% in Argentina. In the second half of the year we added more focus regions to the program, including Italy, Spain, Germany and Mexico.

Reflecting the success in executing to plan, our three key operating metrics scored strongly. End of Period Customers were up 7.2% to 12.19m, Average Revenue Per Customer was up 8.6% to $49.24, and Average Products Per Customer were up 6.0% to 1.40.

In FY 2019 we expect Consumer Direct Desktop to deliver high single-digit revenue growth excluding the impact of FX.

1 Users who have at least one valid paid Consumer Direct Desktop subscription (or licence) at the end of the period.
2 APPC defined as the Consumer Direct Desktop simple average of valid licences or subscriptions for the financial period presented divided by the simple average number of Customers during the same period.
3 ARPC defined as the Consumer Direct Desktop revenue for the financial period divided by the simple average number of Customers during the same period.

Consumer Direct Mobile

The Consumer Direct Mobile business delivered broadly flat revenue growth excluding FX, in line with our expectations. This was driven by strong double-digit growth in the direct-to-consumer subscription business, offset by a year-on-year decline in the carrier business primarily due to the loss in 2017 of the Sprint contract.

Performance in the direct-to-consumer business was underpinned by good renewal rates, and bolstered by the introduction of new security functionality and product bundles to attract more uptake.

In the period three new integrated family safety products were launched with existing mobile carrier partners, Verizon, AT&T and Wind.

Future performance is set to benefit incrementally from these and additional product launches including mobile security and VPN solutions with carrier partners in Europe and Asia, as well as increased carrier marketing support. These new launches will partially offset the carry-over impact from the 2017 Sprint loss.

With the anticipated benefit of continued good growth in our direct-to-consumer subscription business, we expect 2019 revenue in the mobile business overall to be broadly flat for the full year excluding the impact of FX.

Consumer Indirect

This business unit includes Avast Secure Browser (ASB), distribution of third party software, Jumpshot analytics, and advertising within applications.

Slightly ahead of guidance of mid-single digit growth, in 2018 Consumer Indirect excluding Discontinued Business grew revenue to $85.8m, up 7.9% excluding the impact of FX. Growth in Consumer Indirect was driven by Avast Secure Browser and Jumpshot.

Avast Secure Browser (ASB), developed in-house, was launched in March 2018 and delivers important privacy and security features. The conversion of legacy SafeZone Browser users has largely been completed and ASB has also benefited from organic demand including from beyond the Avast and AVG user base. We have experienced excellent overall growth in monthly users, and initial trends in monetisation have been positive.

Jumpshot, Avast's data analytics business, delivered strong growth in line with historic rates. It has continued in its diversification, launching a new user interface to provide on-demand analytics to its varied customer base. The business realised strong retention rates, and cemented partnerships with several leading consumer brands and agencies.

Google Chrome distribution continued to soften in line with expectations. In March Avast successfully signed a two-year renewal to March 2020 of the larger of Avast's two Google Chrome distribution contracts, covering Chrome offers to users of the Avast-branded and AVG-branded product sets. Avast's second Google Chrome distribution contract, covering Chrome offers to users of CCleaner, continues to run under its existing term to the end of the first quarter in FY 2019. Following expiration of this contract, we expect that Avast will continue to distribute Chrome offers to CCleaner users, subject to agreeing acceptable terms with Google.

While Mobile Advertising was adversely affected by GDPR for much of the year, improved Cost per thousand impressions (CPM) and ad formats optimisation drove a positive uplift in advertising toward year end.

The legacy AVG toolbar business, as well as the legacy Avast browser clean-up business, are decreasing as expected. This business line is expected to disappear towards the end of 2019.

In FY 2019 we expect Consumer Indirect excluding Discontinued Business to experience high single-digit growth, excluding the impact of FX.

1 Excluding Discontinued Business.

SMB

SMB Adjusted Revenue excluding FX declined 8.2% year-on-year, in line with 1H 2018 guidance of high single digit decline, as a result of disruption from the integration of AVG SMB businesses with Avast. Restructuring efforts have advanced and performance indicators are progressing satisfactorily.

The migration of users of endpoint security protection to the new integrated technology is on track. As planned, we have commenced the initial launch phase of our new ordering and billing system to further improve the ease of doing business with our partner community.

Further to our partnership agreement with Zscaler, we have continued to develop and refine our Network Security solutions teams and are now focused on the phased worldwide roll-out of these services to our partners and customers. In late 2018 we soft-launched Secure Web Gateway (SWG) in the US that generated early sales and a pipeline of business. SWG was fully released in March 2019. Our Secure Internet Gateway (SIG) solution was released to an internal beta before year end and is scheduled for market launch around half-year 2019.

In the first quarter of FY 2019 Avast will be adding to its layered security solutions with the introduction of a patch management product that helps SMBs effectively monitor and manage the deployment of software patches.

While 2018 was challenging, we did see an improving performance trend, illustrated by modest adjusted billings growth (excluding FX) in the fourth quarter.

In FY 2019 we expect mid single-digit revenue decline, excluding the impact of FX and the recent disposal of the Managed Workplace business (see Note 38 on Subsequent events).

CFO's review

Group Outlook

Our confidence that momentum in the Group's performance will continue is underscored by strength in leading indicators such as billings and deferred revenue. Good momentum in our performance and privacy products that complement Avast's best-in-class antivirus security, has created a strong renewal base, underpinning expectations for the year ahead. In FY 2019 we expect the Group overall to deliver high single-digit Adjusted Revenue growth. This excludes the impact of FX, discontinued business and the recent disposal of the Managed Workplace business. Adjusted EBITDA margin percentage is expected to remain broadly flat year-on-year.

Costs

The Group recognised the carry-over benefit from synergies from AVG acquisition of $35.0m year-on-year in FY 2018, in particular related to payroll cost reductions in the Czech Republic and the U.S.

($'m)	FY 2018	FY 2017	Change	Change %
Cost of revenues	(241.4)	(230.3)	(11.1)	(4.8)
Share-based payments	0.2	0.1	0.1	Fav
Amortisation of acquisition intangible assets	127.5	132.9	(5.4)	(4.1)
Depreciation and amortisation (excl. amortisation of acquisition intangible assets)	9.4	9.9	(0.5)	(5.0)
COGS deferral adjustment	(1.1)	(7.8)	6.7	85.5
Gross-up Adjustment	(1.5)	(12.9)	11.5	88.7
Exceptional items	0.6	1.7	(1.1)	(61.5)
Piriform pre-acquisition cost of revenues	–	(0.9)	0.9	–
Adjusted Cost of revenues (excluding D&A)	(106.3)	(107.4)	1.1	1.0

The decrease in the Group's Adjusted Cost of Revenues reflects $7.6m benefit from the carry over impact of synergies, offset by investment into personnel costs of $(1.6)m, higher sales commissions and licences of $(5.8)m related to the increase in Adjusted Revenue and negative FX impact of $(0.5)m. The remainder of the movement represents various savings beyond synergies of $1.4m. Adjusted Cost of Revenues represent the Group's cost of revenues adjusted for depreciation and amortisation charges, share-based payments charges, exceptional items, COGS deferral adjustment, gross-up adjustment and Piriform pre-acquisition costs.

The Group's statutory Cost of revenues increased by $(11.1)m to $(241.4)m primarily due to the increase in Revenue, partially offset by realised synergies and decrease in amortisation of acquisition intangibles. The amortisation of acquisition intangibles represents intangible assets acquired through business combinations which does not reflect the ongoing normal level of amortisation in the business.

($'m)	FY 2018	FY 2017	Change	Change %
Operating costs	(318.6)	(298.3)	(20.3)	(6.8)
Share-based payments	13.7	7.7	6.1	79.1
Depreciation and amortisation (excl. amortisation of acquisition intangible assets)	6.8	8.7	(2.0)	(22.5)
Exceptional depreciation	–	0.4	(0.4)	–
Exceptional items	25.0	32.7	(7.7)	(23.5)
Piriform pre-acquisition operating costs	–	(3.8)	3.8	–
Adjusted Operating costs (excluding D&A)	(273.0)	(252.7)	(20.3)	(8.0)

The increase in the Group's Adjusted Operating costs after recognised synergies of $27.4m was $(47.7)m. The increase was caused by negative FX impact of $(3.1)m, additional PLC costs of $(4.0)m, investment into personnel costs of $(22.9)m, office costs and equipment of $(5.0)m, marketing and paid search of $(5.1)m, consultancy and outsourced services of $(3.6)m, IT services and maintenance costs of $(2.9)m and other costs of $(1.1)m. Adjusted Operating costs represent the Group's operating costs adjusted for depreciation and amortisation charges, share-based payments charges, exceptional items and Piriform pre-acquisition costs.

The increase in the Group's statutory operating costs of $(20.3)m, from $(298.3)m to $(318.6)m, reflects an increase in share-based payments, and investment into personnel and non-personnel costs, offset by realised synergies and lower exceptional costs.

Exceptional items

Exceptional items are material and non-recurring items of income and expense which the Group believes should be separately disclosed to show the underlying business performance of the Group more accurately. Exceptional items in 2018 represent mainly IPO costs related to one-time advisory, legal and other professional service fees (see Note 10 Exceptional Items). Total IPO costs comprise of $(18.8)m recorded to income statement in 2018, $(4.1)m accrued in trade payables in 2017 and additional $(4.0)m direct share issue expenses recorded to equity, which gives total IPO costs of $(26.8)m. The full cash impact of IPO costs was recorded in 2018 showing $(4.0)m under the cash flows from financing activities as directly linked to the share issue and the remaining $(22.8)m is included in the cash flows from operating activities.

A smaller amount of exceptional items ($6.8m in 2018) relates to restructuring programs in respect of business combinations with AVG and with Piriform and represents the run-off of programs implemented in prior periods. Final items of restructuring and integration with AVG were recognised in Q4 2018 as the programme is now complete and no further costs will be recorded.

Finance income and expense

Adjusted finance expense on a net basis was $92.3m in 2018, $2.1m higher compared to $90.2m in 2017. The increase was driven by higher FX translation losses in 2018 by $13.4m, offset by lower total loan interest costs by $4.6m resulting from the repayment of $300m debt post IPO (see Note 29 Term Loan), positive impact from revaluation of interest CAP of $5.0m and other savings in finance costs of $1.7m.

The Group's statutory net finance costs decreased by $87.3m to $65.9m in 2018 mainly due to unrealised foreign exchange gains in 2018 from the Euro denominated debt, compared to unrealised foreign exchange losses recognised in 2017.

($'m)	FY 2018	FY 2017	Change	Change %
Finance income and expenses, net	(65.9)	(153.2)	87.3	57.0
Unrealised FX (gain)/loss on EUR tranche of bank loan	(26.4)	63.0	(89.4)	Unf
Adjusted Finance income and expenses, net	(92.3)	(90.2)	(2.1)	(2.4)

Income tax

In 2018, the Group reported an Income tax benefit of $58.7m, compared to the Income tax costs of $(4.9)m in 2017. The decrease in Income tax costs was primarily caused by the transfer of AVG E-comm web shop to Avast Software B.V. ("Avast BV") on 1 May 2018. Subsequently, the former Dutch AVG business from Avast BV (including the web shop) was sold to Avast Software s.r.o. As a result, a deferred tax asset of $143.8m was recognised in Avast Software s.r.o. In addition, an exit charge of $(49.4)m has been agreed upon with the Dutch tax authorities (to be paid in 1H 2019). The total tax impact of the IP (Intellectual Property) transfer of $94.4m recognised in the statutory Income tax was treated as an exceptional item.

The Group recognised an additional deferred tax benefit of $5.6m as a result of the Piriform IP transfer into the UK. The current tax expense related to the transaction was $0.7m. The net tax effect of the transaction is a tax benefit of $4.9m and is treated as an exceptional item.

The gain from the Piriform IP transfer was offset by income tax costs, arising from the write-down of a deferred tax asset. When reviewing previously recognised tax losses across the Group it was determined that it was not probable that the full amount of these losses will be recoverable against future taxable profits in relevant jurisdictions. As a result, $5.6m was recorded as income tax costs, treated as an exceptional item as it relates to prior periods.

Income tax was further impacted by the tax benefit of foreign exchange movements on inter-company loans arising in the statutory accounts of the subsidiary concerned of $(9.8)m ($19.0m in 2017). The benefit was treated as an exceptional item.

The tax impact of adjusted items represents the tax impact of amortisation of acquisition intangibles, deferred revenue haircut reversal arising from prior acquisitions, and exceptional costs and other adjusted items, which has been calculated applying the tax rate that the Group determined to be applicable to the relevant item.

CFO's review

Adjusted Income tax is $(68.4)m for FY 2018, resulting in an adjusted effective tax rate of 20.2%. The Adjusted effective tax rate is the Adjusted Income tax percentage of Adjusted Profit before tax of $339.2m (defined as Adjusted Net Income of $270.8m before the deduction of Adjusted Income tax of $(68.4)m).

($'m)	FY 2018	FY 2017	Change	Change %
Income tax	58.7	(4.9)	63.6	Fav
Tax impact of FX difference on inter-company loans	(9.8)	19.0	(28.8)	Unf
Tax impact of IP transfer	(99.2)	–	(99.2)	–
Tax impact of COGS deferral adjustment	0.3	2.0	(1.7)	(85.8)
Tax impact on adjusted items	(18.5)	(71.5)	53.0	74.1
Adjusted Income tax	(68.4)	(55.5)	(12.9)	23.2

Cash Flow

Unlevered free cash flow represents the amount of cash generated by operations after allowing for capital expenditure, taxation and working capital movements. Unlevered free cash flow provides an understanding of the Group's cash generation and is a supplemental measure of liquidity in respect of the Group's operations.

Levered free cash flow represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments.

($'m)	FY 2018	FY 2017	Change	Change %
Adjusted Cash EBITDA	476.8	451.5	25.3	5.6
Net change in working capital (excl. change in deferred revenue and deferred COGS)	13.8	(35.1)	48.9	Fav
Capex	(16.8)	(15.9)	(0.9)	(5.8)
Cash Tax	(79.8)	(54.8)	(25.0)	(45.6)
Unlevered Free Cash Flow	394.0	345.7	48.3	14.0
Cash Interest	(67.6)	(77.6)	10.0	12.9
Lease Payments	(1.5)	(0.5)	(1.0)	Unf
Levered Free Cash Flow	324.9	267.6	57.3	21.4
Cash conversion[1]	83%	77%		

The working capital movement in 2018 comprised a positive movement in receivables driven by the renegotiation of payment terms with payment providers, the positive impact of an increase in operating costs on payables, offset by payment of outstanding unpaid IPO expenses at the end of the 2017. Adjusted for the impact of renegotiation of payment terms with shopping cart and payment processing partners, the cash conversion[1] in FY 2018 would be 78% (cash conversion in FY 2017 was 77%).

Capex in 2018 remained stable at 2% of Adjusted revenue (2% in FY 2017).

The increase in cash tax is driven by the increase in taxable income and the Czech Republic true-up system, where a company is obliged to make quarterly income tax advances based on its last known tax liability. Upon filing a tax return, tax advances paid during the year for which the tax return is filed offset the final tax liability. As the taxable income for 2017 was significantly higher than the taxable income for 2016, the reported cash tax in H1 2018 was higher. This true up occurs in H1 of each year and was as expected.

($'m)	FY 2018	FY 2017	Change	Change %
Net cash flows from operating activities	376.0	306.5	69.5	22.7
Net cash used in investing activities	(28.8)	(173.8)	145.0	83.4
Net cash flows from financing activities	(254.0)	(193.7)	(60.3)	(31.1)

1 Cash conversion is defined as Unlevered Free Cash Flow divided by Adjusted Cash EBITDA.

The following table presents a reconciliation between the Group's Adjusted Cash EBITDA and Net cash flows from operating activities as per the consolidated statement of cash flows.

($'m)	FY 2018	FY 2017	Change	Change %
Adjusted Cash EBITDA	476.8	451.5	25.3	5.6
Net change in working capital (excl. change in deferred revenue and deferred COGS)	13.8	(35.1)	48.9	Fav
Cash Tax	(79.8)	(54.8)	(25.0)	(45.6)
Movement of provisions and allowances	3.5	(17.8)	21.3	Fav
Exceptional costs excl. exceptional depreciation	(25.6)	(34.4)	8.8	25.6
FX gains/losses and other financial expenses and non-cash gains included in operating cash flows	(12.7)	(2.9)	(9.8)	Unf
Net Cash Flows from operating activities	376.0	306.5	69.5	22.7

The Group's net cash flow from operating activities increased by $69.5m primarily due to higher Adjusted Cash EBITDA of $25.3m, an improved working capital movement of $48.9m (excl. change in deferred revenue and deferred COGS), lower exceptional costs (excluding exceptional depreciation) of $8.8m and impact of change in provisions of $21.3m partially offset by higher cash tax of $(25.0)m and higher realised FX gains/losses and other financial expenses and non-cash gains included in operating cash flows of $(9.8)m. The cash impact of exceptional costs in 2017 was primarily driven by the payment of the outstanding amounts at the end of 2016 related to the acquisition and integration with AVG.

The Group's net cash outflow from investing activities of $28.8m was comprised of capex of $16.8m, consideration paid for InLoop acquisition net of cash acquired of $4.2m (see Note 2 Business combinations in 2018), payment of the remaining portion of the consideration for the acquisition of AVG Technologies B.V. of $8.0m and interest received of $0.3m. The Group's net cash outflow from investing activities in 2017 included $118.7m of consideration paid for the Piriform and FileHippo acquisition net of cash acquired (see Note 3 Business combinations in 2017), $38.7m related to squeeze out proceedings from the AVG Acquisition, $15.9m capex and $(0.3)m other movements.

The Group's net cash outflow from financing activities includes net proceeds from the issue of shares of $195.8m, proceeds from exercise of options in H2 2018 of $0.9m, offset by the voluntary repayment of borrowings of $(300.0)m, the mandatory repayment of borrowings of $(78.5)m, interest paid of $(67.6)m, transaction costs related to borrowings of $(3.1)m and lease repayments of $(1.5)m. The Group's net cash flows from financing activities in 2017 included $217.5m of proceeds from borrowings, $3.0m from the exercise of options, outflow of $(264.8)m for capital distribution, $(77.6)m of interest paid, $(67.8)m of repayment of borrowings, $(3.5)m of transaction costs related to borrowings and $(0.5)m of lease repayments.

Financing

The Group reduced its term loan from the primary proceeds arising from the IPO on 16 May 2018 and additional excess cash of $100m, reducing the USD tranche by $300m (see Note 29 Term loan). As of 31 December 2018, the total Gross debt[1] of the Group was $1,410.5m and the total Net debt[1] was $1,138.2m. The decrease in gross debt is attributable to $300.0m voluntary repayment of borrowings, $78.5m of mandatory repayments of borrowings and a positive unrealised FX gain of $26.4m on the EUR tranche of the loan.

($'m)	31 December 2018	31 December 2017	Margin
Term loan (USD tranche)	864.7	1,213.8	USD LIBOR plus 2.50%
Term loan (EUR tranche)	545.8	601.7	EURIBOR plus 2.75%
Revolver/Overdraft	–	–	USD LIBOR plus 2.25%
Cash and cash equivalents	(272.3)	(176.3)	
Gross debt	1,410.5	1,815.5	
Net debt	1,138.2	1,639.2	
Net debt/LTM Adjusted Cash EBITDA	2.4x	3.6x	
Net debt/LTM Adjusted EBITDA	2.5x	3.9x	

1 Gross debt represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals). Net debt indicates gross debt netted by the Company's cash and cash equivalents. Both gross debt and net debt exclude the amount of capitalised arrangement fees on the balance sheet as of 31 December 2018 of $19.1m and accrued interest of $(0.1)m (31 December 2017: $34.7m and $(0.5)m).

CFO's review

Principal exchange rates applied

The table below represents the principal exchange rates used for the translation of foreign currencies into US Dollar. The assets and liabilities are translated using period-end exchange rates. Income and expense items are translated at the average exchange rates for the period.

($:1.00)	FY 2018 average	FY 2017 average
AUD	0.7479	0.7667
BRL	0.2757	0.3134
CAD	0.7720	0.7710
CHF	1.0228	1.0157
CZK	0.0461	0.0429
EUR	1.1814	1.1292
GBP	1.3357	1.2882
ILS	0.2784	0.2780
NOK	0.1230	0.1210

Earnings per share

Basic Adjusted earnings per share amounts are calculated by dividing the Adjusted net income for the period by the weighted average number of shares of common stock outstanding during the year. The diluted Adjusted earnings per share amounts consider the weighted average number of shares of common stock outstanding during the year adjusted for the effect of dilutive options.

($'m)	FY 2018	FY 2017
Adjusted Net Income	270.8	255.1
Basic weighted average number of shares	914,567,949	836,413,568
Effects of dilution from share options and restricted share units	62,120,397	83,835,481
Dilutive weighted average number of shares	976,688,346	920,249,049
Basic Adjusted earnings per share ($/share)	0.30	0.30
Diluted Adjusted earnings per share ($/share)	0.28	0.28

Dividend

The Directors propose to pay a final dividend of 8.6 cents per share, in respect of the period 15 May 2018 to 31 December 2018 (13.6 cents per share on an annualised basis). This represents 40% of the Group's levered free cash flow on a pro-rated basis from 15 May 2018 to 31 December 2018, in accordance with the Company's dividend policy. Subject to shareholder approval, this will be paid in US dollars on 17 June 2019 to shareholders on the register on 24 May 2019. There will be an option for shareholders to elect to receive the dividend in pounds sterling and such an election should be made no later than 24 May 2019. The foreign exchange rate at which dividends declared in US dollars will be converted into pounds sterling will be calculated based on the average exchange rate over the five business days prior to 5 June 2019 and announced immediately thereafter.

Proposed Dividend Timetable
Ex-dividend Date: 23 May 2019
Record Date: 24 May 2019
Last Date for Currency Election: 24 May 2019
Payment: 17 June 2019

Presentation of results

To enable a better understanding of the business performance this review contains certain financial measures that are not defined or recognised under IFRS, including Adjusted Billings, Adjusted Revenue, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Net Income and Unlevered Free Cash Flow. The items are more fully explained in the section Presentation of results and definitions.

Presentation of results and definitions

This Full Year Report contains certain non-IFRS financial measures to provide further understanding and a clearer picture of the financial performance of the Group. These alternative performance measures (APMs) are used for the assessment of the Group's performance and this is in line with how management monitor and manage the business day to day. It is not intended that APMs are a substitute for, or superior to statutory measures. The APMs are not defined or recognised under IFRS including Adjusted Billings, Adjusted Revenue, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Net Income and Unlevered Free Cash Flow as defined and reconciled below.

These non-IFRS financial measures and other metrics are not measures recognised under IFRS. The non-IFRS financial measures and other metrics, each as defined herein, may not be comparable to similarly titled measures presented by other companies as there are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. Even though the non-IFRS financial measures and other metrics are used by management to assess the Group's financial results and these types of measures are commonly used by investors, they have important limitations as analytical tools, and investors should not consider them in isolation or as substitutes for analysis of the Group's position or results as reported under IFRS. The Group considers the following metrics to be the KPIs it uses to help evaluate growth trends, establish budgets and assess operational performance and efficiencies.

The definition of non-GAAP measures in the year ended 31 December 2018 is consistent with those presented in the IPO prospectus and there have been no changes to the bases of calculation.

Adjusted Billings

Billings represent the full value of products and services being delivered under subscription and other agreements and include sales to new end customers plus renewals and additional sales to existing end customers. Under the subscription model, end customers pay the Group for the entire amount of the subscription in cash upfront upon initial delivery of the applicable products. Although the cash is paid up front, under IFRS, subscription revenue is deferred and recognised rateably over the life of the subscription agreement, whereas non-subscription revenue is typically recognised immediately. Adjusted Billings ("Adjusted Billings") is comprised of the Group's Billings (including the Billings of Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Billings for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Billings").

Adjusted Revenue

Adjusted Revenue represents the Group's reported revenue (including Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Revenue for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Revenue") adjusted for the Deferred Revenue Haircut Reversal[1], the Gross-Up Adjustment[2] and the Piriform Revenue Adjustments (from pre-acquisition billings).

The following is a reconciliation of the Group's statutory Revenue to the Group's Adjusted Billings, Group's statutory Revenue to the Group's Adjusted Revenue and Group's Billings to the Group's Adjusted Billings:

($'m)	FY 2018	FY 2017	Change	Change %
Revenue	808.3	652.9	155.3	23.8
Net deferral of revenue	53.9	147.5	(93.6)	(63.5)
Piriform pre-acquisition billings	–	10.9	(10.9)	–
Adjusted Billings	862.1	811.4	50.8	6.3
Revenue	808.3	652.9	155.3	23.8
Deferred Revenue Haircut reversal/Other	17.2	98.0	(80.8)	(82.4)
Gross-Up Adjustment	1.5	12.9	(11.5)	(88.7)
Piriform Revenue Adjustment (pre-acquisition)	–	15.6	(15.6)	–
Adjusted Revenue	827.0	779.5	47.4	6.1
Billings	862.1	800.4	61.7	7.7
Piriform pre-acquisition billings	–	10.9	(10.9)	–
Adjusted Billings	862.1	811.4	50.8	6.3

CFO's review

Adjusted EBITDA

Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal[1], the COGS Deferral Adjustments[3] and Piriform pre-acquisition EBITDA.

Adjusted Cash EBITDA

Cash earnings before interest, taxation, depreciation and amortisation ("Adjusted Cash EBITDA") is defined as Adjusted EBITDA plus the net deferral of revenue, the net change in deferred cost of goods sold, the reversal of the COGS Deferral Adjustments[3] and Piriform's pre-acquisition net deferral of revenue.

The following is a reconciliation of the Group's statutory Operating profit to Adjusted EBITDA and Adjusted Cash EBITDA:

($'m)	FY 2018	FY 2017	Change	Change %
Operating profit	248.3	124.3	124.0	Fav
Share-based payments	13.9	7.7	6.2	79.6
Exceptional items	25.6	34.8	(9.2)	(26.3)
Amortisation of acquisition intangible assets	127.5	132.9	(5.4)	(4.1)
Underlying Operating profit	415.3	299.7	115.6	38.6
Deferred Revenue Haircut Reversal/Other	17.2	98.0	(80.8)	(82.4)
COGS Deferral Adjustments	(1.1)	(7.8)	6.7	85.5
Depreciation (excl. exceptional depreciation)	13.4	15.0	(1.7)	(11.0)
Amortisation of non-acquisition intangible assets	2.8	3.6	(0.8)	(22.7)
Piriform pre-acquisition EBITDA	–	10.9	(10.9)	–
Adjusted EBITDA	447.7	419.5	28.2	6.7
Net change in deferred revenues including FX re-translation/Other	36.6	49.4	(12.8)	(25.9)
Net change in deferred cost of goods sold	(8.7)	(20.6)	11.9	58.0
Reversal of COGS deferral adjustment	1.1	7.8	(6.7)	(85.4)
Piriform pre-acquisition net change in deferred revenues	–	(4.7)	4.7	–
Adjusted Cash EBITDA	476.8	451.5	25.3	5.6

Adjusted Net income

Adjusted Net Income represents statutory net income plus the Deferred Revenue Haircut Reversal[1], share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the COGS Deferral Adjustments[3], Piriform's pre-acquisition Net Income, the tax impact from the unrealised exchange differences on inter-company loans and the tax impact of the foregoing adjusting items and IP transfers.

The following is a reconciliation of the Group's statutory Net income to Adjusted Net Income:

($'m)	FY 2018	FY 2017	Change	Change %
Net Income	241.2	(33.8)	275.0	Fav
Deferred Revenue Haircut Reversal/other	17.2	98.0	(80.8)	(82.4)
Share-based payments	13.9	7.7	6.2	79.6
Exceptional items	25.6	34.8	(9.2)	(26.3)
Amortisation of acquisition intangible assets	127.5	132.9	(5.4)	(4.1)
Unrealised FX gain/(loss) on EUR tranche of bank loan	(26.4)	63.0	(89.4)	Unf
Tax impact from FX difference on inter-company loans	(9.8)	19.0	(28.8)	Unf
COGS Deferral Adjustments	(1.1)	(7.8)	6.7	85.5
Tax impact of COGS deferral adjustment	0.3	2.0	(1.7)	(85.8)
Tax impact on adjusted items	(18.5)	(71.5)	53.0	74.1
Tax impact of IP transfer	(99.2)	–	(99.2)	Unf
Piriform pre-acquisition net income	–	10.9	(10.9)	–
Adjusted Net Income	270.8	255.1	15.7	6.2

Unlevered Free Cash Flow

Represents Adjusted Cash EBITDA less capex, plus cash flows in relation to changes in working capital (excluding change in deferred revenue and change in deferred cost of goods sold as these are already included in Adjusted Cash EBITDA) and taxation. Changes in working capital and taxation are as per the cash flow statement on an unadjusted historical basis and unadjusted for exceptional items.

Levered Free Cash Flow

Represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments.

Rounding

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided, however growth rates are calculated based on precise actual numbers.

Notes:

1 Under IFRS 3, Business Combinations, an acquirer must recognise assets acquired and liabilities assumed at fair value as of the acquisition date. The process of determining the fair value of deferred revenues acquired often results in a significant downward adjustment to the target's book value of deferred revenues. The reversal of the downward adjustment to the book value of deferred revenues of companies the Group has acquired during the periods under review is referred to as the "Deferred Revenue Haircut Reversal".

2 The "Gross-Up Adjustment" refers to the estimated impact of the additional amount of 2015 and 2016 revenue and expenses and their deferral that would have been recognised by Avast had the contractual arrangements with certain customers qualified to have been recognised on a gross rather than a net basis prior to 2017 (AVG had historically recognised Billings and revenues on a gross basis, whereas Avast recognised them on a net basis). Both businesses recognise revenue on a gross basis since 2017.

3 There was no deferred cost of goods sold ("COGS") balance consolidated by the Group in the acquisition balance sheet of AVG in 2016 and thus no subsequent expense was recorded as the revenue in respect of pre-acquisition date billings was recognised. The "COGS Deferral Adjustments" refers to an adjustment to reflect the recognition of deferred cost of goods sold expenses that would have been recorded in 2016 and 2017 in respect of pre-acquisition date AVG billings, had the AVG and the Group's businesses always been combined and had AVG always been deferring cost of goods sold.

Risk management

We identify, monitor, and manage risk from a group-wide view of each area of the business. We analyse the likelihood of any risk and its potential impact, the adequacy of our controls, and any mitigation we have or need in place. From this analysis, the executive team compiles a list of principal risks and receives input from the Audit and Risk Committee and the Board. We also monitor and mitigate risks that may develop in the future.

We identify those issues which we believe pose the greatest risk to the business and its operations. In addressing each risk, we develop and implement a strategy to mitigate the impact of such a risk, if it were to occur. Developing this strategy involves discussions between executive management and the Board. We form this link between our strategy and our principal risks and focus on execution of our strategy as key to our risk mitigation.

As part of our monitoring process, we may develop steering committees comprised of members of executive management, who meet regularly with subject matter experts from both inside and at times outside the Group, to review our strategic execution and implemented actions aimed at mitigating identified risks. Executive management then provides updates about our strategic execution of the principal risks to the Audit and Risk Committee and to the Board.

Further details of the risk management and internal control systems are included in the Audit and Risk Committee Report on pages 64 to 69.

BREXIT – Additional Consideration

Following the decision by the UK to exit, in due course, from the European Union ("Brexit"), the Directors have continued to keep under consideration the expected impact of Brexit on the Group. The Group operates internationally with a diverse geographic spread. Whilst possible negative downward pressure on sterling might result post-Brexit, thereby negatively impacting our USD functional results of the Group, the impact is mitigated by the fact that only 9% of our global billings are sourced in either the UK or in Sterling. The exact nature of the trading arrangements between the UK and the EU subsequent to the UK's exit from the EU currently remains uncertain and as a consequence the Directors have considered a number of scenarios and the Group's potential responses to them. This scenario planning has included anticipating changes to the operations of the Group and its supply chain, which are not considered to be significant or posing a heightened risk to the Group. The impact of Brexit on the current and future employees has also been considered and while there may be some disruption or changes in the UK, these are not currently anticipated to materially affect one of the Group's principal risks, the 'Recruitment and retention of key personnel'.

Principal risks

The Group has identified five principal risk categories that it continuously monitors. These five principal risks are:

- Offerings
- People
- Data
- Regulatory
- Concentration

In the Group's IPO Prospectus dated 10 May 2018, we identified 27 known risks. From this list, we have determined the top 10 risks. During our annual assessment of principal risks, we further segmented these top 10 risks into five principal risks categories. These five categories form the Group's principal risks in 2018. During 2018, for risks associated with our operating business units, such as Offerings and Concentration, we monitor these risks in our regular operating reviews of the business units, as well as regularly with the Board. For other principal risks, such as People, Data and Regulatory, we regularly review these risks as standalone matters and report on them in the Nomination, Remuneration or Audit and Risk Committees. In the annual assessment of our principal risks at the end of 2018, we asked ourselves what, if anything, had changed in our list of principal risks, and what were the principal risks appropriate for our business in the following year?

The Group and its Directors consider the following five categories to be the principal risks affecting the Group in 2018 (in no particular order). Under each category are descriptions of the potential impact and the Group's strategy for mitigating the risk.

Offering.

- What is the risk? The risk is our product and service offerings do not appeal to users.
- What is the impact? If we do not offer products and services that appeal to users, our free user base may materially decline and/or we will fail to monetise our products and services.
- What is our strategy? Our strategy to address this risk is to invest in product innovation, product management, quality assurance, and customer care.

People.

- What is the risk? The risk is talented people leave or do not join our workforce.
- What is the impact? If we cannot attract or retain a talented workforce, we will not remain competitive in our industry.
- What is our strategy? We believe we need to create an exciting brand; provide attractive and internationally competitive compensation; provide people with global mobility; recruit from a broad pool of candidates; promote based on diversity of backgrounds, skills, cultures, gender, and ethnicity; and provide effective training for personal and professional growth.

Data.

- What is the risk? The risk is that data is compromised.
- What is the impact? Failing to protect our data could have major customer, financial, reputational, and regulatory impact in all markets in which we operate.
- What is our strategy? We strive for strong, effective, thorough data security and good data governance. We produce products designed for security and privacy, and believe this helps us maintain an ethical culture in which people are concerned about and committed to securing and protecting data.

Regulatory.

- What is the risk? We operate a digital business globally and the scale and complexity of new laws are increasing as the digital economy becomes the backbone of global economic growth.
- What is the impact? New laws may affect growth, including data protection, consumer laws, auto-billing, and digital tax laws.
- What is our strategy? We monitor global legal developments and participate in industry-wide lobbying.

Concentration.

- What is the risk? Our products rely on our users being able to easily find and install them.
- What is the impact? We face exposure and risks from large vendors, such as Microsoft, Google, Apple, Facebook, Digital River, and telco carriers, who may take actions that restrict our users from being able to access and use our products.
- What is our strategy? We develop deep partner relationships with these vendors; however, we continually seek out additional strategic partnerships and growth through organic initiatives.

Viability statement

The Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impacts of the principal risks documented on pages 46 to 47 of the Annual Report.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities over the next three years, through to 31 December 2021.

The Group annually prepares, and updates on a rolling basis, a three year strategic plan, whose foundation is the more detailed one year budget (also prepared annually for review by the Board). The output of this three year plan is used to perform debt and associated covenant headroom profile analysis, which includes sensitivity to business as usual risks impacting EBITDA.

Following assessment of the planning process, the Directors have determined that a three-year period is an appropriate period over which to assess the Group's viability. Progress against the strategic plan is reviewed regularly by the Board through presentations from senior management on the performance of their respective business units. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, the period of three years has been chosen as this matches the term of the majority of the Group's sales (typically one to three years in duration, with a weighted average contract life of around 14 months) which therefore aids the accuracy of planning with a single renewal cycle, thereby providing a greater degree of certainty over the forecasting assumptions used and, in the view of the Directors, still provides an appropriate long-term outlook.

In making this viability statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The strategic plan has been tested for a number of scenarios which assess the potential impact of severe but plausible risks to the long-term viability of the Group. The scenarios, and their effect on EBITDA and on the ability to meet financial covenants, were considered both individually and in combination.

The scenarios responded to the principal risks facing the business as well as considering the potential impact of Brexit. They included reductions in certain revenue streams, forex volatility and new initiatives not materialising. The scenario with the most significant individual impact was a sustained mid-single digit year-on-year decline in revenues from the Consumer Desktop business.

The Directors reviewed and discussed the process undertaken by management, and also reviewed the results of reverse stress testing performed to provide an illustration of severe contraction in revenue of the largest business unit, that would be required to break the Group's covenants or exhaust all available cash. The process of identifying, assessing and managing principal risks is set out above in this section on pages 46 to 47. The Directors consider that this stress-testing based assessment of the Group's prospects is reasonable and the Group's business model has proven to be strong and defensive in the long term.

People and corporate social responsibility

At Avast, people can do their best work because they're encouraged to live their best lives

"Avast's most valuable asset is its people. Their engagement is my top priority."

Steven Scheers
Chief HR Officer

Our passionate and talented employees are the foundation of our success. We strive to live our values as individuals and as a company and are committed to engaging our people, investing in initiatives that strengthen communities, and doing our part to protect the environment.

Our values

Avast's values inform our approach to doing business as well as our relationships with each other, our partners, communities, and stakeholders.

Think big | Speak up | Work together | Get stuff done | Enjoy life!

Social Responsibility Framework

The company is involved in a wide range of philanthropic and charitable causes, both related to its core business areas of cybersecurity and technology, as well as other social and community related activities.

Engaged people | Thriving communities | Environmental stewardship

These three parts of our framework are explained in more detail on the following pages

People and corporate social responsibility

"There's never a reason to stop developing yourself."

Sabine Kurre
HR Business Partner

Engaged people

Avast's true assets are its people, whose expertise and dedication power the technology that serves more than 435 million users every day.

Employee engagement

+12%

increased engagement this year

Beginning in 2018, after two years of rapid growth and change in the organisation, Avast started to regularly measure employee engagement through its Your Voice survey. In March, following the 18 month integration of AVG and Avast, employee engagement was at 57%. The Executive Management team set a goal to achieve 70% engagement over time. Following the IPO in May and sustained focus on increasing learning and development opportunities, engagement rose to 64% at the end of November 2018. We continue to focus on improving key areas that strongly impact employee engagement through detailed action planning within each division.

Avast will continue to measure employee engagement through an annual Your Voice survey, tracking progress and setting priorities for each upcoming year, aiming to achieve and maintain 70% engagement over time.

Awarded most attractive workplace

In 2017, our Prague headquarters won two prestigious awards in the Czech Republic – the Most Attractive Workplace from CBRE and the Employee Friendly Office competition from Kanceláře Roku – owing to its attractive open space design and many on-site amenities, including the canteen and coffee bar, relax zones, gym, nursery, and employee-life activities. These benefits have helped cement Avast's employer reputation, and in 2018 the Company ranked in the Top 3 Tech Employers in the Czech Republic, based on a survey of over 10,000 university students and recent graduates.

Benefits philosophy

In order to attract and retain the best employees, we strive to offer above-market benefits in each location where we operate. We believe that these benefits generate a working environment where employees are comfortable, feel rewarded, and are enabled to be productive and do their best work.

Learning and development

Based on March 2018 employee engagement results, Avast placed concerted effort on improving learning and development opportunities for all employees in both soft skills and technical training, as well as leadership development for our line management. First line leadership training was completed by over 200 managers, across Europe and North America.

In Q1 2018, we launched a partnership with Coursera to start the Avast Virtual University, offering online learning to all employees, regardless of where they are based. As of the end of 2018, we have around 300 learners in Avast Virtual University, 150 of whom have already completed their course. The launch of our soft skills training catalogue in North America, an extension of the successful programmes launched in Europe in 2017, has brought additional high quality, in-demand training to our employees.

In Q4 2018, we launched the senior management development programme with a pilot training that received 100% satisfaction rating from participants. This programme consists of four training modules, spread over approximately six months, and continues in 2019.

Diversity

Avast recognises that a workforce composed of people from diverse backgrounds and viewpoints is critical to its success. We believe in the power of diverse and inclusive workplaces to foster innovation, bring us closer to our customers, and attract the best talent. Across our more than 25 global offices, we have people with over 50 nationalities, with employees in our headquarters representing over 40 countries. Our employee population at the end of December 2018 was 26% female and 74% male.

Our Code of Conduct states our commitment to creating respectful and inclusive workplaces in which all employees can thrive, regardless of their background or identity, and our Diversity and Recruitment policies ensure that we apply best practices in hiring diverse talent and providing equal opportunities for learning and development and career advancement to all our employees. To support this, we have increased and continue to add learning and development opportunities for managers and employees on dealing with conflict, cross-cultural communication, creating inclusive and respectful teams, and diversity. All employees have equal opportunity to request and participate in these and all other training opportunities.

Our recruitment practices stem from our commitment to hiring the best candidates, regardless of sex, sexual orientation, marital status, nationality, colour, race, ethnicity, national origin, religion or belief, disability, age, gender reassignment or political affiliation. We are committed to better tracking diversity characteristics in hiring and promotions, and aim to increase the diversity at the Company and in particular in leadership positions, each year.

The Company also recognises in particular the gender disparities which are pervasive across the tech industry, and is taking steps to address them through its cooperation with organisations like Czechitas and MakeITtoday (see page 56). Through our sponsorship of Czechitas, a start-up led by women and focused on bringing more women and girls into the IT sector, Avast volunteer advisors instruct courses and mentor women who are re-educating themselves to enter the IT sector mid-career.

We recognise the importance of having diversity at the Board level. With the appointment of Maggie Chan Jones and Tamara Minick-Scokalo, in March 2019, we have brought onboard two experienced and energetic Directors.

Cultural awareness and inclusive workplace

The diversity of our workforce contributes to our ability to innovate and lead. We believe an inclusive workplace, one in which all our people can do their best work and collaborate effectively with each other, is a necessary prerequisite for success. To foster inclusivity, Avast launched new cultural awareness and cross cultural communication workshops aimed at enhancing a cohesive workplace culture based on mutual understanding and respect. As of 2019, the workshops are part of our regular training catalogue.

> "At Avast, you can reach further and achieve more."
>
> Petra Tosnarova
> Product Marketing Director

Employee category[1]	Men	Women	% Men	% Women
Board[2]	10	1	90.9	9.1
Executive management[3] diversity	9	1	90	10
Staff[4] gender diversity	1237	442	74	26

1 Numbers as of 31 December 2018.
2 Excludes two additional female directors appointed in 2019.
3 Members of the Avast Executive Management team, excluding Executive Directors.
4 Employees (excluding Executive Management).

People and corporate social responsibility

Working together

Great environments spark creativity and collaboration. Whether in London, Prague, Emeryville or elsewhere, our offices are designed to enable our people to do their best work.

Thriving communities

Social responsibility is at our core

Our commitment to social responsibility starts with the way we do business. The Avast Executive Management team ultimately bears responsibility for ensuring that all staff have access to and are able to comply with the policies that govern our business practices and our approach to the communities in which we operate and to which we are connected.

Following Avast's admission to the London Stock Exchange, the Company released a Code of Conduct, documenting our commitment to ethical business practices, a respectful and inclusive workplace, and engagement with our stakeholders, including employees, partners, and customers. After launching the Code of Conduct, we conducted in-depth, in-person training with line managers across the globe and added the Code of Conduct to our training catalogue.

Respect for human rights

Avast deeply respects and upholds the principles of human rights. The Company was founded on the belief that people have the right to be both safe and free online, a commitment that continues to be reflected in our core business areas of security and privacy.

We pride ourselves on being an ethical employer. We are compliant with local employment legislation in every jurisdiction in which we operate, and as an employer strive to provide attractive compensation and benefits, as well as engaging workspaces and opportunities for our people to grow and develop their careers with us.

We also actively contribute to raising awareness and discussion of human rights, especially through the Avast Foundation (described in greater detail on page 55). For instance, the Foundation has been a main partner of the Forum 2000 Conference on Democracy and our CEO, Vince Steckler and our President, Consumer, Ondrej Vlcek, have regularly participated in this event. The Foundation also sponsors the annual One World Human Rights Documentary Film Festival organised by People in Need, the Czech Republic's largest humanitarian and human rights organisation.

To underline our commitment to human rights in all our operations, we have implemented policies in relation to Sanctions, Anti-Money Laundering, Counter Terrorist Financing, and Modern Slavery.

Transparency and anti-corruption

Transparency in our business operations is important. We do not tolerate corruption or bribery and have policies in place to disclose and mitigate all potential conflicts of interest. Our commitment to these principles is outlined in our Anti-Corruption Policy, Related Party Transactions Policy, and Conflict of Interest Policy.

"It's easy to get excited about what we're doing here."

Michael Barr
Customer Care Team Lead

Environmental stewardship

Avast recognises the need to operate in an environmentally sound and compliant way, and is committed to doing what it can to reduce its environmental impact, practice good stewardship, and mitigate any negative environmental effects that may stem from our global business operations.

Our primary impact on the environment comes from the office facilities in which we house our employees and operations. Over the last several years, Avast has committed to doing better for the environment wherever possible, making significant investments into the facilities and waste management for its two largest offices.

In 2015, Avast moved its headquarters to a brand new, Class A, BREEAM Excellent certified building in Prague. The building is equipped with waste separation, recycling programmes, light and climate control to reduce energy consumption, and a number of chargers for electric vehicles, with dedicated parking allotted to those employees who drive electric vehicles.

In July 2018, Avast moved its second-largest office into a new, BREEAM Excellent certified building in Brno.

At both offices, food is cooked and served for all employees on site with reusable dishware.

Throughout 2018, the Company has also introduced additional, incremental changes aimed at further reducing waste. Implementing PET-free policies in Prague, replacing plastic beverage bottles with fountain drinks and fresh lemonades will reduce future annual plastic waste generation by 200,000 plastic beverage bottles. PET-free policies in Brno, in place since the beginning, additionally prevent the use of an estimated 60,000 plastic beverage bottles per year. In 2019, the on-site catering company for both offices will introduce compostable containers for all foods and drinks that are prepared for takeaway (i.e., coffee cups, yogurt containers), as well as a compostable waste stream for these items.

We continue to identify and implement incremental changes that will reduce our waste generation and environmental impact.

Greenhouse gas emissions

Scope	2018 tCO_2e
Scope 1	
Usage of fuel and operation of buildings	4.0
Scope 2	
Emissions from electricity consumption	2,497.5
Total (Scope 1 & 2)	2,501.5
Intensity Ratio (2018 tCO_2e/m$ Adjusted Revenue)	3.02

In 2019, we will continue to monitor the data, develop systematic reporting protocols, and where possible reduce our overall footprint.

Greenhouse Gas calculation

This is the first year that Avast has calculated its greenhouse gas emissions (GHG). Given that this is a new requirement for the Company, we are developing and refining our in-house capabilities for gathering and reporting GHG data. The Avast operations that primarily release GHG include electricity consumption at our leased offices and data centers in which we have owned hardware. Our 2018 data covers our leased office premises worldwide. Calculations for office space were based on known data from our offices in Prague and Brno, Czech Republic; London, UK; Ottawa, Canada; and Emeryville, California; Fort Walton Beach, Florida; and Kansas City, Kansas in the United States, accounting for 71% of our office space. The other 29% was extrapolated as an average for each office based on the known data. Calculations for our data centers were based on actual electricity consumption for those data centers in which we have owned hardware and for which we pay directly for energy consumption and on maximum allowable consumption for data centers in which we pay for consumption up to a certain limit. Rented data center infrastructure is considered out of scope.

All calculations have been performed in accordance with the Greenhouse Gas Protocol Corporate Standard and using the UK Government's DEFRA conversion factor guidance for 2018.

The Avast Foundation

The Avast Foundation, founded in 2010, forms the basis of much of Avast's charitable outreach. Its $5M USD annual budget is entirely funded by donations from the Company. An inseparable part of Avast, the Foundation has been recognised as one of the most innovative and respected charitable foundations in the Czech Republic.

It operates programmes in five strategic categories:

Together until the end

Focuses on implementing systemic changes in end-of-life care

Start together

Empowers disabled children and supports families of disabled children to live full lives and access appropriate resources and services

Learn together

Aims to improve educational systems, bringing modern and relevant practices to the classroom, and supporting Avast's aim to cultivate the next generation of cybersecurity experts

Together with trust

Works with local community organisations that are enriching people's lives in education, sports, arts, and more

Together with employees

Extends the Foundation's reach globally, by providing grants to charitable projects nominated by employees in any of our global offices.

In 2018, the Foundation received 151 applications for support through the Together with Employees program. Members of the Avast Foundation Board of Trustees and employee representatives awarded grants totalling $278,600 USD to 123 organisations in 28 countries

The Foundation also undertakes to support communities affected by natural disasters. For instance, in 2018, our office in North Carolina was part of the wider community affected by Hurricane Florence in summer 2018. To support disaster relief and ongoing recovery efforts, the Foundation made a donation to the Central Carolina Community fund.

"We are thrilled that employee interest in our work continues to grow."

Jarmila Baudisova
Chairwoman of the Board,
Avast Foundation

Libuse Tomolova
Executive Director,
Avast Foundation

People and corporate social responsibility

Avast and the Foundation:

A successful partnership creating systemic, lasting social change

The Avast Foundation takes pride in developing and supporting innovative social programmes. In past years, the Foundation chose palliative care as its flagship program, because as an underserviced area there was a great potential to make a real impact. Furthermore, the partnership between Avast and the Foundation has been recognised as a successful model for creating systemic change and a great example of what can happen when the private sector takes its community sustainability obligations seriously. In January 2018, Alan Rassaby, our Chief of Staff, presented the Foundation as a case study for the potential of public-private partnerships to advance the UN's Sustainable Development Goals at a special meeting of the UN ECOSOC in New York.

After five years, the palliative care program, Together until the End, has changed the approach to palliative care in the Czech Republic, moving toward making it available for all and accepted as a natural part of life. Together until the End has been so successful in creating access to palliative care that the Czech government has begun to provide partial funding to selected services that were initially established with Foundation support, enabling the Foundation to approach this complex issue in even more innovative ways. For example, to tackle the lack of experts in palliative care, the Foundation has worked with universities to introduce palliative medicine as a subject and opened a scholarship programme to support palliative leaders.

To date over $6M USD has gone toward support for this strategic initiative, supporting the development of palliative care programs at over 60 hospitals, hospices, and other healthcare and social services providers, as well as sparking partnership projects among various healthcare, academic, and state sector institutions, NGOs, and centers of excellence.

Education initiatives

The next generations of cybersecurity experts are already beginning their education, whether they know it or not. Avast is taking steps to support cybersecurity education and introduce students and young people to the cybersecurity sector, because they are the future we all will count on. In addition, we support cybersecurity awareness for students, teachers, and the public to give people all the tools they need to stay safe online.

- Academic and research collaborations: Academic and research collaborations: Avast cooperates closely with research and academic institutions that are advancing the field in our areas of strategic interest, especially in IoT research. Avast's experts have collaborated with departments, faculty, and students at Stanford, Berkeley, Lehigh University, the Czech Technical University, Brno University of Technology, Charles University, and the University of California Irvine as instructors and thesis advisors, in research partnerships and events. We are a proud advisor to the University of California Irvine Cybersecurity Policy & Research Institute, and in 2018 sponsored the UC Irvine high-school cybersecurity curriculum program, aiming to educate our cybersecurity experts of the future.
- Be Safe Online: Launched in March 2018, and recognised as one of the top 15 sustainable projects by the Sustainable Development Goals organisation in the Czech Republic, BSO brings engaging and interactive cybersecurity awareness education to schools and provides resources for parents and teachers to promote safe online practices.
- Coding for Kids: In November 2018, Avast began a partnership with MakeITtoday, a woman-owned Czech organisation providing coding courses for kids aged 8-12. We piloted subsidised courses for 30 children of Avast employees in 2018.
- Hacking and coding challenges and meetups: Participating in and supporting technical communities is a priority for us. Avast routinely sponsors hackathons and challenges, such as CalHacks at the University of California, Berkeley, to Hack Cambridge in the United Kingdom and Hack Moscow in Russia in 2018. We also regularly organise meetups and tech talks on topics from machine learning to C++, bringing our experts together with local tech communities to share and advance knowledge.

Social and community engagement

The Avast Board and Executive Management team support and champion additional Foundation and employee-led efforts to give back to their local communities.

This includes partnering with employees to raise money for the Movember Foundation to which the Avast Movember team has been the most generous donor in the Czech Republic for the last two years; partnering with the Avast Foundation to raise money for employee-selected organisations during an annual global Giving Tuesday fund drive, and offering support to various locally organised donation activities, such as purchasing gifts for children from underprivileged backgrounds in Serbia during the Christmas season.

Strategic report approval

The Strategic report on pages 1 to 56 was approved by the Board on 9 April 2019 and signed on its behalf by:

Vince Steckler
Chief Executive Officer

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Governance

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Board of directors

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* Member of the Remuneration Committee and the Nomination Committee.
** Member of the Audit and Risk Committee and Chairman of the Remuneration Committee.
*** Member of the Remuneration Committee and Chairman of the Nomination Committee.
† Chairman of the Audit and Risk Committee and member of the Nomination Committee.
‡ Member of the Audit and Risk Committee and member of the Nomination Committee.

1 John Schwarz*

Chairman of The Board

John Schwarz has been a member of our Board of Directors since 2011 and the Chairman since 2014. He is currently the co-founder, Chairman and Chief Executive Officer of Visier Inc., a business analytics software firm. Previously, he served on the executive board of SAP AG from 2008 to 2010, and as Chief Executive Officer of Business Objects S.A., from 2005 through its acquisition by SAP in 2008. Mr. Schwarz has also served as the President and Chief Operating Officer of Symantec Corporation from 2001 to 2005. Mr. Schwarz previously worked 25 years at IBM Corporation, ultimately as the General Manager of IBM's Industry Solutions division. Mr. Schwarz has served as a at Synopsys Corporation since 2007, and at Teradata Corporation since 2010. Mr. Schwarz hold degrees from the Canadian universities of Manitoba, Toronto and Dalhousie.

2 Pavel Baudis

Non-Executive Director

Pavel Baudis is one of our co-founders and served as one of our Directors from the incorporation of AVAST Software a.s. in 2006 until 2014. In 1988, Mr. Baudis wrote the original software program from which our current portfolio of security solutions has developed. Since 1991, Mr. Baudis has played a leading role in the development of our business with our predecessor entity, ALWIL Software partnership. Prior to co-founding Avast, Mr. Baudis was a graphics specialist at the Czech Computer Research Institute (VUMS). Mr. Baudis holds an MS in Information Technology from the Prague School of Chemical Engineering.

3 Maggie Chan Jones

Independent Non-Executive Director

Maggie Chan Jones is a widely recognised industry thought leader in marketing and technology. Named one of the world's most influential CMOs by Forbes, Ms. Chan Jones broke new ground as the first woman to be appointed Chief Marketing Officer at the world's largest enterprise application software provider SAP. She specialised in brand and cloud transformation at Level 3 Communications (now CenturyLink) and Microsoft. Ms. Chan Jones founded and currently is CEO of Tenshey, a leadership development startup with a mission to advance gender diversity through executive coaching. Ms. Chan Jones holds an executive MBA from Cornell University and a BS in Business Management from Binghamton University. She will join the Board in 2019.

4 Ulf Claesson**

Independent Non-Executive Director

Ulf Claesson joined the Board of Avast in October 2012. Since 2009, Mr. Claesson has been a Partner at BLR & Partners AG, a private equity and advisory firm. From 2002 to 2006, he was Co-Founder and Chairman of Silverwire Group; on its acquisition by Hewlett-Packard Company, he built and ran one of HP's product divisions. A serial tech entrepreneur, several of his startups have been acquired by HP, ESRI and Husqvarna. Mr. Claesson is a board member of the Swiss Federal Commission for Technology and Innovation, and teaches Technology Entrepreneurship at ETH, the Swiss Federal Institute of Technology. He holds an M.Sc. from Chalmers University of Technology.

5 Warren Finegold***

Senior Independent Non-Executive Director

Warren Finegold joined the Board of Avast in February 2015. He was a member of the Vodafone Group Executive Committee and is a former Group Strategy and Business Development Director. Previously, he was a Managing Director of UBS Investment Bank, where he held a number of senior positions, most recently as Head of the Technology Team in Europe. Mr. Finegold is an independent non-executive Director of Inmarsat PLC. He holds a M.A. in Philosophy, Politics and Economics from Oxford University and a Masters degree in Business Administration from London Business School.

6 Erwin Gunst†

Independent Non-Executive Director

Erwin Gunst joined the Board of Avast in October 2012. From 2008 to 2010, Mr. Gunst served as COO and a member of the Executive Board of SAP AG, where he was responsible for global operations, information technology, human resources, and the management of all SAP Labs worldwide. Mr. Gunst started his career in audit, finance and controlling. He was SAP's Managing Director in various countries and was its Regional President for EMEA before joining the SAP Board. Mr. Gunst holds a M.S. degree in Commercial Engineering from the Free University (Solvay) in Brussels, Belgium.

7 Eduard Kucera

Non-Executive Director

Eduard Kucera, one of our co-founders, served as our Chairman of the Avast Board from the incorporation of AVAST Software a.s. in 2006 until 2014. Prior to that, Mr. Kucera was responsible for the activities of the predecessor entity, ALWIL Software partnership. He also served as our CEO, directing day-to-day operations that included the transition to a free software distribution model in 2002. Dr. Kucera holds a Doctorate of Natural Sciences in experimental physics from the Charles University, Prague.

8 Philip Marshall

Chief Financial Officer

Philip Marshall has served as the Chief Financial Officer and Director of Avast since February 2018. Prior to Avast, Mr. Marshall served as CFO for Exova Group PLC before helping take the company back into private hands. Prior to this, Mr. Marshall served as CFO for Wood Mackenzie under private equity ownership, and also for General Electric (GE) for 17 years across multiple business units in both a CEO and CFO capacity. He has also served on the boards of several companies, including his current supervisory board member of Waberer's International. Mr. Marshall holds a BA in Accounting Studies from the University of West London.

9 Tamara Minick-Scokalo

Independent Non-Executive Director

Tamara Minick-Scokalo is an experienced Non-Executive Director Board member. Most recently, she was President, Growth Markets and a member of the Executive Committee at Pearson plc in London. She also co-founded high tech unicorn Trax Retail and was CEO, then Chairman, of this category-leading, image recognition tool for shelf management. Previously, she served as President Chocolate Europe leading change management following the integration of Kraft/Cadbury business. Her deep experience in consumer brands includes positions at Elizabeth Arden, Proctor & Gamble, E & J Gallo Winery Europe and Coca Cola. Ms. Minick Scokola holds a BS in Chemical Engineering from Lehigh University in Bethlehem, Pennsylvania. She will join the Board in 2019.

10 Belinda Richards‡

Independent Non-Executive Director

Belinda Richards joined the Avast Board in June 2018. Her background includes a 30-year career in Finance, M&A, and strategy development and implementation. Previously, Ms. Richards served as a Senior Corporate Finance Partner at Deloitte LLP where she held the position of Global Head of Deloitte's Merger Integration and Separation Advisory Services business. Currently, Ms. Richards sits on the Boards of WM Morrison Supermarkets plc, Phoenix Group Holdings plc, The Monks Investment Trust PLC and Schroder Japan Growth Fund plc. She is a member of FRC's Advisory Group of Audit Committee Chairmen and a member of the Governing Council of CSFI, a not-for-profit think tank based in London. She has a first class honours degree from the University of Kent at Canterbury and a PhD from University College, London.

11 Lorne Somerville

Non-Executive Director

Lorne Somerville, Managing Partner, joined CVC in 2008. Mr. Somerville is Co-Head of the Strategic Opportunities Fund. He is based in London. Prior to joining CVC, he worked for UBS where he was Joint Global Head of Telecommunications and Head of the European Communications Group, and Swisscom AG as Head of Swisscom International. Mr. Somerville serves on the Boards of eTraveli AB and Sebia SA. Mr. Somerville holds an MA in Computer Sciences from the University of Cambridge and an MBA from IMD, Lausanne.

12 Vincent Steckler

Chief Executive Officer

Mr. Steckler has served as Chief Executive Officer and Director of Avast since January 2009. Through his leadership and business strategies, Mr. Steckler grew billings 35X, reaching $846M in 2018, and has developed an executive leadership team that has consistently delivered industry leading profits to the bottom line. Prior to joining Avast, Mr. Steckler was the Senior Vice President of Worldwide Consumer Sales at Symantec Corporation, where he was in charge of worldwide multi-channel consumer sales valued at $2.0 billion. Prior to this, Mr. Steckler had 20 years of experience in software development, systems analysis and engineering, and business development. Mr. Steckler holds two B.S. degrees from the University of California, Irvine, one in Mathematics and the other in Information and Computer Science.

13 Ondrej Vlcek

President, Consumer

Ondrej Vlcek serves as President for the Consumer business leading the largest business at Avast, and is CEO-designate. He was part of the executive team that took the company public on the London Stock Exchange in May 2018, and also led the successful integration of the consumer business after the acquisition of AVG in 2016. He created dramatic growth through strategy and vision, and leading the technology transformation of Avast into the leading global AI driven provider of security solutions it is today. Mr. Vlcek started at Avast in 1995 as a developer and has risen through the organisation making a significant impact on the company's results. He holds an MS in Mathematics from Czech Technical University in Prague.

Corporate governance statement

Dear Shareholder

As a Board, we place great emphasis on ensuring that the Group has in place a robust and transparent corporate governance framework, appropriate for its size, operations, and organisational structure. It is our strong belief that corporate governance plays a key role in delivering long-term success to the Group and its shareholders.

We believe that the Board follows suitable and appropriate corporate governance practices, and we continue to develop and enhance these to match the dynamic landscape of our business.

This report aims to give shareholders and other stakeholders insight into the approach that the Board takes to corporate governance, including the manner in which it implements the principles of the UK Corporate Governance Code.

John Schwarz
Chairman

Board Composition

Avast is governed by the Board, which delegates certain responsibilities to an Audit and Risk Committee, a Remuneration Committee, a Nomination Committee, and a Disclosure Committee.

During the year, the members of the Board were as follows:

- John Schwarz (Chairman)
- Vincent Steckler (Chief Executive Officer)
- Warren Finegold (Senior Independent Non-Executive Director)
- Pavel Baudis (Non-Executive Director)
- Eduard Kucera (Non-Executive Director)
- Lorne Somerville (Non-Executive Director)
- Belinda Richards (Independent Non-Executive Director)
- Ulf Claesson (Independent Non-Executive Director)
- Erwin Gunst (Independent Non-Executive Director)
- Philip Marshall (Chief Financial Officer)
- Ondrej Vlcek (President, Consumer)

The Company welcomed Belinda Richards as a new independent Non-Executive Director on 8 June 2018. Ms. Richards has extensive experience of financial management with companies listed on the London Stock Exchange. Further details in relation to all Board members are set out on pages 58 to 59.

Since the year ended 31 December 2018, the Board has appointed two new independent directors, Maggie Chan Jones and Tamara Minick-Scokalo.

The Audit and Risk Committee is comprised of Erwin Gunst (Committee Chair), Ulf Claesson, Warren Finegold and Belinda Richards. Further details in relation to the Audit and Risk Committee are set out on pages 64 to 69.

The Remuneration Committee is comprised of Ulf Claesson (Committee Chair), Warren Finegold, and John Schwarz. Further details in relation to the Remuneration Committee are set out on pages 72 to 91.

The Nomination Committee is comprised of Warren Finegold (Committee Chair), John Schwarz, Belinda Richards, and Erwin Gunst. Further details in relation to the Nomination Committee are set out on pages 70 to 71.

The Group has a Disclosure Committee comprised of Vincent Steckler, Philip Marshall, Kelby Barton (General Counsel), and Peter Russell (Director of Investor Relations).

The Executive Management team is comprised of the Chief Executive Officer, Chief Financial Officer, President of Consumer, and ten other individuals who are responsible for the key functions of the business and the management of daily operations.

Independence of Non-Executive Directors and Division of roles

The Board has considered the independence of the Non-Executive Directors and believes that, although half of its members were not considered independent during the year, all Directors were able to fulfill their duties. Two additional independent directors, Maggie Chan Jones and Tamara Minick-Scokalo, were appointed to the Board in March 2019, and as a result the Company is compliant with the requirement as at the date of this report.

The roles of the Chairman and the Chief Executive Officer are distinct and the division of responsibility between these roles has been agreed by the Chairman, the CEO and the Board. The Chairman is responsible for the overall effectiveness of the Board and ensuring that it meets its duties. The CEO is responsible for the Group's day-to-day operations, the management of the Executive Management team, and for establishing the leadership for the Group. The Chairman and CEO meet regularly to discuss operational, reputational, and organisational issues. The Chairman was independent when he became a Director of Avast Holding B.V. in 2014 and also of Avast Plc in 2018.

Conflicts of Interest

The Board has agreed an approach and adopted guidelines for handling any potential and actual conflicts of interest that arise between any of its Board members and the Group. Each of the Directors are required to disclose any potential or actual conflicts that their other professional commitments and interests may cause. Any conflict of interest must be approved in advance by the Board, and such conflicts must be permitted by the Company's Articles of Association.

Note 35 of the Financial Statements describes the related party transactions between certain Directors and the Group, which have been considered and approved by the Board of Avast Holding B.V. if it was entered into prior to the IPO, or the Board of the Company, if it was entered into after the IPO.

Board Operations

The Chairman, supported by the Group Secretary and the Senior Independent Director, leads the Board's functions and ensures its effectiveness. Members of the Executive Management team regularly attend Group Board meetings and support the Board's engagement on the Group's strategy, financial results, and business reviews.

In 2018, the Board held eight scheduled meetings. The Audit and Risk and Nomination Committees held three meetings, and the Remuneration Committee held four meetings. Meetings are generally held in London. During 2018, the Board's meetings included reviewing the Group's latest financial results, business unit execution, principal risks, the Group's strategy, and its technology. The Board delegates the ordinary day-to-day operational responsibility to the Executive Management team.

The Chairman and Non-Executive Directors also regularly hold sessions, without the attendance of the Executive Directors or other members of the Executive Management team.

The Chairman ensures that the Directors take independent professional advice where they judge it necessary to discharge their responsibilities. The Group Secretary is also available to provide advice for every Director.

Board members also attended the Group's annual technology summit, held at the Company's main operating office in Prague, where Directors were able to meet some of the Group's senior technology leaders.

The Group is committed to providing the Directors with training in governance and other matters as necessary to assist them with fulfilling their duties as Directors.

Matters Reserved for the Board

The Board is responsible to shareholders for the proper management of the Group. The Group has a policy that delineates those matters specifically reserved for the Board's consideration and approval. Key areas reserved for the Board include:

- The Group's Strategy
- The Group's corporate structure and capitalisation
- Approval of financial reports
- Risk management
- Approval of expenditures and major transactions including mergers and acquisitions
- Board composition
- Determining remuneration policy for Executive Directors
- Oversight of governance, including approval of the Group's applicable corporate Policies
- Approval of equity awards to employees and executive management

Board Focus during 2018

- Approved, and monitored, the Group's long-term business strategy and objectives
- Provided oversight of Avast's IPO in May 2018
- Identified and discussed Avast's principal risks
- Supported Avast's succession planning for the Executive Management team
- Reviewed Avast's operating results and financial statements with management and Avast's external advisors. The Board also approved Avast's operating plan for 2018
- Undertook an evaluation of the performance and effectiveness of the Board, its Committees and its Directors
- The Senior Independent Director evaluated the performance of the Chair

Avast Board Review 2018 – Disclosure

Avast engaged the services of Lintstock to assist with the 2018 review of Board performance. Lintstock is a corporate governance advisory firm specialising in Board reviews. Lintstock has no other relationship with the Company.

The first stage of the review involved Lintstock engaging with the Chairman and Company Secretary to set the context for the evaluation and to tailor the survey content to the specific circumstances of Avast. All Board members were then invited to complete an online survey addressing the performance of the Board and its Committees.

The exercise was weighted to ensure that core areas of Board and Committee performance were addressed, as well as having a particular focus on the following areas:

- The quality of preparations, and the role played by the Board, with regard to the IPO of Avast
- The evolution of the Board's composition, including the numbers of independent Directors, and the priorities with regard to developing the Board's profile in the context of Avast's strategic goals
- The potential to improve the Board papers, as well as areas in which the members of the Board would benefit from training or support in future
- The management of Board meetings, including the frequency with which meetings are held, and how the allocation of time to key topics could be optimised.

Corporate governance statement

- The mechanisms by which the Board can develop its understanding of key stakeholder groups including investors, customers, regulators and employees throughout the business
- The oversight of plans for organic and inorganic growth, the development of the Board's understanding of the markets in which Avast operates, and key competitors
- The continued development of the approach to risk, talent management/development and succession planning within the organisation

Lintstock produced reports considering the performance of the Board, the Committees and the Chairman, which were considered at a subsequent Board meeting.

Actions for the Board for 2019

As a result of the review conducted by Lintstock, the Board is focusing on improving the diversity of the Board composition, providing additional training to its members on corporate governance, dedicating more time at Board meetings to discussions of strategy, and increasing the time and engagement spent with the Group's mid-management.

Regarding diversity, the Board agreed that it was desirable to recruit Board members who had experience in the US technology market, and the market for consumer products. The Board also agreed on the need to increase the number of women on the Board. In March 2019, the Board appointed two new female directors. Maggie Chan Jones brings the experience that the Board was seeking in the US technology sector while Tamara Minick-Scokalo brings deep experience in the consumer sector.

Regarding training, the Board recognises that as a newly listed company on the London Stock Exchange, it needs to ensure that all Directors are appropriately trained on corporate governance issues, such as the new Corporate Governance Code. In addition, efforts should be directed toward ensuring that the Directors know how other companies listed on the Main Market of the London Stock Exchange deal with key governance issues.

Regarding strategy, the Board has concluded that more time needs to be dedicated during meetings on discussion of Group strategy. This means that more information should be provided to Directors on issues such as the needs of target customers, competition, and product roadmap.

Regarding engagement with managers, Directors would like to spend more time hearing from middle and senior management below the executive level so as to better assess the Group's talent pool and succession planning process.

UK Corporate Governance Code Compliance

The Company is subject to the UK Corporate Governance Code ("Code"), a copy of which can be found on the Financial Reporting Council's website www.frc.org.uk.

The Company was compliant with the provisions of the Code during 2018 with the exception of the following:

- At least half of the Board (excluding the Chairman) was not represented by independent Non-Executive Directors. Two additional independent directors, Ms. Maggie Chan Jones and Ms. Tamara Minick-Scokalo, were appointed to the Board in March 2019 and as a result the Company is compliant with the requirement as at the date of this report.

The Code requires a company to state its reasons if it determines that a Director is independent, including where a Director holds cross-Directorships or participates in the company's share option or performance related pay scheme. Mr. Schwarz, Mr. Finegold, Mr. Claesson and Mr. Gunst hold equity interests in the Group resulting from their participation in the Group's share option plans prior to the Company's IPO; however, it should be noted that following the IPO no new option grants were made to the Directors under these plans. Further, the Group has no intention to award any Non-Executive Director any new option grants. The other Directors have concluded that the judgement, experience and challenging approach of each of them should ensure that they make a significant contribution to the work of the Board and its Committees, and that independence has been maintained.

Shareholder Engagement

The Board maintains a dialogue with shareholders to help enable a mutual understanding. The Board's primary contact with shareholders is through the Executive Directors, but the Chairman and the Non-Executive Directors also engage with and are available to major shareholders periodically and in advance of the Annual General Meeting to understand their views on the Group. Feedback is shared with the Board to help inform the Group's strategy and governance framework.

The Group has a comprehensive investor relations (IR) programme through which the CEO, CFO and Director of Investor Relations engage regularly with the Company's shareholders and potential investors to discuss strategic and other issues as well as to give presentations on the Group's results. This includes attendance and participation at various conferences hosted by brokers to ensure that a wide variety of shareholders, including those from different geographies, have access to management. Current and historical financial information, including trading statements, news releases, financial results' presentations, and a wealth of other information regarding Avast can be found on the Investors section of the website at https://investors.avast.com. The Group makes use of webcast technology for results presentations.

Avast offers all its shareholders the opportunity to register to receive shareholder communications – such as the Annual Report, Notice of Meeting and related forms of proxy – electronically.

Annual General Meeting

The Annual General Meeting ("AGM") will be held at 10am on 23 May 2019. All Directors are expected to attend the AGM and to use this meeting as an opportunity to meet with investors and shareholders. The Chairmen of the Audit and Risk, Remuneration, and Nomination Committees will be available at the AGM to answer questions. The Notice of AGM is sent to all shareholders who have requested to receive hard copy documentation, and can also be found on our website at investors.avast.com.

Board and Committee Meeting Attendance

Board Meeting	9 May 2018	23 May 2018	4 July 2018	19 July 2018	20 August 2018	17 October 2018	29-30 November 2018	20 December 2018
John Schwarz	X	X		X	X	X	X	X
Vincent Steckler	X	X	X	X	X		X	X
Ondrej Vlcek	X	X	X	X	X	X	X	X
Philip Marshall	X	X		X	X	X	X	X
Pavel Baudis	X	X		X	X	X	X	X
Eduard Kucera	X	X		X	X	X	X	
Lorne Somerville	X	X			X	X	X	
Warren Finegold	X	X		X	X	X	X	X
Ulf Claesson	X	X		X	X	X	X	X
Erwin Gunst	X	X		X	X	X	X	
Belinda Richards[1]				X	X	X	X	X

Remuneration Committee	23 May 2018	23 August 2018	4 September 2018	29 November 2018
John Schwarz	X	X	X	X
Warren Finegold	X	X	X	X
Ulf Claesson	X	X	X	X

Nomination Committee	23 May 2018	20 August 2018	29 November 2018
John Schwarz		X	X
Warren Finegold	X	X	X
Erwin Gunst	X	X	X
Belinda Richards[2]		X	X

Audit and Risk Committee	23 May 2018	20 August 2018	29 November 2018
Ulf Claesson	X	X	X
Erwin Gunst	X	X	X
Belinda Richards[2]		X	X
Warren Finegold[3]	X		

The Corporate Governance statement includes the Audit and Risk Committee report, the Nomination Committee report, certain aspects of the Directors' Remuneration Report, and incorporates the Takeover Directive disclosures in the Directors' report. This Corporate Governance statement was approved by the Board on 9 April 2019 and signed by order of the Board.

By order of the Board

Alan Rassaby
Company Secretary
Date: 9 April 2019

1 Director did not join the Board until 7 June 2018.
2 Director did not join the Committee until 7 June 2018.
3 Director left the Committee on 7 June 2018 to focus on other Committee responsibilities.

Audit and Risk Committee report

Introduction

"We are committed in assisting the board on matters of governance, risk management and internal control practices of the group."

Erwin Gunst
Chairman

The Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half-year financial statements and accounting policies, internal and external audits and controls, and reviewing and monitoring the scope of the annual audit and its effectiveness. The Committee reviews and monitors the independence and objectivity of the external auditor, including reviewing the appropriateness of any non-audit services provided by the external auditor, and providing recommendations to the Board on the appointment of external auditors. The Committee also reviews the effectiveness of the Group's internal audit, internal controls and risk management systems, including the Group's risk management framework, whistleblowing processes, cybersecurity controls and readiness and fraud systems. The full terms of reference of the Committee can be found on the Company's website, at investors.avast.com/investors/corporate-governance.

The Committee met three times during the year. Each meeting was attended by all members of the Committee then appointed. All Committee meetings were also attended by the Chief Executive Officer, the Chief Financial Officer and the Group's General Counsel, as secretary to the Committee.

Membership

Committee Member	Date of Appointment
Erwin Gunst (Chairman)	10 May 2018
Ulf Claesson	10 May 2018
Belinda Richards	7 June 2018
(Warren Finegold)[1]	10 May 2018

Composition

The Company complies with the requirements of the Code that all members of the audit and risk committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment and that one such member has recent and relevant financial experience.

The Committee's members each have relevant experience in the technology and consumer industry, which is evidenced in their biographies set out on page 58. The Chairman, Erwin Gunst, was formerly an auditor. Belinda Richards has recent and relevant financial experience, being a former corporate finance partner at Deloitte LLP, and currently acts audit committee chair at two FTSE 350 companies.

From time to time, the Committee may invite others to join their meetings, where it considers their expertise and knowledge to be relevant and necessary to the subject matter under consideration. To date, this has included the Chief of Staff & Corporate Secretary, the Group's internal and external auditors and the Group's Vice President of Finance.

1 Director left the Committee on 7 June 2018 to focus on other Committee responsibilities.

Principal Activities

The Committee sets an annual forward agenda based on the scope of its responsibilities under its terms of reference. In addition, the Committee considers any other relevant ad-hoc matters which require its review. During 2018, the Committee afforded particular focus to the following matters:

- Assessing the internal controls and risk management of the Group, including the annual internal audit plan and internal audit charter
- Reviewing, and approving, the Group's external audit and tax advisory fees for 2018
- Monitoring and reviewing the external auditor's independence and objectivity, and the effectiveness of the audit process, including setting and maintaining a policy on the Committee's assessment of the auditor's independence and the effect of non-audit services on audited financial statements
- Reviewing the half-year results of the Group, together with the Group's external auditor
- Monitoring an intra-group re-organisation pursuant to which the intellectual property of the AVG business was transferred from the Netherlands to Czech Republic
- Reviewing, and approving, the reduction of the Company's share premium account by GBP 138,000,000 (more details of which are set out on page 93)
- Reviewing the impact of changes to IFRS accounting, specifically IFRS9, 15 & 16
- Reviewing the annual goodwill impairment assessment, together with the Group's external auditor considering the Group's external auditor's findings and reports on the annual audit and interim review
- Considering the principal risk factors facing the Group and reviewing, and approving, the viability statement of the Group
- Reviewing Avast's compliance with, and readiness for, the start of the enforcement of the General Data Protection Regulation ("GDPR") on 25 May 2018
- Reviewing the Group's security policies, including in relation to vulnerability management, the product build environment and the security of data collected by the Group

Significant Issues relating to the Accounts

The issues considered by the Committee that are deemed to be significant to the Group's accounts are set out below:

Revenue recognition

The Group generates revenue mainly from the sale of its software and related services for desktop and mobile which protect users' security, online privacy and device performance. The Group has revenue arrangements with resellers, payment providers, partners and other third parties. When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal, and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers' commissions, payment provider fees and the third party costs). Otherwise revenues are recognised on a net basis. Licence agreements with customers include a pre-defined subscription period during which the customer is entitled to the usage of the products, including updates and upgrades of the software. Deferrals of licence agreements revenues are the same for IFRS 15 revenue recognition standard and previous guidance (mainly IAS 18). The Group must determine whether a licence sold provides a customer with a "right to access" or a "right to use" the underlying intellectual property. If a licence is determined to provide a customer with a right to access, the revenue is required to be recognised over time. If a licence is determined to provide a customer with a right to use, the revenue is required to be recognised at a point in time. There is a risk that if incorrectly determined, revenue would not be properly recognised.

The Group has a revenue recognition policy in place that details the application of relevant standards to the products and services sold by the Group. The policy includes rules for applying timing of recognition dependent upon the individual nature of the services sold. The Group's external auditors have also reported to the Committee that they have reviewed the revenue recognition policy as well as performing detail testing of revenue recognition across the year and found revenue to be appropriately accounted for.

Having provided appropriate challenge to management and the external auditors, the Committee has concluded that the revenue recognition for the Group is appropriate.

Audit and Risk Committee report

Income and deferred taxes

The Group operates in multiple tax jurisdictions and realised multiple significant transactions during 2018, including transfers of intellectual property within the Group, as a result of which the Group generated a tax benefit of $99.2m (Note 17). The Group proactively seeks to agree arm's length pricing with tax authorities to mitigate tax risks of significant cross-border operations. The Group is operating in multiple tax jurisdictions and undertook a number of significant transactions during 2018. There is a risk that taxation will not properly reflect all transactions which arose during the reporting period correctly and income tax accounts, including deferred tax, in both the consolidated statement of financial position and the consolidated statement of profit or loss will contain a misstatement.

Management provides regular risk updates relating to taxation to the Committee on a quarterly basis. These updates mainly focus on recent tax matters of the Group and also on future development in corporate taxes worldwide where relevant for the Group.

Impairment of Goodwill and indefinite lived intangibles

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. As at 31 December 2018, the Group reported $1,993.7 million of Goodwill and $71.5 million of intangibles assets with indefinite useful lives (Note 25). Goodwill and intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at operating segment level, which is the smallest group of cash-generating units ("CGU(s)") to which the Goodwill and intangible assets with indefinite useful life can be allocated. Goodwill is allocated to the groups of CGUs, that corresponds with operating segments (Consumer and SMB) according to the allocation from past business combinations. Intangible assets with indefinite useful lives are all allocated to the Group of CGUs that corresponds to the Consumer operating segment.

Management has provided the Committee with the results of the annual impairment analysis for 2018. Having provided appropriate challenge to management and the external auditors, the Committee has concluded that the result of analysis is appropriate and there is no impairment of either goodwill or intangible assets as of 31 December 2018.

Leases (IFRS 16)

Management has presented the Committee with the outcome of the review of the Group's lease contracts. The Group has significant office lease contracts. The evaluation of lease contracts included assessment of short-term lease contracts (which the Group has elected to exclude from IFRS 16 measurement), the appropriate lease term, given options for extension of the office lease and the accounting for variable lease rentals. Following adoption of IFRS 16, the Group will recognise a right of use ("ROU") asset and a corresponding financial liability to the lessor based on the present value of future lease payments. There is a risk that the expense would not be properly recognised if the contract is not properly recognised as a lease. In the consolidated statement of profit or loss, IFRS 16 replaces the straight-line operating lease expense by amortisation of the ROU asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). Refer to Note 4 for illustration of the effect in the consolidated statement of profit or loss in 2019. The Group is expecting the impact of the initial recognition on 1 January, 2019 in the amount of $69.7m of the ROU asset and $71.7m of the lease liability. The Group is using the option to bring on the ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised immediately before 1 January, 2019 (representing the remaining $2.0m).

The Finance team has been working on the implementation, and a significant amount of material has been prepared and presented to the external auditors and to the Committee, evaluating the effect on the opening position at 1 January 2019 as well as the quantitative impact on the 2019 financial year. The Committee continuously reviews progress of the implementation and significant judgements made by the Group, including in respect of discount rates applied and the treatment of lease extension options. The Group has elected practical expedients permitted by the standard as described in Note 4.

The Group's external auditors have been reviewing the impact of IFRS 16 on the ongoing lease accounting and the transition by performing detailed testing of specific leases, and have provided feedback on the judgements made by the Group, application of the accounting policy, and practical expedients adopted. The auditors found that the Group's proposed adjustment to lease accounting on implementation of IFRS 16 was materially correct.

Internal Controls

The Board is responsible for the Company's risk management, internal control and internal financial control systems, and for reviewing the effectiveness of these systems. The Committee is responsible for monitoring and keeping under review the adequacy and effectiveness of these systems.

The Group maintains risk management and internal control systems and processes which accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, and these remained in place from the date of the Company's IPO up to the date of this report. The Committee is satisfied that there are no significant weaknesses in these systems and that the Group's internal controls are operating effectively.

Internal controls relating to financial reporting form an integral part of the Group's corporate governance and enterprise risk management policy. The Group's internal controls over financial reporting are in line with the COSO framework for internal controls. The internal controls process of the Group are based around control environment, risk assessment, control activities, information and communication, and monitoring, each of which is explained in more detail below. It is a process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

Internal Audit

The Group established a formal Internal Audit department in 2018 to support the Committee. The primary purpose of the Internal Audit department is to enhance and protect organisational value by providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations, control and governance processes.

The Committee has reviewed, and approved, the internal audit plan for 2019, which was created using a risk-based approach. For 2019, Internal Audit will focus on validating the effectiveness of the internal control framework and mitigating identified operational and compliance risks.

Whistleblowing Policy

The Group has in place a whistleblowing policy, which enables employees to report any concerns relating to misconduct and serious breaches of Avast policy or ethical guidelines without fear of retribution. The Group has established a dedicated hotline and email address to handle all such reports. Ethical questions or concerns raised by employees are investigated and all findings and remedial actions are reported in detail in periodic reports prepared for and reviewed by the Committee.

Control Environment

The Group's control environment serves as a foundation for its internal control process. Management at all levels is responsible for ensuring that the Group, and its employees, comply with the Group's internal policies, including its Code of Conduct and other internal policies relating to, amongst others, financial processes, human resources, legal, information security and IT.

The financial shared services of the Group support harmonised and standardised financial accounting processes and controls.

Risk Assessment

The Group takes a risk-based approach towards internal controls. During the year, the Committee, on behalf of the Board, carried out an assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. A description of the principal risks facing the Group and how these were reviewed to assess the Group's viability can be found on page 47.

Control Activities

Control activities are designed to prevent or detect material misstatements in the financial statements and reporting. To manage these risks, the Group has established control activities. Key processes in relation to control activities, including related risks and key controls, have been implemented and documented in the Group's internal control framework.

Information and communication

Internal policies and directions, including requirements relating to the implementation of internal controls as well as accounting and reporting, are communicated to all relevant employees through internal communication channels such as the intranet, training sessions and e-mail.

Monitoring

The Group implemented a process for the monitoring of the performance of internal control activities through periodic control self-certification and compliance reviews by the internal audit function. The Group maintains an ongoing and transparent dialogue with its employees regarding internal controls and the performance of control activities. Control owners are encouraged to disclose any issues related to the performance of control activities in order to ensure that any issues in the process can be addressed in their infancy.

The Committee receives reports directly from both external and internal auditors. The reports are considered and discussed in detail by the Committee in meetings at which both the external and internal auditors are present.

Audit and Risk Committee report

Financial Reporting – Internal Controls and Risk Management

The Group's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with the relevant applicable laws and procedures. The key elements of the internal control framework, in addition to the risk management processes outlined in pages 46 to 47 of this report, are:

- A clear schedule of matters which require approval at Board level
- A policy in relation to delegation of authority and the limitations which apply
- Comprehensive annual budgets prepared for the Group, and individual business units
- On-going monitoring of the performance of the Group, and individual business units, against budgets with reports given to the Board on a regular basis
- A centralised financial reporting system and close process, with controls and reconciliation procedures designed to facilitate the production of the consolidated accounts
- Assessment of accounting standard changes with both the external auditor and the Committee
- Documented policies made widely available to employees in relation on anti-bribery and corruption, anti-money laundering, export controls and whistleblowing
- An ongoing review of the principal risks which face the Group, in addition to the assessment undertaken by the Committee in preparing the viability statement
- Regular reports in relation to finance, tax and treasury given to the Committee

The Annual Report is reviewed by the Committee in advance of presentation to the Board for approval. The Committee reviewed the Annual Report in detail, as well as the processes carried out by management in compiling its contents, with a view to ensuring that it was fair, balanced and understandable. On the basis of this, the Committee recommended to the Board that it could give the disclosure as set out on page 97.

Effectiveness of Internal Control and Risk Management

During the year, the Committee, on behalf of the Board, reviewed the effectiveness of the internal control and risk management systems of the Group – and reported its conclusions to the Board.

The Committee believes that the internal controls, including the internal audit function, and risk management function of the Group are effective, and that the quality, experience and expertise of the Group's function is appropriate for the business. In coming to this conclusion, the Committee considered numerous factors, including:

- Reports it received from, and meetings it held with, the Group's external auditor
- Management's self-certification of the Group's internal controls and risk management systems, including against the 2013 COSO Framework, as monitored by the Committee
- Work carried out by the Internal Audit function during the year ended 31 December 2018, including an assessment of the functional personnel and the annual internal audit work plan
- Detailed assessment of the risk ratings assigned to the individual risks within the business
- Measures the Group has in place to mitigate the principal risks it faces (more details of which can be found on pages 47 to 48)
- Approved audit plan for year ended 31 December 2019 relating to financial, control, business and operational audits

The Committee is satisfied that there is an on-going process for identifying, evaluating and managing the principal risks faced by the Group. The systems have been in place from the date of IPO up to the date of approval of the annual report and accounts, and they are regularly reviewed by the Committee.

During the year the Head of Internal Audit reported to the Committee on updates on the internal control framework implementation and effectiveness, on areas where it had carried out key control reviews, including account reconciliations, information technology and entity level controls.

The Board is satisfied that there are no significant weaknesses in these systems and that the group's internal controls are operating effectively.

External Auditor

The Committee makes recommendations to the Board on the appointment, remuneration and removal of the Group's external auditor.

In accordance with the mandatory re-tendering rules implemented by the UK Competition and Markets Authority, at least once every ten years the audit services contract will be put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. The Committee oversees and supervises any competitive tender process undertaken by the Group for the provision of external audit services.

Ernst & Young LLP was appointed as external auditors of the Company on 26 April 2018 for the year ended 31 December 2018. Previously, Ernst & Young s.r.o. was appointed as external auditors to the underlying group since the year ended 31 December 2007. The Company was in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 during the year.

Non-Audit Services

In order to ensure the ongoing independence of the external auditor, the Group maintains a Non-Audit Services Policy ("Policy") which defines the rules under which the Group can use the external auditor for non-audit services. The Policy complies with the Financial Reporting Council's guidelines on the UK Corporate Governance Code and Ethical Standards.

The Policy provides that any non-audit services carried out by the external auditor must be approved in advance by the Chair of the Audit and Risk Committee and carried out in accordance with the terms of the Policy. The Policy further provides that the Committee must assess the ratio of audit to non-audit fees in the period and projected for that financial year end. If the Committee finds that the level of fees being paid to the external auditor for audit or non-audit related service are of a magnitude that could impair, or be perceived to impair, auditor independence, the Committee may impose a restriction on the services being awarded to the external auditor. The Policy imposes a cap on the fees charged by the external auditor for non-audit services, which is 70% of the average of the fees paid in the last three consecutive financial years for any statutory audits provided to the Group. As with all non-audit service providers, the Committee is also required to review the services proposed to be provided by the external auditor to consider whether it has the appropriate skills and expertise to do so.

During the financial year, the external auditor carried out the following non-audit services on behalf of the Group:

- Reviewed the half-year results of the Group
- Acted as the Company's reporting accountant and other advisory work in connection with its IPO
- Provided tax advice to the Group which were ceased prior to the IPO

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Committee further reviewed the services provided to the Group by the external auditor during the year, and the safeguards in place to protect its independence and objectivity. The Committee concluded that the non-audit services carried out by the external auditor did not impair the external auditor's independence or objectivity.

A comparison of total audit and non-audit fees charged by the external auditor for the financial year 2018 is set out in Note 11 to the financial statements.

Effectiveness of External Auditors

The Committee reviewed the effectiveness of the external auditors for the financial year ended 31 December 2018. The Committee considered numerous factors when undertaking this assessment, including:

- The independence and objectivity of the external auditor
- The external auditor's qualifications, expertise and resources and the effectiveness of the audit process
- The tenure of external auditor, and whether it would be appropriate to put the audit services contract out to tender
- The transparency reports of the external auditor for 2018
- The non-audit work which was carried out by the external auditor for the Group
- Its meetings and discussions with the external auditor, including in relation to the auditor's findings and reports on the annual audit and interim review

Upon completion of its review of the effectiveness of the external auditors, the Committee recommended to the Board that a resolution to re-appoint Ernst & Young LLP be proposed at the next Annual General Meeting.

Performance Evaluation

The evaluation of the Audit and Risk Committee for 2018 was completed as part of the annual Board evaluation process. The performance of the Committee was evaluated in accordance with the process set out on pages 61 to 62. The Committee's performance was rated highly.

The Committee has reflected on the findings of the report, together with the suggestions offered in relation to how the Committee can operate more effectively.

By Order of the Board

Erwin Gunst
Chairman
Date: 9 April 2019

Nomination Committee report

Introduction

"Succession planning is carried out with a view to strengthening our organisational capabilities and ensuring our board and executive team possess the requisite skills, experience and diversity."

Warren Finegold
Chairman

The Nomination Committee assists the Board in reviewing the structure, size, performance and composition of the Board. It is also responsible for reviewing succession plans for the Directors and senior executives. The full terms of reference of the Committee can be found on the Company's website at investors.avast.com/investors/corporate-governance.

The Committee met three times during the year. Each meeting was attended by all members of the Committee then appointed other than on one occasion Mr. Schwarz was unable to attend a meeting. All Committee meetings were also attended by the Chief Executive Officer and the Group's General Counsel.

Membership

Committee Member	Date of Appointment
Warren Finegold (Chairman)	10 May 2018
John Schwarz	10 May 2018
Erwin Gunst	10 May 2018
Belinda Richards	7 June 2018

Composition

The Company complies with the requirements of the Code that a majority of the nomination committee be non-executive directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment.

The Committee is chaired by Warren Finegold, the Senior Independent Director of the Company, and comprises three other Non-Executive Directors. Full biographies of the Committee's members can be found be on pages 58 to 59.

The Group's General Counsel is secretary to the Committee. From time to time, the Committee may invite others to join the meetings, where it considers their expertise and knowledge to be relevant and necessary to the subject matter under consideration. To date, this has included the Chief of Staff & Corporate Secretary and the Chief Human Resources Officer.

Principal Activities

The Committee sets an annual forward agenda based on the scope of its responsibilities under its terms of reference. In addition, the Committee considers any other relevant ad-hoc matters which require its review. During the year, the Committee paid particular attention to the following matters:

- Diversity of the Board
- Succession plans for the Board and executive management
- New appointees to the Board
- Evaluation of the Board's structure, size, performance and composition
- Board's compliance with the UK Corporate Governance Code

The Committee leads the recruitment process in relation to the appointment of Non-Executive Directors to the Board. The Committee's standard process involves developing a candidate profile based on the skills and experience that it believes would best complement the Board, as well as satisfying the diversity needs of the Company as set out in its Diversity Policy.

The Committee typically seeks to engage an external professional search agency, with no other connection with the Company, to assist in the search for candidates for Non-Executive Director positions. The Committee reviews all suitable candidates, and, following consideration, makes a recommendation to the Board regarding the appointment of a candidate. The Board reviews the information provided to it, and, where deemed appropriate, approves the appointment.

On 7 June 2018, Belinda Richards was appointed to the Board, the Nomination Committee and the Audit and Risk Committee. The Committee followed its standard recruitment process in connection with Ms. Richards' appointment. Spencer Stuart, an external professional search consultancy with no other connection to the Company, was engaged by the Company to assist with the recruitment process. Spencer Stuart adheres to the Voluntary Code of Conduct for Executive Search, relating to, amongst other things, gender diversity.

Diversity Policy

In addition to the Diversity Policy which applies to the Group's recruitment process more generally (as further described on page 51), the Board has adopted a Diversity Policy specific to its composition.

The Board recognises the need to have leaders who embrace the Group's culture and values, and believes that in order to provide effective strategic leadership, the Board must comprise individuals with a broad range of perspectives, along with the requisite skills, knowledge, and experience. The Board acknowledges the benefits of diversity, and aspires to reflect a greater diversity of gender, race, cultural, educational and professional backgrounds, among other differences.

The Board, and specifically the Committee, encourage the emergence and consideration of female candidates and those of diverse backgrounds in all of its searches. The Committee requires that all lists of potential new Board members include a diverse set of candidates.

The Board is committed to increasing diversity, including the number of female Board members over time, and to improving its position on diversity whenever appropriate opportunities arise. During 2018, the Board appointed its first female member, Belinda Richards.

The Board conducts a review of its composition, at least annually. The Board currently comprises members from 5 different nationalities, with experience across a diverse range of disciplines and industries. The Board set itself the objective of adding two new female members during 2019, subject to such candidates possessing the requisite skill, knowledge and experience to complement the Board's composition. The Board met this goal by appointing Maggie Chan Jones and Tamara Minick-Scokalo in March 2019.

Independent Directors

The Code recommends that at least half of the board of directors of a UK-listed company, excluding the Chairman, should comprise non-executive directors determined by the board to be independent in character and judgment and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgment. As six of the Directors during the year were not independent, the Company did not comply with the recommendation of the Code that at least half the board of directors, excluding the Chairman, should comprise independent non-executive directors. Two additional independent non-executive Directors were appointed in March 2019, Ms. Chan Jones and Ms. Minick-Scokalo, and we therefore comply as at the date of this report.

Succession Plans

The Company reviews the risk rating of the senior executives on an annual basis and discusses the succession plans for each of them. The successors are given a readiness status and their development is discussed. Succession planning is carried out with a view to strengthening our organisational capabilities and ensuring our Board and executive team possess the requisite skills, experience and diversity. It is the Company's intention to fill the majority of the senior executive positions with internal candidates.

Vincent Steckler announced on 13 March 2019 that he will retire as CEO, effective as of 30 June 2019. He will be succeeded by the Group's current President of Consumer, Ondrej Vlcek. Following a comprehensive assessment and market benchmarking exercise undertaken by the Committee with the assistance of Russell Reynolds, the Board concluded Mr. Vlcek was the best qualified person to lead the Group.

Performance Evaluation

The evaluation of the Nomination Committee for 2018 was completed as part of the annual Board evaluation process. The performance of the Committee was evaluated in accordance with the process set out on pages 61 to 62. The Committee's performance was rated highly. The Committee has reflected on the findings of the report, together with the suggestions offered in relation to how the Committee can operate more effectively.

Warren Finegold

Directors' remuneration report

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- Executive Directors' single figure of remuneration and shareholdings
- An overview of Executive Directors' Remuneration Policy

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- Directors' Remuneration Policy ("Policy") will be put to a binding shareholder vote at the 2019 AGM on 23 May 2019 and, if approved, will be effective from that date

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- Implementation of policy for 2019
- Directors' remuneration for 2018
- Directors' shareholdings
- Remuneration Committee overview

The Directors' Remuneration Report that follows has been prepared in accordance with the provisions of the 2016 UK Corporate Governance Code, the Listing Rules, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. This report, less the Directors' Remuneration Policy, will be subject to an advisory shareholder vote at the 2019 AGM on 23 May 2019.

Chairman's letter

"Total compensation is set to reward achievement of short and long-term financial objectives and support delivery of the business strategy."

Ulf Claesson
Chairman

Welcome to our first Remuneration Report. This sets out the Company's Directors' Remuneration Policy, how the Directors have been rewarded in the period from 9 May 2018 (when they were appointed as Directors of the Company just prior to the IPO on 15 May 2018) to 31 December 2018 and how we intend to apply our Remuneration Policy during 2019.

In anticipation of the Company's listing on the Main Market of the London Stock Exchange, a thorough review of the Remuneration Policy was undertaken to ensure that it was appropriate for a listed company environment. Following this review, a new policy was established. The key terms of this Policy were set out in the Listing Prospectus and are provided in more detail in this document. Our Directors' Remuneration Policy will be put to a binding vote of shareholders at the forthcoming AGM on 23 May 2019.

When conducting our review of the Remuneration Policy, the Remuneration Committee (the "Committee") was very aware of what is considered best practice for companies listed on the Main Market of the London Stock Exchange. At the same time, we need to be able to attract and retain US based executives, bearing in mind that a significant number of our management team are based in, or were recruited from the US. We compete for talent against global technology companies, whose pay model is very different to typical UK practice.

Recognising these challenges, we have designed a reward framework for Executive Directors which incorporates the best practice features of the typical UK pay model (including bonus deferral into shares until the shareholding guidelines are met, a single long-term incentive plan, a two year post vesting holding period on the LTIP, and clawback and malus) whilst setting reward levels, particularly long-term incentive opportunity, at an appropriate level for the markets in which we operate. Whilst our long-term incentive opportunity may appear high in the context of a UK listed company environment, it remains substantially lower than that offered by our US peers. The Executive Directors do not currently receive a pension allowance in-line with practice for other employees. The Committee strongly believes that this approach is in the best interest of shareholders to enable us to recruit and retain the talent we need in all locations to drive performance and deliver shareholder value creation.

Board changes and remuneration for 2019

On 13 March 2019, we announced that Vincent Steckler had notified the Board of his intention to retire in 2019 after 10 successful years with the Group. Vincent will step down from the board and as CEO on 30 June 2019 but will remain available to the business in an advisory capacity until 30 June 2020 to ensure a smooth transition process. Vincent will not be entitled to a bonus and LTIP award for 2019. Further details of leaving arrangements for Vincent Steckler are set out on page 90.

Vincent will be succeeded as CEO by Ondrej Vlcek, currently President of the Consumer Business, and Vincent's 10-year partner in driving the company's success. From 1 July 2019, Ondrej's salary will be increased to $700,000 reflecting his new role. This salary is positioned below that of the current CEO. His maximum annual bonus opportunity will remain at 200% of base salary and his LTIP opportunity will be increased to 500% of base salary in line with the current LTIP opportunity for the CEO role.

Following Vincent's retirement and the reduction in the number of Board executives from three to two, Philip Marshall will be taking on additional responsibilities. The Remuneration Committee therefore considered that it was appropriate to increase his remuneration from 1 July 2019 to reflect the expansion in the scope and responsibility of his role. From this date, his salary will be $600,000, his annual incentive opportunity will be 200% of base salary and his LTIP will be increased to 450% of base salary.

The Committee considers that these revised packages are appropriate to reflect the size and scope of Ondrej's and Philip's roles going forward.

For 2019 bonuses will continue to be based 37.5% on adjusted revenue, 37.5% on unlevered free cash flow and 25% on performance against strategic KPIs. The LTIP will also continue to be based 50% on basic EPS (undiluted) and 50% on adjusted revenue growth targets. Further details on the performance metrics and targets are set out on page 79.

Reward in the period under review

The business delivered a strong financial performance in our maiden year as a publicly listed business. Group adjusted revenue increased 8.3%, (excluding discontinued business and FX) on a like-for-like basis, driven by double digit growth in our consumer desktop business. The strong top line performance was also reflected in our unlevered free cash-flow performance, with 14.0% growth supported by the high levels of profitability sustained in the business, plus excellent working capital management.

The annual bonus for Executive Directors in 2018 was based on the following performance measurements: (i) 37.5% of the annual bonus was based upon the Group's adjusted revenue performance (as defined on page 163), (ii) 37.5% of the annual bonus was based upon the Group's unlevered free cash flow performance (as defined on page 164), and (iii) 25% of the annual bonus was based upon the Director meeting certain individual strategic KPIs. Adjusted revenue for 2018 was $827m and unlevered free cash flow was $394m. Performance for both of these measurements was ahead of target resulting in the Executive Directors being awarded 50.8% of maximum in respect of the adjusted revenue component (37.5%), and 78% of maximum in respect of the unlevered free cash flow component (37.5%). The Committee reviewed individual performance carefully against the strategic KPIs set for each Executive Director, and awarded the Executive Directors as a percentage of target (25%) relative to the performance component: (i) CEO – 27%, (ii) CFO – 29.1%, and (iii) President Consumer 27%. Further details are set out on pages 86 to 87.

Based on this performance, the amounts which the Executive Directors received as part of their annual bonuses were as follows:

Note: Percentage expressed towards annual salary.

Long-term incentive plan ("LTIP") awards were granted to the Executive Directors on 19 June 2018 following the Company's listing on the London Stock Exchange ("Admission"). These are structured in the form of performance share awards and will vest subject to challenging earnings per share (basic EPS undiluted) growth and adjusted revenue growth targets based on performance to 31 December 2020 (further details are set out on page 76). Any shares vesting under the LTIP (net of tax) will be subject to a two-year holding period.

Other matters considered by the Committee

The Committee is mindful of the 2018 UK Corporate Governance Code ("2018 Code"). Our remuneration arrangements already reflect a number of the provisions of the 2018 Code. For example, Executive Directors do not receive a pension allowance, which is in line with other employees, LTIP awards are subject to a two year post vesting holding period and malus and clawback provisions apply. The Committee will consider the Company's approach to adopting the provisions of the 2018 Code in more detail during 2019 and we will report on our compliance with the 2018 Code in the 2019 annual report.

Ulf Claesson
Chairman of the Remuneration Committee

Directors' remuneration report

Remuneration at a glance

Overview of the Executive Directors Remuneration Policy

Base salary	Benefits	Pension	Annual bonus award	Long term incentive plan (LTIP)
Reflects the skills and experience of an individual and provides a competitive base salary compared with similar roles in similar companies	To enable the Executive Directors to undertake their roles through ensuring their well-being and security	To provide an appropriate pension benefits package for the individual	To drive effective delivery of the business strategy, reward short-term operating performance and promote executive share ownership	To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance

Read more on pages 74 -77 ❯

Remuneration policy

This section of the report (pages 74 to 83) sets out the remuneration policy for the Directors of the Company. The remuneration policy will be subject to a binding shareholder vote at the AGM on 23 May 2019. The policy will take effect from the date it is approved. It is currently intended that the policy will continue to apply until approval is next required at the AGM in 2022.

The Group's overall philosophy on remuneration is based on the approach that remuneration should be linked to the performance and behaviour of the individual, business results and shareholder outcomes.

This approach to remuneration, which cascades down through the organisation, is designed to:

- reward achievement of short and long-term financial objectives and support delivery of the business strategy;
- provide competitive, transparent and fair rewards; and
- align the interests of employees and shareholders through appropriate levels of employee share ownership.

Reward levels are set to attract, retain and engage high calibre talent to support the business strategy. A significant proportion of potential total reward for our senior executive team is performance-related, aligning pay with business success.

The high performance hurdles that we set ourselves ensure that the reward received by the executives through the incentive plans is closely linked to the delivery of the business strategy. Furthermore, our remuneration policy and long-term nature of our incentive plans promotes sustainable financial performance and ensures appropriate safeguards are in place to avoid rewarding failure.

Executive Director policy table

Base salary

Purpose and link to strategy

Reflects the particular skills and experience of an individual and provides a competitive base salary compared with similar roles in similar companies.

Operation

Base salary levels are determined by the Committee taking into account the role, responsibilities, performance and experience of the individual, market data for comparable roles and pay and employment conditions elsewhere in the Group.

Salaries are typically reviewed annually, with any changes normally taking effect from 1 April each year.

Maximum opportunity

While there is no maximum salary level or maximum increase that may be offered, salary increases will normally be in line with typical increases awarded to other employees in the Group.

However, increases may be above this level in certain circumstances such as:

- Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience.
- Where an Executive Director has been promoted or has had a change in responsibilities.
- Where there has been a significant change in market practice or where there has been a significant change in the size and/or scope of the business.

Link to performance

n/a

Executive Director policy table continued

Benefits

Purpose and link to strategy

To enable the Executive Directors to undertake their roles by ensuring their security and wellbeing.

Operation

Benefits currently include private health cover (for the individual and family members), life insurance, mobile phones for private use, flexible benefit scheme and car allowance.

Any reasonable business related expenses (including any tax thereon) may be reimbursed, including any reasonable professional fees incurred in providing any taxation advice and compliance as required as a consequence of a Director receiving directors' fees.

Where an Executive Director is required to relocate to perform their role, appropriate one-off or on-going expatriate/relocation benefits may be provided (e.g. housing, schooling etc.)

Directors can also access Avast products on the same terms as offered to other employees.

Executive Directors may participate in any all-employee share plans which may be operated by the Company on the same terms as other employees.

The Committee may introduce other benefits it is considered appropriate to do so, taking into account the individual circumstances, the country of residence of a Director, the benefits available to all Avast employees and the wider external market.

Maximum opportunity

There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision.

Link to performance

n/a

Pension

Purpose and link to strategy

To provide an appropriate allowance for retirement planning.

Operation

In additional to any local statutory requirements, Executive Directors may receive contributions to a defined contribution pension scheme (or equivalent) and/or receive a cash allowance in lieu.

Maximum opportunity

The Executive Directors do not currently receive a pension allowance in-line with practice for other employees.

If the Company were to introduce pension arrangements or similar for other employees in the group then Executive Directors may be provided with a pension or pension allowance at the same rate as other employees.

Link to performance

n/a

Directors' remuneration report

Executive Director policy table continued

Annual bonus

Purpose and link to strategy

The annual bonus is designed to drive effective delivery of the business strategy, reward short-term operating performance and promote executive share ownership via the deferral of bonus into shares where the shareholding guideline has not been met.

The annual bonus scheme enables the Group to flexibly control its cost base through performance linked reward and ensures Executive Director remuneration is directly linked to business performance.

Operation

Where the Executive Director has met the required shareholding guideline (as described in more detail on page 78), the bonus will normally be paid in cash.

Where an Executive Director has not met the expected shareholding guideline or is not on course to meet the shareholding guideline within the timeframe set out, 50% of any bonus earned will be deferred into shares under the Avast Deferred Bonus Plan (the "DBP"). The Committee shall determine each year whether the shareholding guideline has been met or is on course to be met and therefore whether an Executive Director is required to defer their bonus.

Deferred awards will ordinarily vest on the second anniversary of grant. Dividend equivalents may be payable on the deferred shares that vest.

Bonuses are not pensionable.

The Committee retains the discretion to adjust the bonus award if it does not consider that it reflects underlying Company performance or for any other reason if considers appropriate but may not exceed the maximum policy limit.

Recovery and withholding provisions apply (see below).

Maximum opportunity

Maximum bonus opportunity in respect of a financial year is:

- 200% of base salary

Target bonus opportunities are 50% of the maximum bonus opportunity. No more than 12.5% of the maximum bonus will be payable for achieving a threshold level of performance of each of the two financial criteria.

Link to performance

The performance targets for the annual bonus are normally set at the start of each financial year.

The performance targets will be primarily based on one or more challenging financial metrics. The Committee may also include individual and/or strategic measures.

No less than 70% of the annual bonus will be based on financial measures.

The measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives and will be detailed in the relevant Annual Report on Remuneration unless they are considered to be commercially sensitive.

Long-term incentives – the Avast Long Term Incentive Plan (the "LTIP")

Purpose and link to strategy

To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance.

Operation

The LTIP forms the primary long-term incentive arrangement for Executive Directors.

Under the LTIP, annual grants of performance stock units will be made to the Executive Directors. Awards under the LTIP will normally be granted to the Executive Directors as conditional share awards but may be made in other forms in accordance with the plan rules.

LTIP awards will normally vest based on performance assessed over a period not shorter than three years. Awards will be subject to a two year post-vesting holding requirement (on a net-of-tax basis) during which time executives will not normally be able to sell their shares.

The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects underlying Company performance or for any other reason it considers appropriate.

Dividend equivalents may be payable on shares that vest under the Plan.

Recovery and withholding provisions apply (see below).

Maximum opportunity

The maximum award in normal circumstances is 500% of salary for the Chief Executive Officer and 450% of salary for the Chief Financial Officer and other directors.

In exceptional circumstances (such as recruitment), Awards may be granted over shares equal in value to a maximum of 750% of the relevant executive's base salary at the discretion of the Committee.

No more than 7% of the maximum opportunity will be payable for achieving a threshold level of performance of each of the financial criteria.

Link to performance

The performance share awards are currently subject 50% to basic EPS (undiluted) growth and 50% to adjusted revenue targets growth.

The Committee may use different measures for future awards as appropriate to reflect the business strategy.

Executive Director policy table continued

Employee share ownership – the Avast Share Matching Plan ("SMP")

Purpose and link to strategy

The purpose of the SMP is to encourage and enable all eligible employees to acquire a stake in the Company so that they can share in the future growth, development and success of the Company, and to further align the interests of such employees with the interests of the shareholders of the Company.

The SMP allows the Company to match shares purchased by employees in accordance with a matching ratio determined by the Remuneration Committee.

Operation

All employees, including the Executive Directors and members of the Executive Management Team are eligible to participate in the SMP.

Participants can voluntarily invest up to $34,000 per year to acquire shares (via deductions from their base remuneration or quarterly bonus). The Company will award the participant a number of matching shares linked to the number of purchased shares by the end of the holding period provided that the purchased shares have been retained during this period. The current holding period is two years (but the Committee may determine that an alternative period shall apply).

Dividend equivalents may be payable on the matched shares.

Maximum opportunity

The maximum matching ratio is one matched share to one purchased share. However, the current intention is to limit the matching ratio to one matched shares for every three purchased shares.

Link to performance

n/a

Non-Executive Director policy table

.Non-Executive director fees

Purpose and link to strategy

To enable the Company to attract and retain experienced, skilled Non-Executive Directors that are capable of advising and supporting the Executive Directors with setting, monitoring and delivering the strategic objectives.

NED fees reflect the value of the individual's skills and experience and recognise the expected time commitments and responsibilities.

Operation

Fees will normally be paid in cash but may be paid in a combination of cash and shares if this is considered appropriate.

The Chairman's fee is set by the Remuneration Committee and the Non-Executive Directors' fees are set by the Chairman and the Executive Directors.

Fees are set by reference to external data on fee levels in similar businesses, having taken account of the responsibilities of individual Directors and their expected annual time commitment.

The Chairman is paid a single consolidated fee. It is not expected that any additional fees will be paid for chairing any of the Board's Committees.

Our Non-Executive Director fees policy is to pay an annual basic fee for membership of the Board and additional fees for the Senior Independent Director ("SID"), the Chair of each of its Committees and the members of each of its Committees to take into account the time commitment of these roles.

Additional fees or other payments may be paid to reflect additional responsibilities, roles or contribution, as appropriate.

Fees are reviewed at appropriate intervals.

Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. They are entitled to reimbursement of reasonable business expenses and any tax incurred thereon.

Benefits currently include, but are not limited to, travel, accommodation and hospitality provided in relation to the performance of any Directors' duties together with any reasonable professional fees incurred in the provision of taxation advice and compliance as a consequence of a Director receiving Directors' fees. Additional benefits may be introduced, if considered appropriate.

An additional allowance is payable per meeting where transatlantic (or equivalent) travel is required.

Maximum opportunity

Fee levels are reviewed on a periodic basis.

The aggregate amount of Directors' fees is limited by the Company's Articles of Association.

Directors' remuneration report

Shareholding guidelines

The Group has adopted shareholding guidelines under which Executive Directors are normally expected to build and maintain a shareholding in the Company equivalent in value to 200% of annual base salary. It is normally expected that this guideline will be reached within five years of appointment. Shares held on Admission, together with any shares acquired following Admission, count towards the threshold. If an individual subject to the guidelines does not meet the guideline or is not on course to meet this guideline, up to 50% of any bonus earned will normally be required to be deferred into shares as a deferred bonus award. The Committee shall determine each year whether the shareholding guideline has been met or is on course to be met and therefore whether an Executive Director is required to defer their bonus. In addition, individuals will be expected to retain at least half of the net shares vesting under the Company's discretionary share based employee incentive schemes until the guideline is met.

Information supporting the policy

Recovery and withholding provisions

Annual bonus payments may be recovered for a period of three years from the date of payment. Recovery and withholding provisions apply under the Deferred Bonus Plan ("DBP"), within three years from the date on which any DBP award is granted. Recovery and withholding provisions apply under the LTIP at any time prior to the third anniversary of the date on which awards vest following the end of performance period. The circumstances in which recovery/withholding provisions may apply are:

a) a material misstatement of the Group's financial results;

b) an error in assessing the achievement of any bonus or performance conditions; and

c) discovery of serious misconduct by the participant prior to vesting.

Share plan operation

Awards made under the Company's share plans are governed by the terms of the plan rules and the Committee may exercise discretion in accordance with the plan rules. Under such rules, awards may:

a) have any performance conditions applicable to them amended or substituted by the Committee where circumstances change in such a way as to cause the Committee to substitute, vary or waive performance conditions as long as such substituted, varied or waived condition is as fair and not more difficult to satisfy than the original;

b) incorporate the right to receive an amount equal to the value of dividends which would have been paid on the shares under an award that vests up to the time the vested shares are issued or transferred. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;

c) be settled in cash at the Committee's discretion. This provision shall be used only in exceptional circumstances such as where awarding shares or settling awards in shares is not possible in certain jurisdictions for regulatory or legal reasons; and

d) be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other similar event that materially may affect the Company's share price.

Approved payments

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before 23 May 2019 (the effective date of the Policy) or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Pre-IPO incentive arrangements

Prior to Admission, the Company had a share option plan (the "Existing Plan") in place under which options over ordinary shares of Avast Holding B.V. were granted. Options under the Existing Plan were adjusted on Admission to replace the shares in Avast Holding B.V. with shares in the Company. It is not intended that any further awards will be made under the Existing Plan following Admission, although some awards granted under the Existing Plan including to Executive Directors remain outstanding. Time based options typically become exercisable over a four-year period, vesting in equal tranches. Performance based options typically become exercisable over a four-year period subject to certain performance thresholds being achieved. Options which have not been exercised will lapse on the tenth anniversary of grant. The Committee may amend or alter the terms of any option which has been granted. Such amendment can be retroactive but cannot be inconsistent with the terms and conditions of the Plan. A summary of the terms of the Existing Plan is set out in the Group's Listing Prospectus. Details of the outstanding awards to the Executive Directors are set out in the Annual Report on Remuneration on page 88 and will be allowed to vest subject to the terms of the Plan.

Selection of performance measures

Annual bonus

The annual bonus is designed to drive and reward excellent short-term financial and operational performance. The Committee reviews the annual bonus plan measures annually in order to ensure that they are aligned with the Group's strategy. The Committee may alter the choice and weighting of the metrics for future bonus cycles to reflect the changing needs of the business. The Committee also retains the discretion to retrospectively amend the measures, weightings, targets and/or method of assessment for the in-year bonus to take into account a change in the business strategy, significant acquisition or disposal, change in accounting treatment or other exceptional event to ensure that the scheme is able to fulfil its original purpose.

Annual bonuses for 2019 will be made up of the following components:

- 37.5% of the bonus is based upon Adjusted Revenue performance – this measures our ability to deliver top-line financial results and deliver our growth strategy
- 37.5% of the bonus is based upon unlevered free cash flow performance – this measures the profitability of the business and our ability to convert this profit into cash returns
- 25% of the bonus is based upon on performance against other strategic KPIs – this ensures a rounded assessment of performance and incentivises management to deliver against our strategic milestones so that we continue to lay the foundation to deliver future success

LTIP Awards

Our long-term strategic objective is to provide long-term sustainable growth for all of our shareholders. To support this our LTIP awards are currently based on the following performance measures:

- 50% on adjusted revenue growth over three years – this provides an assessment of the growth and success for the Group over the long-term and is strongly aligned to the execution of the business strategy
- 50% on basic EPS (undiluted) growth over three years – this provides an assessment of the profitability of the adjusted revenues delivered and strongly aligns with the interests of shareholders

The Committee believes that the combination of adjusted revenue and profit incentivise management to grow the value of the Group over the long-term and is strongly aligned to the execution of the business strategy. The choice of measures or their weighting may change for future award cycles.

Performance targets for both the annual bonus and the LTIP are set taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

SMP matching awards are not subject to performance conditions as all employees are eligible to join the scheme.

Remuneration policy for other employees and how employees' views are taken into account

The Committee took into account the Company's approach to remuneration and related policies for the wider workforce when determining the Policy for Executive Directors. The majority of our employees are able to share in the success of the Group through participation in an annual bonus plan. Executive Directors, other members of the Executive Management Team and key employees are also eligible for participation in a long term incentive plan and all employees and Executive Directors are eligible to participate in a share matching plan. The Committee did not directly consult with employees when setting the Policy but it took into account general feedback on employee engagement provided to the Board.

How shareholders' views are taken into account

The Committee is committed to an open and ongoing dialogue with shareholders. While the Committee has not consulted directly with shareholders in relation to the Director's Remuneration Policy, the Policy has been designed to take into account shareholder guidance. The Committee will consider any shareholder feedback received throughout the year and at the Annual General Meeting in shaping the application remuneration policy and when it undertakes the annual remuneration review. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements.

Directors' remuneration report

Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the application of the Policy for 2019. The chart for Ondrej Vlcek and Philip Marshall reflects their remuneration in their new roles from 1 July 2019. The chart for Vincent Steckler shows his annualised salary only as there will be no LTIP award nor bonus for 2019. The charts provide an illustration of the proportion of total remuneration made up of each component of the Policy and the value of each component.

Three performance scenarios have been illustrated for each Executive Director:

Below-threshold performance	› Fixed remuneration › No annual bonus pay-out › No vesting under the LTIP
On-target performance	› Fixed remuneration › 50% annual bonus pay-out › 55% vesting under the LTIP
Maximum performance	› Fixed remuneration › 100% annual bonus pay-out › 100% vesting under the LTIP

The charts have been prepared on the following basis:

- Base salary – The base salary for Ondrej Vlcek and Philip Marshall in place at 1 July 2019. The base salary for Vincent Steckler in place at 1 January 2019.
- Benefits – Based on the annualised equivalent of the disclosed benefits for 2018
- Pension – Executive Directors currently do not participate in pension arrangements
- Bonus – Based on the maximum of 200% of salary for the President Consumer once he becomes the CEO, and CFO. Assumes bonus is paid in cash.
- LTIP – Based on the maximum award of 500% of base salary for the CEO and 450% of base salary for the CFO.

The charts above illustrate remuneration outcomes with no share price growth. Dividend equivalents have not been included. Potential benefits under the SMP have not been included.

If the share price increases by 50% then the value of shares receivable under the LTIP will increase and for the Ondrej Vlcek, the target package value scenario would increase to $4,298,318 and the maximum package value scenario would increase to $7,360,818. If the share price decreased by 50% then the value of share receivable under the LTIP will decrease and in the target scenario the total package value would decrease to $2,373,318 and the maximum scenario the total package would decrease to $3,860,818.

If the share price increases by 50%, then for the Philip Marshall the target package value scenario would increase to $3,456,318 and the maximum package value scenario would increase to $5,878,818. If the share price decreased by 50% then in the target scenario the total package value would decrease to $1,971,318 and the maximum scenario the total package would decrease to $3,178,818.

Executive Directors' service agreements and policy on payments for loss of office

In the event of termination, the service contracts of the Chief Executive Officer, Chief Financial Officer and President of Consumer provide for payments of base remuneration and any fees payable in respect of the Executive Director's membership of the Board pursuant to the Director's service contract over the notice period. The Committee may also pay contractual benefits and pension over the notice period. The Company may elect to make a payment in lieu of notice in respect of these amounts, payable monthly or as a lump sum.

The Executive Directors are entitled to receive a non-compete payment equal to 50% of their average monthly income (before tax) for a period of 12 months following termination, as compensation for their non-compete obligations. The non-compete payment will be offset by any payments of base remuneration and fees payable on loss of office, and is repayable on breach of any non-compete obligations. Any payment in respect of notice and this non-compete provision will therefore not exceed base remuneration, any fees payable in respect of the Executive Director's membership of the Board and contractual benefits and pensions over a 12 month period reflecting shareholder expectations in this area.

Executive Directors will not ordinarily be entitled to receive any benefits or allowances following their cessation of employment. However, the Committee may in exceptional circumstances allow an Executive Director to continue to receive appropriate benefits or allowances for a limited period following cessation.

Details of the notice periods currently included in service contracts of the Executive Directors are summarised in the table below:

Name	Date of Contract	Notice period
Vincent Steckler	1 May 2018	12 months
Ondrej Vlcek	1 May 2018	6 months
Philip Marshall	1 May 2018	6 months

The Company's policy is that the notice period for Executive Directors will not exceed 12 months.

The Executive Directors' service contracts are available for inspection on request.

In the event of termination of employment (save in circumstances of summary dismissal), the Chief Financial Officer and President Consumer will also receive an additional payment equal to six months' base remuneration. These payments mean that their total payment on termination of employment is no more than 12 months' base remuneration and benefits in line with shareholders expectations.

The Committee may make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), by way of settlement of any claim arising in connection with the cessation of a Director's office, or employment or in respect of outplacement assistance. Any such payments may include but are not limited to paying the Director's legal and/or professional advice fees in connection with his cessation of office or employment and any related taxes arising.

Annual bonus

There is no contractual right to any bonus payment (or pro rata portion thereof) in the event of termination of engagement prior to the end of the financial year to which a bonus relates, although the Committee may exercise its discretion to pay a bonus for the period of service performed. Any such payment will normally be based on performance assessed after the end of the financial year and paid at the normal time. In exceptional circumstances, performance may be assessed at the time of termination of employment and paid at that time.

Directors' remuneration report

DBP

When a participant ceases to be employed or engaged within the Group, their outstanding DBP awards will normally vest on the original date unless the Remuneration Committee determines otherwise. The Committee may exercise its discretion to allow outstanding DBP awards to vest at the time of termination of employment.

LTIP

The default treatment for any awards under the LTIP is that any outstanding awards lapse on cessation of employment or engagement. However, in certain prescribed circumstances, or at the discretion of the Committee, "good leaver" status may apply. In these circumstances a participant's award will ordinarily vest on such date(s) that they would otherwise have vested. Vesting will normally be subject to the satisfaction of the relevant performance criteria (if any) and, ordinarily, will be pro-rated for time, with the balance of the awards lapsing. Under the plan rules, the Committee may also permit a participant's award to vest at the time of cessation of employment in a "good leaver" situation.

If a participant ceases employment during the post vesting holding period they shall retain entitlement to their shares but the holding period will normally continue to apply until the second anniversary.

SMP

If a participant ceases employment, all purchased shares under the SMP will be released to the participant.

No matched shares under the SMP will be released to a participant who ceases to be employed or engaged within the Group prior to the end of the end of the holding period, unless, in the case of a "good leaver" the Committee determines otherwise. If a participant is a "good leaver", the Committee may determine that the participant will continue to receive their matching shares at the end of the two-year holding period.

"Good Leavers" under the Company's share plan include participants that leave due to death, long-term injury, disability or such other reason that the Board determines.

Post-Employment Shareholdings

The Committee believes that the leaver provisions currently in place ensure the alignment of the interests of our Executive Directors and our shareholders post-cessation of employment. The Committee will review this approach during 2019 in light of evolving market practice and shareholder sentiment.

Treatment of awards on a change of control or other corporate event

In the case of a corporate event, such as a change of control or winding-up of the Company (not being an internal corporate reorganisation) there shall not ordinarily be automatic acceleration of outstanding LTIP awards. However, the Committee may, in its discretion, determine that some or all LTIP awards will vest at the time of the change of control of the corporate event. In determining vesting the Committee will normally take into account: (i) the extent to which the Committee considers that the performance conditions (if any) are satisfied; and (ii) if the Committee determines appropriate, the period of time between their grant and vesting. The Committee has the discretion to change or remove the application of pro-rating to an Award if this is considered appropriate.

Under the DBP, outstanding awards will normally vest at the time of the corporate event.

Under the SMP, all purchased shares will be released immediately and any entitlement to matching shares will be forfeit, unless the Committee determines that matching shares will not be forfeit, and participants will receive a pro-rata portion of corresponding matching shares. The Committee may, in its discretion, take such steps as it considers appropriate which may include releasing all shares to participants early.

Recruitment policy

When determining the remuneration package for a newly appointed Executive Director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent.
- New Executive Directors will normally receive a base salary, benefits and pension contributions in line with the Policy described on page 75 and would also be eligible to join the bonus and share incentive plans up to the limits set out in the Policy table.
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in that year's annual report on remuneration.
- Base salary levels will be set taking into account the executive's skills, experience and their current remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities.
- When determining any such "buyout", the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate.
- The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to above) in respect of recruitment is 950% of salary, which is in line with the current maximum limit under the annual bonus and LTIP.
- Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or ongoing payments or benefits). Any on-going benefits would normally be time limited.
- In the event that an internal candidate is promoted to the board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

To facilitate any buyout awards outlined above, in the event of recruitment the Committee may grant awards to a new Executive Director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.

The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors on page 77.

Non-Executive Directors' letters of appointment

Non-Executive Directors all serve under letters of appointment (effective from 9 May 2018) for periods of three years. The Non-Executive Directors (including the Chairman) have a notice period of one month, although the Company may elect to make a payment in lieu of notice.

The terms and conditions of appointment for Non-Executive Directors are available for inspection upon request.

Annual report on remuneration 2018

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2019 is set out below:

Base salary

The Executive Directors' salaries were reviewed during 2018 and set at IPO. Current salaries are as follows:

Vincent Steckler	$800,000
Philip Marshall	$525,000
Ondrej Vlcek	$450,000

As noted above, Vincent Steckler will step down from the board and as CEO on 30 June 2019, He will be succeeded by Ondrej Vlcek. Ondrej's salary will be increased to reflect his new role as CEO. Following Vincent's retirement and the reduction in the number of Board executives from three to two, Philip Marshall will be taking on additional responsibilities. The Remuneration Committee therefore considered that it was appropriate to increase his remuneration from 1 July 2019 to reflect the expansion in the scope and responsibility of his role.

Salaries from 1 July 2019 will therefore be as follows:

Ondrej Vlcek	$700,000
Philip Marshall	$600,000

Salaries will next be reviewed with effect from 1 April 2020.

Pension and benefits

The Executive Directors do not currently receive any pension contribution or allowance. Benefits will be provided in line with the disclosed policy on page 75 of this report.

Annual bonus

The maximum annual bonus opportunities for 2019 are as follows:

Philip Marshall	150% of salary *Increased to 200% of salary from 1 July 2019*
Ondrej Vlcek	200% of salary

From 1 July 2019, Philip Marshall's annual bonus opportunity will be increased to 200% of base salary to reflect the increase in the size and the scope of his responsibilities following Vincent's retirement.

12.5% of the maximum opportunity will be earned for the achievement of threshold performance of each of the two financial criteria.

The annual bonus will be based on the following performance measures:

- 37.5% on adjusted revenue performance (as defined on page 163)
- 37.5% on unlevered free cash flow (as defined on page 164)
- 25% on strategic KPIs

Adjusted revenue assesses our ability to deliver top-line financial results and deliver our growth strategy. Unlevered free cash flow assesses the profitability of the business and our ability to convert this profit into cash returns. Strategic KPIs ensure a rounded assessment of performance and incentivise management to deliver against our strategic milestones so that we continue to lay the foundation to deliver future success.

Where an Executive Director has not met the shareholding guidelines (as described on page 78) or is not on course to meet the shareholding guidelines, 50% of any bonus earned will be required to be deferred into shares under the DBP. Deferred bonus awards will vest on the second anniversary of grant subject to continued employment.

The specific targets for the 2019 year are considered commercially sensitive. However, the Committee intends to disclose these retrospectively in the 2019 Directors' Remuneration Report to the extent that they do not remain commercially sensitive.

Long-term incentive plan

The Committee intends to make awards under the LTIP to Ondrej Vlcek and Philip Marshall during the year. Initial awards were made over 350% of their current base salaries on 14 March 2019. From 1 July 2019 their LTIP opportunities will be increased to 500% of base salary and 450% of base salary respectively reflecting the increase in the size and the scope of their roles following the changes to the Board we announced on 13 March 2019. Additional awards will be made after July 2019 to reflect their increased salaries and award opportunities on a pro-rata basis.

Vincent Steckler will not receive an LTIP award for 2019.

The vesting of any LTIP awards will be determined by reference to the Group's basic EPS (undiluted) growth targets and the Group adjusted revenue growth targets as follows over the three year period to 31 December 2021:

	Threshold 7% vesting	Target 55% vesting	Maximum 100% vesting
Group earnings per share growth (basic EPS (undiluted) (50% weighting)	5% p.a. growth	8.4% p.a. growth	12% p.a. growth
Group adjusted revenue growth (50% weighting)	5% p.a. growth	7% p.a. growth	12% p.a. growth

7% of the award will vest for threshold performance, 55% shall vest for target performance and 100% of the award shall vest for maximum performance for each of the two financial components. There is straight-line vesting between the performance points.

Our long-term strategic objective is to provide long-term sustainable growth for all of our shareholders. The Committee believes that the combination of adjusted revenue and profit incentivise management to grow the value of the Group over the long-term and is strongly aligned to the execution of the business strategy.

The Committee is mindful that adjusted revenue is used as a measure in both the annual bonus and LTIP; however, it considers that, given that adjusted revenue growth is a critical part of our long-term strategy, this is appropriate. The Committee believes that there are appropriate safeguards in place to ensure that incentives do not encourage management to deliver adjusted revenue which is not in the long-term interests of the Group.

Vested shares from awards will be subject to two-year post-vesting holding period (net of tax).

Share Matching Plan

Eligible participants (including the Executive Directors) can voluntarily invest up to $34,000 per year. Purchased shares must be held until the end of the two-year holding period, at which time they will be released to the participant together with the related matched shares. The current matching ratio is one matched share for every three purchased.

Fees for Chairman and Non-Executive Directors

Non-Executive Directors are paid a basic fee for their Board role with additional fees payable for undertaking the Senior Independent Director role, for chairing a Committee and for Committee membership. The Chairman is paid an all-inclusive fee. There have been no changes to the Non-Executive Director or Chairman's fees with effect from 1 April 2019.

Chairman fee	$350,000 (inclusive of any fee he would otherwise receive as chairman or member of a committee)
Non-Executive Director base fee	$100,000
Additional fees:	
Senior Independent Director	$15,000
Audit and Risk Committee Chairman	$15,000
Audit and Risk Committee Member	$7,500
Remuneration Committee Chairman	$15,000
Remuneration Committee Member	$7,500
Nomination Committee Chairman	$15,000
Nomination Committee Member	$7,500

An additional allowance of $5,000 per meeting is payable where transatlantic travel is required. Additional fees or other payments may be made to reflect additional responsibilities, roles and contributions.

Directors' remuneration report

Remuneration received by Directors for the year ended 31 December 2018 (audited)

Directors' remuneration for the period from 9 May 2018 (the date Directors were appointed prior to IPO on 15 May 2018) to 31 December 2018 was as follows:

		Salary & Fees	Benefits[1,2]	Pension[3]	Annual Bonus[4]	Long-Term Incentives[5,6]	Total
Executive							
Vincent Steckler	2018	$512,653	$18,443		$632,627	$5,496,127	$6,659,850
Philip Marshall	2018	$336,653	$18,443		$316,524		$671,620
Ondrej Vlcek	2018	$288,653	$6,923		$355,766	$2,061,041	$2,712,383
Non-Executive							
John Schwarz	2018	$225,807	$15,000				$240,807
Erwin Gunst	2018	$79,032					$79,032
Pavel Baudis	2018	$82,732	$8,227				$90,959
Eduard Kucera	2018	$78,706	$8,287				$86,993
Lorne Somerville[7]	2018	$55,623					$55,623
Ulf Claesson	2018	$79,032					$79,032
Warren Finegold	2018	$88,709					$88,709
Belinda Richards[8]	2018	$64,869					$64,869
Sebastien Kuenne (resigned 9 May 2018)[9]							
Phil Robertson (resigned 9 May 2018)[9]							
Simon McManus (resigned 18 April 2018)[9]							
Total		$1,892,466	$75,323		$1,304,917	$7,557,169	$10,829,875

Annual bonus for the year ended 31 December 2018 (audited)

The annual bonus for the year under review was based on adjusted revenue, unlevered free cash flow and strategic KPIs as follows:

	Weighting	Threshold	Target	Maximum	Performance achieved	% of maximum
		12.5% payout	50% payout	100% payout		
Adjusted revenue	37.5%	$774,345	$815,100	$937,365	$826,984	50.8
Unlevered free cash flow	37.5%	$311,404	$346,005	$415,206	$393,960	78.0

25% of the bonus was based on performance against individual strategic KPIs as described on the following page.

Notes
1 Benefits include allowance for Non Executive Directors that travel intercontinentally.
2 Benefits for Executive Directors include life insurance, health insurance, flexible benefit scheme and private mobile usage.
3 Executive Directors do not receive a pension contribution.
4 Relates to the payment of annual bonus for the year ending 31 December 2018. The amount shown is for the period 9 May 2018 through 31 December 2018. Further details are provided in the second table. This bonus was paid 100% in cash as the Committee judged that all Executive Directors had met their shareholding guideline or were on progress to meet the shareholding guideline in the required time period.
5 The CEO and the President Consumer were granted an award of stock options (option price of £1.360 and £0.88) prior to the IPO. These awards vested in March 2019 based on the achievement of EBIT performance for the year ending 31 December 2018. Awards have been valued based on the average share price for the period 1 October 2018 to 31 December 2018 of £2.786.
6 Value of shares is based on difference between Average share price (1 Oct-31 Dec 2018) and strike price (depends on program the strike price is 0.88 or 1.36).
7 Lorne Somerville donated the fee paid to him by the Company (net of national insurance and taxes) to charity.
8 Belinda Richards was appointed to the Board on 7 June 2018 and remuneration shown is from this date.
9 Directors resigned on or before 9 May 2018. None of these directors received any remuneration in connection with their role as directors of Avast plc.

Executive	Performance achieved	Committee's assessment of pay out
Vincent Steckler	> Succession plan created and discussed in Nomination Committee > Created IoT strategy and ensured its successful implementation	108% of target
Philip Marshall	> Successfully managed the IPO, the operations as a public company and the management of the public investors > Completed the reorganisation of the finance team to comply with all requirements of being a public company > New policies around key business processes are created and implemented	117% of target
Ondrej Vlcek	> Successfully increased user and customer base > Built and tested IoT product for launch in 2019	108% of target

The above performance resulted in the following payments:

Executive	2018 bonus payment	% of maximum
Vincent Steckler	$988,480	61.8
Philip Marshall	$494,569	62.8
Ondrej Vlcek	$555,884	61.8

The Committee also considered the underlying financial performance of the Group during 2018, taking into account performance against key financial indicators and the Executive Directors' individual performance. The Committee concluded the proposed payout outlined above is appropriate.

LTIP vesting for the year ended 31 December 2018 (audited)

The CEO and the President Consumer were granted an award of stock options prior to the IPO in April 2017 with an exercise price of £1.360 and £0.88 per share. These awards vested in March 2019 based on the achievement of EBIT performance for the year ending 31 December 2018. The EBIT target was set at $432m. EBIT achieved for 2018 was $431.6m resulting in 99% of the awards vesting, equivalent to 2,691,430 vested options for the CEO and 1,009,283 vested options for the President Consumer.

Total pension entitlements (audited)

During the year under review the Executive Directors did not receive any pension contribution or pension allowance.

Long-term incentive plan awards made during the year (audited)

On 19 June 2018, the following awards were granted to Executive Directors:

		Details of awards granted						
Executive	Type of award	Basis of award granted (maximum)	Share price at date of grant	Number of shares granted	Face value of award (£000)	Face value of award ($000)[2]	% of face value that would vest at threshold performance[1]	Vesting determined by performance over
Vincent Steckler	Conditional Share	500% of salary of $800,000	£2.196	1,366,120	£3,000	$4,007.1	7%	Three financial years to 31 December 2020
Philip Marshall	Conditional Share	350% of salary of $525,000	£2.196	627,960	£1,379	$1,841.9	7%	Three financial years to 31 December 2020
Ondrej Vlcek	Conditional Share	350% of salary of $450,000	£2.196	538,707	£1,183	$1,580.1	7%	Three financial years to 31 December 2020

1 Threshold applies to both financial components.
2 Exchange rate used to present the face value of the award in USD is the 2018 average rate of £/$1.3357.

Directors' remuneration report

The performance condition for these awards is set out below:

	Threshold 7% vesting	Target 55% vesting	Maximum 100% vesting
Group basic EPS (undiluted) growth (50% weighting)	5% p.a. growth	8.4% p.a. growth	12% p.a. growth
Group adjusted revenue growth (50% weighting)	5% p.a. growth	7% p.a. growth	12% p.a. growth

7% of the award will vest for threshold performance for each of the two financial criteria, 55% shall vest for target performance and 100% of the award shall vest for maximum performance. There's a straight-line vesting between the performance points.

Directors' shareholding and share interests (audited)

Share ownership plays a key role in the alignment of our executives with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in the Company.

The table below sets out the number of shares held or potentially held by Executive Directors (including their connected persons where relevant) as at 31 December 2018.

					Data	
	Beneficially owned shares[1,2]	% shareholding guideline achieved	Award description	Option Price	Number of Unvested Options/Awards as at 31/12/2018	Number of Vested Options/Awards as at 31/12/2018
Vincent Steckler	31,329,910	more than 200%	Performance Options Apr 2017	£ 1.360	3,624,969	0
			Performance Options Apr 2017	£ 0.880	1,812,264	0
			Performance Stock Units 2018	£ 0.000	1,366,120	0
			Replacement options	£ 0.150	0	9,382,872
			Share Options Apr 2017	£ 0.880	0	1,294,466
				£ 1.360	0	2,589,260
			Time Based Options Apr 2017	£ 0.880	776,684	0
				£ 1.360	1,553,558	0
					9,133,595	13,266,598
Philip Marshall		0%	Performance Stock Units 2018	£ 0.000	627,960	0
			Time Based Options Feb 2018	£ 2.130	1,942,325	0
			Time Based Options Mar 2018	£ 2.370	1,165,471	0
					3,735,756	0
Ondrej Vlcek	19,345,987	more than 200%	Performance Options Apr 2017	£ 1.360	2,039,042	0
			Performance Options Apr 2017	£ 0.880	1,019,396	0
			Performance Stock Units 2018	£ 0.000	538,707	0
			Time Based Options Apr 2017	£ 0.880	436,884	0
				£ 1.360	873,875	0
					4,907,904	0
Total	50,675,897				17,777,255	13,266,598

On IPO, share options were rolled over to equivalent share options of Avast Plc and have been included in share holdings and share interests.

Notes
1 Includes shares owned by connected persons.
2 Calculated based on the share price on 31 December 2018 of 284p.

The table below sets out the number of shares held or potentially held by Non-Executive Directors (including their connected persons where relevant) as at 31 December 2018.

	Beneficially owned shares[1,2]	% shareholding guideline achieved	Award description	Option Price	Data: Number of Unvested Options/Awards as at 31/12/2018	Data: Number of Vested Options/Awards as at 31/12/2018
John Schwarz	2,918,330					
			Share Options Mar 2016	£ 0.690	0	388,318
			Share Options May 2015	£ 0.650	0	302,371
Erwin Gunst	1,974,728				0	690,689
Pavel Baudis	257,182,165					
Eduard Kucera	99,793,912					
Lorne Somerville	–					
Ulf Claesson	2,420,112					
			Share Options Apr 2015	£ 0.650	0	51,224
			Share Options Apr 2017	£ 1.360	0	233,034
			Share Options Mar 2016	£ 0.690	0	388,318
Warren Finegold	108,132				0	672,576
Belinda Richards	–					
Total	364,397,379					1,363,265

1 Includes shares owned by connected persons.
2 There has been a change in shareholding between 15 May and 31 December 2018. Erwin Gunst exercised part of his vested options, it increased his beneficially owned shares by 233,034 on 4 July. He exercised 233.034 options with option price 1.36GBP and share price 2.08GBP at the date of exercise.
3 The interests in shares are a result of the vested options owned by the Non-Executive Directors.

In addition, on 13 November 2015, Ulf Claesson was granted 75,000 options over ordinary shares in Jumpshot, Inc. under the company's option plan at an exercise price of US$ 0.30 each. Mr. Claesson was granted the options in connection with his role as director of Jumpshot, Inc., a position which he still held as at the date of this report. The options granted to him were purely time-based, vesting in equal tranches over a four year period. Mr. Claesson has exercised all of those options which vested, resulting in him now owning 56,000 ordinary shares in Jumpshot, Inc. The remaining tranche of unvested options are scheduled to vest on 13 November 2019. The contractual life of the options is 10 years. No further options have been granted to Mr. Claesson under the Jumpshot option plan since, nor is there any intention to do so again.

Payments to past directors (audited)

There were no payments to past directors during the year.

Payments for loss of office (audited)

There were no payments to past directors during the year.

Directors' remuneration report

Leaving arrangements for Vincent Steckler

As announced on 13 March 2019, Vincent Steckler will step down from the board and as CEO on 30 June 2019. He will be paid his salary for this period. There will be no bonus entitlement for 2019.

Vincent will remain available to the business in an advisory capacity until 30 June 2020 to ensure a smooth transition process. During the period he will receive a fee of $400,000 per annum to reflect the expected time commitment of the role. Vincent will receive, in line with his employment agreement, health benefits for a period of 24 months.

The LTIP award granted in 2018 will continue on a pro-rata basis and will remain subject to the performance targets over the normal vesting period to 31 December 2020. Awards will continue to remain subject to a post-vesting holding period for two years until April 2023.

Awards granted prior to IPO (set out on page 88) may continue to vest and will remain subject to the relevant performance conditions.

Vincent will not receive any payment in lieu of notice under his contract.

Given Vincent's significant shareholding in the business and the interest in incentive awards following his retirement the Committee did not consider that it was necessary to apply a formal post-employment shareholding guideline.

External appointments

Executive Directors are permitted to hold Non-Executive Director positions in other companies where it is considered appropriate and subject to approval by the Board. Disclosure of any associated income is required to be made to the Board, to shareholders and in the Annual Report and Financial Statements. For the year ended 31 December 2018, none of the Executive Directors held or received payment for any external directorship.

Performance graph

The graph below illustrates the Company's Total Shareholder Return (TSR) performance relative to the constituents of the FTSE 250 index excluding investment companies from the Admission Date on 15 May 2018 to 31 December 2018. This index has been selected as it is a broad market index of which the Company is a constituent. The graph shows performance of a hypothetical £100 invested and its performance over that period.

Source: Datastream.

The total remuneration for the Chief Executive in 2018, since the Company became the holding company of the Group, is shown below, along with the value of bonuses paid and long term incentive awards vesting, as a percentage of the maximum opportunity.

	2018
CEO total remuneration	$6,659,850
Annual bonus (% of maximum)	61.8%
Share award (% of maximum)	n/a[1]

Notes
1 No LTIP share awards vested based on performance to 31 December 2018. Legacy options vested at 99% maximum based on 2018 performance.

Percentage change in Chief Executive remuneration

As the Company only became the holding company of the Group on the Admission Date, there is no disclosure of remuneration relating to prior years. Accordingly, this report does not set out the percentage change in remuneration between 2017 and 2018. Full disclosure of the year-on-year change will be provided in future remuneration reports.

Relative importance on the spend on pay

The following table shows the Company's actual spend on pay for all employees compared to distributions to shareholders for 2018. As the Company only became the holding company of the Group on the Admission Date, there is no disclosure relating to prior years.

Total spend on pay	$m
Distributions to shareholders by way of dividend and share buyback	n/a

Membership of the Remuneration Committee

The Remuneration Committee comprises 3 independent Non-Executive Directors and is chaired by Ulf Claesson. Each director was appointed to the Committee on 9 May 2018. There were 4 meetings during the year.

Members and attendance in the year is set out in the table below.

	Attendance
Ulf Claesson	4
John Schwarz	4
Warren Finegold	4

In 2018, the meetings of the Committee covered the following key areas:

- Remuneration considerations prior to IPO
- Consideration of structures and measures for 2018 annual bonus
- Consideration and adoption of 2018 LTIP, DBP and SMP and approval of grants under the LTIP.

The Remuneration Committee terms of reference are available on the Company's website at investors.avast.com/investors/corporate-governance/. These have been updated to reflect the provisions of the 2018 Code.

External advisors

The Remuneration Committee has access to independent advice where it considers it appropriate. Following IPO, the Committee received advice from AON Hewitt. The fees paid to AON Hewitt for providing advice in relation to executive remuneration since IPO was $155,000. Fees charged were on a time and expenses basis. This advice primarily related to the development and roll-out of the post-Admission remuneration structures.

In November 2018, the Committee appointed Deloitte LLP to provide independent advice to the Committee. The fees for advice provided to the Committee during the financial year were $497,000. Fees charged were on a time and expenses basis.

Deloitte LLP and AON Hewitt were appointed by the Committee. It is the view of the Committee that the organisations, Deloitte LLP and AON Hewitt, that provide remuneration advice to the Committee do not have connections with Avast that may impair its independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

The Committee consider that the advice received from the advisors is independent, straightforward, relevant and appropriate and that it has an appropriate level of access to them and has confidence in their advice.

Deloitte LLP and AON Hewitt are founding members of the Remuneration Consulting Group. The Committee has been fully briefed on their compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services. Separate teams within Deloitte LLP also provided advisory services in respect of share schemes, and corporate employment.

The CEO, the CFO, the General Counsel and the CHRO have attended certain Committee meetings and provided advice to the Committee during the year. They are not in attendance when matters relating to their own compensation or contracts are discussed.

Statement of shareholder voting

This is the first Remuneration Policy and Annual Remuneration Report submitted to shareholders.

Approval

This Directors' Remuneration Report, including both the Policy and Annual Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Ulf Claesson
Chairman of the Remuneration Committee

Date: 9 April 2019

Directors' report

1. Corporate details

The Company was incorporated and registered in England and Wales on 7 January 2010 as a private company limited by shares under the Companies Act 2006 (as amended) with the name Avast Limited and with the registered number 07118170.

On 3 May 2018, the Company re-registered as a public company under the name Avast plc.

2. Directors and directors' interests

In respect of the period between 9 May 2018 and the date of this report, the following persons were Directors of the Company:

Name	Role	Appointment Date
John Schwarz	Non-Executive Director and Chairman	9 May 2018
Vincent Steckler	Chief Executive Officer	9 May 2018
Philip Marshall	Chief Financial Officer	9 May 2018
Ondrej Vlcek	President, Consumer	9 May 2018
Warren Finegold	Non-Executive Director and Senior Independent Director	9 May 2018
Pavel Baudis	Non-Executive Director	9 May 2018
Eduard Kucera	Non-Executive Director	9 May 2018
Lorne Somerville	Non-Executive Director	18 April 2018
Ulf Claesson	Non-Executive Director	9 May 2018
Erwin Gunst	Non-Executive Director	9 May 2018
Belinda Richards	Non-Executive Director	8 June 2018
Tamara Minick-Scokalo	Non-Executive Director	13 March 2019
Maggie Chan Jones	Non-Executive Director	13 March 2019

During the period between 1 January 2018 and 9 May 2018, the Company was a dormant entity. The following persons were Directors of the Company during this time:

Name	Appointment Date
Lorne Somerville	18 April 2018
Phil Robertson (resigned)	18 April 2018 – 9 May 2018
Sebastian Ramin Kuenne (resigned)	18 April 2018 – 9 May 2018
Simon McManus (resigned)	7 January 2010 – 18 April 2018

The Directors have the benefit of a qualifying third-party indemnity from the Company (the terms of which are in accordance with the Companies Act 2006), each of which was in force at the date of the IPO and remained in force at the date of this report. The Company has not provided an indemnity to any person acting as a director of an associated undertaking.

In addition, the Company has in place appropriate directors' and officers' liability insurance. This cover also extends to employees of the Group who serve on the boards of the Company's subsidiaries.

Related party transactions relating to the Directors are detailed in Note 35 of the financial statements.

Details of directors' interests in shares, options and LTIPs are set out on page 88 and 89 of the Directors' Remuneration report. There have been two changes in directors' interests since year-end: those performance based options of certain directors which vested in March 2019 (see pages 87 and 88), and the performance based shares issued to the President of Consumer and the CFO according to 2019 policy (see page 84).

3. Dividend

The Directors propose to pay a final dividend of 8.6 cents per share in respect of the period between 15 May 2018 and 31 December 2018 (13.6 cents per share on an annualised basis). This represents 40% of the Group's levered free cash flow (as defined on page 164) on a pro-rated basis from 15 May 2018 to 31 December 2018, in accordance with the Company's dividend policy. Subject to shareholder approval, this will be paid in US dollars on 17 June 2019 to shareholders on the register on 24 May 2019. There will be an option for shareholders to elect to receive the dividend in pounds sterling and such an election should be made no later than 24 May 2019. The foreign exchange rate at which dividends declared in US dollars will be converted into pounds sterling will be calculated based on the average exchange rate over the five business days prior to 5 June 2019, and announced immediately thereafter.

4. Political donations

The Group did not make any political donations, or incur any political expenditure, in the year-ended 31 December 2018.

5. Research & development

Avast places a heavy focus on the continuous development and improvement of technology, with 50% of its employees working in research and development. We believe this focus on R&D strongly contributes to the fact that the Group's products are consistently ranked among the highest-rated antivirus solutions by both users and editors on leading download websites, as well as in popular media globally.

The Group spent US$ $ 65.7m (adj.)[1] on R&D for the year ended 2018.

6. Significant agreements

Below are the only significant agreements that would take effect, alter or terminate on change of control of the Company following a takeover:

Credit Agreement

Credit Agreement dated 30 September 2016, entered into between Avast Software B.V., Sybil Software LLC, Avast Software s.r.o., Avast Holding B.V. and Credit Suisse International.

A takeover of the Company may trigger a change of control under the Credit Agreement which is an event of default thereunder and would permit Credit Suisse International as administrative agent under the Credit Agreement (with the consent or at the request of the "Required Lenders" under Credit Agreement) to immediately accelerate full repayment of the outstanding debt.

Google Distribution Agreement

Promotion and Distribution Agreement dated 1 July 2012, entered into between Avast Software s.r.o. and Google Ireland Limited.

Under this agreement, Avast Software s.r.o. agrees to bundle the Google Chrome and Google Toolbar products with distributions of its consumer antivirus products under the Avast and AVG brand names and certain utility applications as approved by Google from time to time. Google Ireland Limited in turn agrees to pay Avast Software s.r.o. monthly fees in connection with offering users the Google Chrome browser and Google Toolbar.

A takeover of the Company may trigger a change of control under the Google Distribution Agreement which would permit Google to immediately terminate the contract upon written notice.

In addition, in the event of a takeover of the Company, the Board may, at is discretion, elect to accelerate unvested awards under the Company's long term incentive plan. More details in relation to this are set out on page 82.

7. Share capital

Share Capital Structure

As at 31 December 2018, the entire issued share capital of the Company comprised of 953,438,299 ordinary shares of £0.10 each.

At the general meeting held by the Company on 10 October 2018 – the following special resolutions were approved by the shareholders of the Company:

- a reduction of the amount standing to the credit of the Company's share premium account by £138,000,000; and
- the cancellation of the non-voting subscriber share with a nominal value of GBP 0.10.

On 6 November 2017, the High Court of Justice in England and Wales made an order confirming the reduction of the share premium account and the cancellation of the subscriber share of the Company under section 648 Companies Act 2006.

Significant Holdings

As at 31 December 2018, the following persons held interests in shares carrying 3% or more in voting rights:

Name	% of total voting rights
PaBa Software s.r.o.	26.97
Sybil Holding S.à r.l.	22.69
Pratincole investments Limited	10.47
Mr. Vincent Steckler[2]	3.29

1 Adjusted for share based payments, depreciation and amortisation and exceptional items.

2 Of the 3.29% of share capital held by Mr. Steckler, 6,859,096 shares (representing 0.72% of the Company's share capital) and 18,829,050 shares (representing 1.98% of the Company's share capital) are held by Mr. Steckler in his capacity as trustee of revocable and irrevocable family trusts, respectively.

Directors' report

Between 1 January 2019 and the date of this report, the Company has been notified under Disclosure and Transparency Rule 5 of the following significant holdings of voting rights in its shares:

Name	Date of Notification	% of total voting rights
Sybil Holdings S.à r.l.	29 March 2019	12.67

Relationship Agreements

The Company has entered into relationship agreements with its most significant shareholders to help ensure that the Company will be capable of operating and making decisions independently for the benefit of shareholders as a whole.

On 10 May 2018, Company entered into a relationship agreement ("Founder Relationship Agreement") with each of Pavel Baudis and Eduard Kucera and their respective investment vehicles, PaBa Software s.r.o. and Pratincole Investments Ltd (collectively, the "Founders") pursuant to which, amongst other things, the Founders are jointly entitled to appoint: (i) one natural person to be a non-executive director of the Company for so long as the Founders and/or their associates hold in aggregate 10% or more (but less than 20%) of the voting rights attaching to the issued share capital of the Company; and (ii) two natural persons to be non-executive directors for so long as the Founders and/or their associates hold 20% or more of the voting rights attaching to the issued share capital of the Company.

On 10 May 2018, Company entered into a relationship agreement ("Sybil Relationship Agreement") with Sybil Holdings S.à r.l. ("Sybil"), an entity owned by funds advised by affiliates of CVC Capital Partners Advisory Company (Luxembourg) S.à r.l. Pursuant to this agreement, Sybil is entitled to appoint one natural person to be a non-executive director of the Company for so long as Sybil and/or certain of its affiliates hold in aggregate 10% or more of the voting rights attaching to the issued share capital of the Company.

The Board confirms that throughout the period:

- the Company has complied with the independence provisions of the Founder Relationship Agreement and the Sybil Relationship Agreement;
- as far as the Company is aware, each of the Founders and Sybil and their respective associates have complied with the agreement's independence provisions; and
- as far as the Company is aware, each of the Founders and Sybil has procured the compliance of non-signing controlling shareholders with the agreement's independence provisions.

Restriction on Transfer of Shares

The Board may refuse to register any transfer of any share which is not a fully-paid share provided that such discretion may not be exercised in a way which the Financial Conduct Authority or the London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis.

The Board may also refuse to register a share where the instrument of transfer is:

- in favour of more than four persons jointly;
- not left at the registered office of the Company, or at such other place as the Board may from time to time determine, accompanied by the certificate(s) of the shares to which the instrument relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; and
- the instrument of transfer is in respect of more than one class of share.

In addition, pursuant to the Listing Rules of the Financial Conduct Authority, Directors of the Company and persons discharging managerial responsibility are required to obtain prior approval from the Company to deal in the company's securities, and are prohibited from dealing during close periods.

Voting Rights

On a poll, votes may be given personally or by proxy.

Subject to any rights or restrictions attached to any class or classes of shares and to any other provisions of the Articles of Association:

- if a vote is taken on a show of hands, every member or proxy present in person shall have one vote; and
- if a vote is taken on a poll, every member present in person or by proxy shall have one vote for each share held by him.

All resolutions put to the members at electronic general meetings will be voted on by a poll. All resolutions put to the members at a physical general meeting will be voted on a show of hands unless a poll is demanded:

- by the Chairman of the meeting; or
- by at least five members present in person or by proxy and having the right to vote on the resolution; or
- by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote on the resolution; or
- by a member or members present in person or by proxy holding shares in the Company conferring a right to vote on the resolution being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

As far as the Board is aware, there are no agreements between shareholders that may restrict transfer of securities or voting rights.

The below are the only special control rights attaching to any of the Company's issued share capital:

- pursuant to the Founder Relationship Agreement:
  - (i) the Founders are jointly entitled to appoint: (a) one natural person to be a Non-Executive Director of the Company for so long as the Founders and/or their associates hold in aggregate 10% or more (but less than 20%) of the voting rights attaching to the issued share capital of the Company; and (ii) two natural persons to be Non-Executive Directors for so long as the Founders and/or their associates hold 20% or more of the voting rights attaching to the issued share capital of the Company; and
  - (ii) for so long as the Founders hold in aggregate 10% or more of the voting rights attaching to the issued share capital of the Company, one of the directors appointed by the Founders is permitted to attend as an observer at the Board's Nomination Committee, Audit and Risk Committee and Remuneration Committee;
- pursuant to the Sybil Relationship Agreement, for so long as Sybil and/or CVC Affiliates hold in aggregate 10% or more of the voting rights attaching to the issued share capital of the Company:
  - (i) Sybil is entitled to appoint one natural person to be a Non-Executive Director of the Company; and
  - (ii) the Director appointed by Sybil is permitted to attend as an observer at the Board's Nomination Committee, Audit and Risk Committee and Remuneration Committee.

Appointment and Replacement of Directors

There is no maximum number of Directors who can serve on the Board, but the number of Directors cannot be less than two.

Directors may be appointed by ordinary resolution of shareholders or by the Board. No person other than a Director retiring at a general meeting will, unless recommended by the Directors, be eligible for appointment to the office of Director at any general meeting unless a member notifies the Company in advance in accordance with the Articles of Association of his or her intention to propose such person for appointment, and also notice in writing signed by that person of his willingness to be appointed.

Under the Articles of Association, a Director is required to retire at an annual general meeting if he or she was a Director at each of the preceding two annual general meetings and was not appointed or re-appointed by the Company in a general meeting at, or since, either such meeting. Notwithstanding this, and in compliance with the UK Corporate Governance Code, each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM.

The Company may by ordinary resolution remove any Director before the expiration of his period of office provided special notice has been given in accordance with the UK Companies Acts.

Articles of Association

The Articles of Association of the Company were adopted by special resolution on 9 May 2018.

Any amendment to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Act 2006, by way of special resolution.

Power of the Company's Directors

The business of the Company is managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Articles of Association, the Companies Act and to such directions as may be given by the Company in general meeting by special resolution.

Directors' report

8. Authority to purchase its own shares

The Company is permitted pursuant to the terms of its Articles of Association to purchase its own shares subject to shareholder approval. At a general meeting on 9 May 2018, the Company was given authority to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of up to 9,526,382 of its ordinary shares. This authority will expire at the end of the AGM held on 23 May 2019. The Company did not repurchase any of its shares during financial year 2018.

9. Authority to issue shares

The Company is permitted pursuant to the terms of its Articles of Association to allot, grant options over, offer or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine.

At a general meeting on 9 May 2018, the Company was given authority to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

- up to an aggregate nominal amount of £31,754,639.50 (such amount to be reduced by the nominal amount of any shares in the Company or rights to subscribe for or convert any security into shares in the Company granted under sub-paragraph (ii) below in excess of such sum); and
- comprising equity securities (as defined in section 560(1) of the United Kingdom Companies Act 2006) up to an aggregate nominal amount of £63,509,279 (such amount to be reduced by any allotments of any shares in the Company or grants of rights to subscribe for or convert any security into shares in the Company made under sub-paragraph (i) above) in connection with an offer by way of a rights issue.

This authority will expire at the end of the AGM held on 23 May 2019. The Company did not allot any new shares following its IPO, other than those shares allotted pursuant to the Group's share option plan.

10. Going concern

As described on page 159, the Directors have reviewed the projected cash flow and other relevant information and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern assumption in preparing the consolidated financial statements.

11. Financial Risk Management

Details of financial risk management and financial instruments are disclosed in Note 31 of the Group financial statements.

12. Additional disclosures

The Strategic Report is a requirement of the UK Companies Act 2006 and can be found on pages 1 to 56 of this report.

The Company has chosen, in accordance with section 414 C(11) of the Act, to include the following matters in its Strategic Report that would otherwise be disclosed in this Directors' Report:

Section	Page
Likely future developments	24
Greenhouse gas emissions	54
Post balance sheet events	155

Information required by the Financial Conduct Authority's Listing Rules can be located as follows:

Listing Rule	Section	Page
LR 9.8.4R(4),	Long Term Incentive Schemes	76
LR 9.8.4R(10) and (11)	Related Party Contracts	153
LR 9.8.4AR	Independence of Controlling Shareholders	94

13. Disclosure of information to auditors

The Directors confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

14. Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The United Kingdom Companies Act 2006 requires the Directors to prepare financial statements for each financial period that give a true and fair view of the financial position of the group and the parent company and the financial performance and cash flows of the Group for that period. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with applicable law, and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 (FRS 102).

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- in respect of the group financial statements, state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- in respect of the parent company financial statements, state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/or the group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, with respect to the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

15. Responsibility statement of the Directors in respect of the Annual Financial report

The directors confirm, to the best of the their knowledge, that:

- the Group financial statements, prepared in accordance with IFRS as adopted by the European Union and in accordance with applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The annual report and the financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' report on pages 92 to 97 was approved by the Board on 9 April 2019 and signed by order of the Board.

By Order of the Board:

Alan Rassaby
Company Secretary
9 April 2019

Independent Auditor's Report to the members of Avast Plc

Opinion

In our opinion:

- Avast plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Avast plc which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2018	Company statement of financial position as at 31 December 2018
Consolidated statement of profit and loss for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 11 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in shareholders' equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 39 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 46-47 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 48 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 96 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 48 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	› Revenue recognition, including risk of management override, in particular: – Licence revenue: Improper revenue recognition (cut-off) due to management's incentive to accelerate earnings, through manipulation of the licence term. – Licences, platform, and other revenue: Improper revenue recognition due to management's incentive to accelerate earnings, through manipulation of the timing of revenues or due to an error. › Computation of current and deferred income tax – The Group is operating in multiple tax jurisdictions and undertook a number of significant transactions, during 2018. There is a risk that taxation will not properly reflect all material transactions which arose during the reporting period correctly and income tax accounts, including deferred tax, in both the consolidated statement of financial position and the consolidated statement of profit or loss will contain misstatement.
Audit scope	› We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further seven components. › The components where we performed full or specific audit procedures accounted for 100% of adjusted profit before tax (PBT), 94% of Revenue and 97% of Total assets.
Materiality	› Overall group materiality of $11.2m which represents 5% of adjusted PBT.

Independent Auditor's Report

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of inappropriate revenue recognition – $808.3m (2017: $652.9m) In particular, the risks are: > Licence revenue: Improper revenue recognition (cut-off) due to management's incentive to accelerate earnings through manipulation of the licence term. > Licences, platform, and other revenue: Improper revenue recognition due to management's incentive to accelerate earnings through manipulation of the timing of revenues or due to an error. Misstatements that occur in relation to this risk would impact the revenue recognised in the income statement as well as deferred revenues. Refer to the Audit Committee Report (page 64); Accounting policies (pages 118-123); and Note 9 of the Consolidated Financial Statements (pages 127-129)	We have reviewed and walked through the process over the approval and recognition of revenue across the group. We have walked through and assessed the design effectiveness of key management controls over data input and IT. We have performed licence revenue transaction testing to ensure that revenue has been recorded in accordance with the Group's revenue recognition policy and IFRS 15 and has been appropriately recorded in the current year income statement or deferred on the balance sheet as appropriate. This was achieved by testing a sample of transactions by: > agreeing licence revenues to signed contracts or software licence agreements; > agreeing the revenue to subsequent payment as evidence of collectability; > checking evidence to support that the licence has been delivered to customers and prior to revenue recognition; > reviewing contract terms for any conditions that would impact the timing of revenue recognition and in turn the completeness of deferred revenue; and > ensuring appropriate allocation of the fair value and recognition of revenue for other deliverables included within the contract; We selected a sample of revenue journals and assessed the appropriateness of the journals by checking against supporting evidence and ensuring compliance with the Group's revenue recognition policy and IFRS 15. The sample selected was based on risk based criteria including but not limited to manual journal entries, those close to period end, and postings that are inconsistent with roles and responsibilities. We performed an overall recalculation of deferred income with specific focus on the split of sales in a 1, 2 and 3 year period for appropriateness based upon contract terms. We obtained confirmation of a selected sample of accounts receivable and unbilled revenue with external parties (platforms and others). Additionally, terms and conditions were confirmed with the most significant resellers. We performed disaggregated analytical procedures over revenue on a monthly basis, at an entity and a segment level. We performed full and specific scope audit procedures over this risk area in 7 locations, which covered 94% of the risk amount. We also performed specified procedures over the revenues in 2 locations, which covered 3% of the risk amount.	We conclude that revenue recognised during the year and deferred as at 31 December 2018 is materially correct.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Computation of current and deferred income tax – current tax expense: $87.3m; deferred tax income: $146.0m (2017: current tax expense: $58.9m; deferred tax income: $54.0m) The Group is operating in multiple tax jurisdictions and undertook a number of significant transactions, during 2018. There is a risk that taxation will not properly reflect all material transactions which arose during the reporting period correctly and income tax accounts including deferred tax in both consolidated statement of financial position and the consolidated statement of profit or loss will contain misstatement. Refer to the Audit Committee Report (page 64); Accounting policies (pages 118-123); and Note 17 of the Consolidated Financial Statements (pages 133-135)	We obtained the Group's tax consolidation and focused our detailed testing of the current and deferred income tax positions for six components, including verification of completeness and accuracy of tax effects of significant one-off transactions, consolidation, and IFRS adjustments recorded by the Group. In order to assess the tax impact of significant transactions during the year (IP transfers, tax rulings in Netherlands and difference between the accounting and tax functional currency in the Czech Republic), we involved tax specialists from the Czech Republic, Netherlands, United Kingdom and USA in our procedures to support the audit team's conclusions. Additionally, we assessed management's position of uncertain tax positions and transfer pricing arrangements with the help of tax specialists. We evaluated the appropriateness of corporate income tax rates used per individual countries and the reasonableness of the Group's effective tax rate, including verification of significant items impacting the rate. We also evaluated the adequacy and completeness of the disclosures provided by the group in relation to tax balances and activity.	We conclude that the current and deferred tax amounts reported as at 31 December 2018 and for the year then ended are materially correct.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and presence of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 38 reporting components of the Group, we selected 11 components covering entities within the Czech Republic, Netherlands, United Kingdom and USA, which represent the principal business units within the Group.

Of the 11 components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining seven components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% of the Group's adjusted PBT measure used to calculate materiality, 94% of the Group's Revenue and 97% of the Group's Total assets. For the current year, the full scope components contributed 97% of the Group's adjusted PBT measure used to calculate materiality, 76% of the Group's Revenue and 37% of the Group's Total assets. The specific scope component contributed 3% net of the Group's adjusted PBT measure used to calculate materiality, 18% of the Group's Revenue and 60% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group. We also performed specified procedures over certain aspects of revenues, payroll expenses and deferred income tax for three components.

Independent Auditor's Report

Of the remaining 27 components that together represent 0% of the Group's adjusted PBT, none are individually greater than 3% of the Group's adjusted PBT. For these components, we performed other procedures, including analytical review, testing of consolidation journals and inter-company eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit team.

Integrated team structure and involvement with component teams

The overall audit strategy is determined by the senior statutory auditor. The senior statutory auditor is based in the UK however, since Group management and many operations reside in the Czech Republic, the Group audit team includes members from both the UK and Czech Republic, including tax and valuations professionals in both countries, as well as tax professionals in the Netherlands. The senior statutory auditor visited the Czech Republic eight times during the current year's audit and members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Whilst in the Czech Republic, the senior statutory auditor focused his time on the significant risk and judgement areas of the audit, interactions with management and the Group audit team. He reviewed key working papers and met with key representatives of the Group audit team physically located in the Czech Republic for certain full and specific scope components to discuss the audit approach and issues arising from their work. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $11.2 million, which is 5% of adjusted PBT. We believe that materiality basis provides us with the most relevant measure of underlying performance of the Group.

We determined materiality for the Parent Company to be $32 million, which is 1% of total equity, which is greater than the group as a result of the materiality based on its investment in the Avast group.

Starting basis	› Profit before tax – $182.5m
Adjustments	› Add back $25.6m exceptional items (as disclosed in Note 10 of the financial statements) and deferred revenue haircut of $15.5m
Materiality	› 5% of this adjusted PBT figures of $223.6m, gives materiality basis of $11.2m

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely $5.6 million. We have set performance materiality at this percentage because we have integrated an additional level of audit risk relating to 2018 being an initial audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $1.1m to $4.2m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.56m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-97, including the Strategic Report and Governance Reports, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 97 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 64-69 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 62 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditor's Report

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit
- a Corporate Governance Statement has not been prepared by the company

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 96-97, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, Companies Act 2006, the UK Corporate Governance Code, and the relevant tax compliance regulations in the jurisdictions in which Avast plc operates). In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how Avast plc is complying with those frameworks by making inquiries of management and legal counsel, and those charged with governance (i.e. considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability).
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and review of accounting estimates and judgements and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved management enquiries, review of legal correspondences, and journal entry testing.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 26 April 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. We were appointed as auditors by the Board of Directors and signed an engagement letter on 1 August 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Ernst & Young LLP

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

9 April 2019

Notes:

1 The maintenance and integrity of the Avast plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated financial statements

Consolidated statement of profit and loss

For the year-ended 31 December 2018

	Note	Year-ended 31 December 2018 $M	Year-ended 31 December 2017 $M (restated)
REVENUE	9	808.3	652.9
Cost of revenues	12	(241.4)	(230.3)
GROSS PROFIT		566.9	422.6
Sales and marketing		(124.5)	(116.2)
Research and development		(68.9)	(68.2)
General and administrative		(125.2)	(113.9)
Total operating costs	13	(318.6)	(298.3)
OPERATING PROFIT		248.3	124.3
Analysed as:			
Underlying Operating profit		415.3	299.7
Share-based payments	34	(13.9)	(7.7)
Exceptional items	10	(25.6)	(34.8)
Amortisation of intangible assets acquired through business combinations	16	(127.5)	(132.9)
Interest income	15	0.3	–
Interest expense	15	(85.8)	(90.4)
Other finance income and expense (net)	15	19.7	(62.8)
PROFIT (LOSS) BEFORE TAX		182.5	(28.9)
Income tax	17	58.7	(4.9)
PROFIT (LOSS) FOR THE FINANCIAL YEAR		241.2	(33.8)
Earnings/(losses) per share (in $ per share):			
Basic EPS	18	0.26	(0.04)
Diluted EPS	18	0.25	(0.04)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year-ended 31 December 2018

	Year-ended 31 December 2018 $M	Year-ended 31 December 2017 $M
Profit (loss) for the financial year	241.2	(33.8)
Other comprehensive gains (losses):		
Items that will not be reclassified subsequently to profit or loss (net of tax):		
– Defined benefit plan actuarial gain	–	0.1
Items that may be reclassified subsequently to profit or loss:		
– Translation differences	(1.6)	(1.6)
Total other comprehensive (losses)	(1.6)	(1.5)
Comprehensive income (loss) for the year	239.6	(35.3)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2018

Company registered number: 07118170	Note	31 December 2018 $M	31 December 2017 $M (restated)
ASSETS			
Current assets			
Cash and cash equivalents	19	272.3	176.3
Trade and other receivables	20	82.9	93.2
Capitalised contract costs	21	31.2	27.1
Prepaid expenses		8.5	8.7
Inventory		0.5	0.5
Tax receivables	17	7.3	7.5
Other financial assets	22	0.4	1.0
		403.1	314.3
Non-current assets			
Property, plant and equipment	23	29.3	29.5
Intangible assets	24	267.3	394.3
Deferred tax assets	17	204.1	66.3
Other financial assets	22	0.7	1.9
Capitalised contract costs	21	4.6	0.1
Prepaid expenses		2.0	0.4
Goodwill	25	1,993.7	1,986.7
		2,501.7	2,479.2
TOTAL ASSETS		2,904.8	2,793.5

Consolidated statement of financial position (continued)

As at 31 December 2018

Company registered number: 07118170	Note	31 December 2018 $M	31 December 2017 $M (restated)
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current liabilities			
Trade payables and other liabilities	26	64.0	74.1
Lease liability		0.4	1.7
Provisions	27	9.1	6.2
Income tax liability		40.4	28.1
Deferred revenue	28	384.3	324.3
Term loan	29	73.4	92.5
		571.6	526.9
Non-current liabilities			
Lease liability		2.6	3.3
Provisions	27	0.9	1.2
Deferred revenues	28	51.2	54.5
Term loan	29	1,318.1	1,688.8
Financial liability	30	1.0	3.2
Other non-current liabilities		4.3	2.2
Deferred tax liabilities	17	54.7	78.3
		1,432.8	1,831.5
Shareholders' equity			
Share capital	32	129.0	371.7
Share premium, statutory and other reserves	32,33	275.9	3.3
Translation differences		(0.3)	1.3
Retained earnings		494.8	57.9
Equity attributable to equity holders of the parent		899.4	434.2
Non-controlling interest		1.0	0.9
		900.4	435.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,904.8	2,793.5

The accompanying notes form an integral part of these financial statements.

Philip Marshall
Chief Financial Officer

Consolidated statement of changes in shareholders' equity

For the year-ended 31 December 2018

	Note	Share Capital $M	Share premium, statutory and other reserves $M	Translation differences $M	Retained earnings $M	Equity attributable to equity holders of the parent $M	Non-controlling interests $M	Total equity $M
At 31 December 2016		565.3	73.1	2.9	82.5	723.8	0.7	724.5
Result of the year		–	–	–	(33.8)	(33.8)	–	(33.8)
Other comprehensive income		–	0.1	(1.6)	–	(1.5)	–	(1.5)
Comprehensive income (loss) for the period		–	0.1	(1.6)	(33.8)	(35.3)	–	(35.3)
Transfer within equity	32	23.0	(77.9)	–	54.9	–	–	–
Capital distribution	32	(219.1)	–	–	(45.7)	(264.8)	–	(264.8)
Share-based payments	34	–	7.5	–	–	7.5	0.2	7.7
Exercise of share options	34	2.5	0.5	–	–	3.0	–	3.0
At 31 December 2017		371.7	3.3	1.3	57.9	434.2	0.9	435.1
Result of the year		–	–	–	241.2	241.2	–	241.2
Other comprehensive income		–	–	(1.6)	–	(1.6)	–	(1.6)
Comprehensive income (loss) for the period		–	–	(1.6)	241.2	239.6	–	239.6
Primary proceeds	32	8.0	191.8	–	–	199.8	–	199.8
Group re-organisation	32	(250.8)	250.8	–	–	–	–	–
Capital reduction	32	–	(180.6)	–	180.6	–	–	–
Other movements		–	–	–	0.3	0.3	–	0.3
Share issue expense	32	–	(4.0)	–	–	(4.0)	–	(4.0)
Share-based payments deferred tax	17	–	–	–	14.8	14.8	–	14.8
Share-based payments	34	–	13.8	–	–	13.8	0.1	13.9
Exercise of options	34	0.1	0.8	–	–	0.9	–	0.9
At 31 December 2018		129.0	275.9	(0.3)	494.8	899.4	1.0	900.4

The accompanying notes form an integral part of these financial statements.

Consolidated statement of cash flows

For the year-ended 31 December 2018

	Note	For the year ended 31 December 2018 $M	For the year ended 31 December 2017 $M
Cash flows from operating activities			
Profit (loss) for the financial year		241.2	(33.8)
Non-cash adj. to reconcile profit to net cash flows:			
Income tax	17	(58.7)	4.9
Depreciation	16	13.4	15.4
Amortisation	16	130.3	136.6
Loss/(gain) on disposal of property, plant and equipment		(0.2)	0.7
Movement of provisions and allowances		3.5	(17.8)
Interest income	15	(0.3)	(0.1)
Interest expense, changes of fair values of derivatives and other non-cash financial expense	15	85.5	96.3
Shares granted to employees	34	13.9	7.7
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		(2.8)	3.4
Unrealised foreign exchange gains and losses and other non-cash transactions		(32.0)	56.0
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		4.1	(45.1)
Increase/(decrease) in trade and other payables		1.0	(10.6)
Increase in deferred revenues	28	56.9	147.7
Income tax paid		(79.8)	(54.8)
Net cash flows from operating activities		376.0	306.5

Consolidated statement of cash flows (continued)

For the year-ended 31 December 2018

	Note	For the year ended 31 December 2018 $M	For the year ended 31 December 2017 $M
Cash flows from investing activities			
Acquisition of property and equipment	23	(13.5)	(10.1)
Acquisition of intangible assets	24	(3.4)	(5.8)
Investment in subsidiary, net of cash acquired		(4.2)	(157.6)
Settlement of contingent consideration	26	(8.0)	(1.0)
Restricted cash		–	0.5
Interest received		0.3	0.2
Net cash used in investing activities		(28.8)	(173.8)
Cash flows from financing activities			
Proceeds from issue shares	32	199.8	–
Transaction costs related to the issue shares	32	(4.0)	–
Capital distribution	32	–	(264.8)
Exercise of options	32, 34	0.9	3.0
Repayment of borrowings	29	(378.5)	(67.8)
Proceeds from borrowings	29	–	217.5
Transaction costs related to borrowings	29	(3.1)	(3.5)
Interest paid	29	(67.6)	(77.6)
Lease repayments		(1.5)	(0.5)
Net cash used from financing activities		(254.0)	(193.7)
Net increase/(decrease) in cash and cash equivalents		93.2	(61.0)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		2.8	(3.4)
Cash and cash equivalents at beginning of period	19	176.3	240.7
Cash and cash equivalents at end of period	19	272.3	176.3

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1. General information

Avast plc, together with its subsidiaries (collectively, "Avast", "the Group" or "the Company"), is a leading global cybersecurity provider. Avast plc is a public limited company incorporated and domiciled in the UK, and registered under the laws of England & Wales under company number 07118170 with its registered address at 110 High Holborn, London WC1V 6JS. The ordinary shares of Avast plc are admitted to the premium listing segment of the Official List of the UK Financial Conduct Authority and trade on the London Stock Exchange plc's main market for listed securities.

Prior to the Initial Public Offering ("IPO"), Avast Holding B.V. ("Avast Holding") was the parent company of the Group for which consolidated financial statements were produced. On 10 May 2018 (the date of completion of the IPO, with 15 May 2018 representing admission to trading on the London Stock Exchange), the shareholders of Avast Holding transferred all of their shares in Avast Holding to Avast plc in exchange for ordinary shares of equal value in Avast plc ("Reorganisation"). This resulted in Avast plc becoming the new parent company of the Group.

The financial information for the year ended 31 December 2018 (and comparative information for the year ended 31 December 2017) is presented as a continuation of Avast Holding.

2. Business combinations in 2018

Acquisition of Inloop s.r.o. ("Inloop")

On 1 August 2018, Avast Software s.r.o. acquired a 100% stake in Inloop s.r.o. ("Inloop") on behalf of INLOOPX s.r.o ("INLOOPX"), a mobile engineering services firm based in Slovakia. The reason for the acquisition was to obtain the skilled team of engineers to strengthen Avast's Mobile business.

The transaction represented a business combination with Avast Software s.r.o. being the acquirer. The acquisition date was determined to be 1 August 2018. The former shareholders of Inloop do not have ongoing involvement in the business or with the Avast Group, following the acquisition.

The fair value of the consideration at the acquisition date was determined by the Group to be EUR 7.3 million ($8.6 million) and comprised the following components:

- Initial payment – on the acquisition date EUR 4.0 million ($4.7 million) was paid in cash to the owners of Inloop ($4.2 million net of cash acquired).
- Retention Earn-out payment – the earn-out of up to EUR 3.6 million ($4.2 million) represented a contingent consideration payable in cash 18 months after the acquisition date. As of the acquisition date, the probability weighted discounted present value of the earn-out was determined to be EUR 3.0 million ($3.5 million).
- Consolidation Earn-out payment – the earn-out of up to EUR 0.4 million ($0.4 million) represented a contingent consideration payable in cash 12 months after the acquisition date. As of the acquisition date, the probability weighted discounted present value of the earn-out was determined to be EUR 0.3 million ($0.4 million).

The fair value of assets acquired and liabilities incurred on the acquisition date was determined on final basis as follows:

Notes to the consolidated financial statements

2. Business combinations in 2018 (continued)

($ 'm)	Fair Value at 1 August 2018
Cash	0.4
Personal property	0.2
Trade and other receivables	1.5
Total Assets	2.1
Total Liabilities	0.5
Net Assets acquired	1.6
Consideration given	8.6
Goodwill	7.0

The business combination results in the recognition of goodwill of $7.0 million which is tested for impairment at least annually. The large proportion of goodwill to other identified assets is due to Inloop not having any significant identifiable assets other than the skilled workforce (the obtaining of which was the main purpose of the acquisition). The carrying value of goodwill is not expected to be tax deductible.

The revenues and net profit of the Group for the year ended 31 December 2018 would not have been significantly different had the acquisition occurred at the beginning of the reporting period (1 January 2018).

3. Business combinations in 2017

Acquisition of Piriform and FileHippo

On 18 July 2017, Avast BV acquired a 100% stake in Piriform Group Ltd. for a consideration of $121.4 million. At the same time, Avast Software s.r.o. acquired a download website, FileHippo, for a consideration of $6.0 million from Well Known Media Ltd. Shareholders of Well Known Media Ltd. also owned the Piriform Group Ltd.

Piriform Group Ltd. develops popular cleaning and optimisation software for PCs and mobile devices. FileHippo is a download website that offers computer software. The primary reason for the acquisition was to obtain access to the user base of the Piriform Group Ltd. and leverage revenue synergies between the two companies and product lines.

Under IFRS 3: Business Combinations ("IFRS 3"), the transaction represents a business combination with both Avast BV and Avast Software s.r.o. being the acquirers. The acquisition date was determined to be 18 July 2017.

The fair value of the consideration at the acquisition date was determined by the Group to be $127.4 million for 100% ownership. The consideration given was paid in cash.

($'m)	Fair value at 18 July 2017
Assets	
Cash and cash equivalents	8.5
Trade and other receivables	2.3
Prepaid expenses	0.2
Tax receivables	0.1
Current assets	11.1
Property, plant and equipment	0.3
Intangible assets	32.6
Non-current assets	32.9
Total Assets	44.0
Shareholders' equity and liabilities	
Trade and other payables	1.4
Deferred revenues	–
Current liabilities	1.4
Deferred tax liabilities	6.1
Non-current liabilities	6.1
Total Liabilities	7.5
Net Assets acquired	36.5
Consideration given	127.4
Goodwill	90.9

The business combination resulted in the recognition of goodwill of $90.9 million which is tested for impairment at least annually. The goodwill of $90.9 million comprises of the cross-sale of Avast and Piriform products, improvements of the trial to a premium conversion rate, the move from one-off licences to recurring licences and future software upgrades. The carrying value of goodwill is not expected to be tax deductible.

The Group incurred acquisition-related transactions costs of $2.6 million, which were recorded as General and administrative expenses in the statement of comprehensive income.

The revenues of the Group for the year ended 31 December 2017 were $652.9 million, to which Piriform Group Ltd. and FileHippo contributed $6.1 million. If the business combination had occurred at the beginning of the reporting period (1 January 2017) the revenues of the Group would have been $663.6 million and the contribution of Piriform Group Ltd. and FileHippo would have been $16.8 million.

The net result of the Group for the year ended 31 December 2017 was a net loss of $33.8 million, to which Piriform Group Ltd. and FileHippo contributed a net profit of $0.4 million. If the business combination had occurred at the beginning of the reporting period (1 January 2017), the net loss of the Group would have been a net loss of $32.4 million and the contribution of Piriform Group Ltd. and FileHippo would have been a net profit of $1.8 million.

4. Application of new and revised IFRS standards

Newly adopted standards

IFRS 9 Financial Instruments

The standard introduces new requirements for the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting. The Group applied the standard as of 1 January 2018 using the modified retrospective approach. The adoption has not had a material impact on the recognition, classification and measurement of financial assets and liabilities. The term loan has been classified as a financial liability at amortised cost.

Based on the evaluation of the loan, the Group applied the judgement that the repricing of the margin on the loan to market terms, which is allowed for in the terms of the loan, was a change in contractual variable payments to be accounted for by altering prospectively the effective interest rate consistent with the requirements for IFRS 9.5.4.5 for floating rate loans.

The Group has adopted the expected loss model for impairment of receivables. The adoption of the model had no material impact compared to the existing reserve methodology employed by the Company on the carrying value of receivables as of 1 January 2018.

The Group applies practical expedients when measuring the expected credit loss. The Group applies simplified approach and recognises expected lifetime loss allowance to trade receivables and contract assets. Expected lifetime loss is calculated using the provision matrix, which assigns provision rates to classes of receivables based on number of days they are overdue, based on the Group's historical credit loss experience adjusted for forward-looking development. The classes of receivables are stratified per types of customers by operating segments between the Consumer and SMB receivables.

IFRS 15 Revenue from Contracts with customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Group applied the standard as of 1 January 2018.

The Group decided to apply the modified retrospective method of adoption under which IFRS 15 requires restatement of those contracts which are not completed as at the date of adoption. The Group performed an analysis of these contracts and concluded that the impact of adoption has no material impact on the Group's consolidated financial statements other than that capitalised contract costs are now presented separately.

Following the implementation of IFRS 15, contract related fees (such as commissions to e-commerce shopping cart and online payment processes service providers) were reclassified from prepaid expenses and are now presented as current capitalised contract costs of $31.2 million (2017: $27.1 million) and as non-current capitalised contract costs of $4.6 million (2017: $0.1 million) as of 31 December 2018. There is no impact on the consolidated statement of profit and loss.

The Group also uses a practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The standard required entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group has assessed principal versus agent consideration to be a key judgement area.

The Group has revenue arrangements with resellers, payment providers, partners and other third parties. When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers' commissions, payment provider fees and the third party costs). Otherwise revenues are recognised on a net basis.

- Management evaluated that the Group is principal in the direct sales of software licences through its e-commerce partners directly to end customers.
- The Group also sells subscription software licences through an e-shop directly to end customers in cooperation with certain payment gateway providers. Revenue from sales through the e-shop are accounted for on a gross basis before the deduction of payment gateway fees. The Group controls the promised products before transferring them to the customer.
- Revenue share on sales made by Mobile Network Operators ("MNOs") partners of various products of Location Labs, Inc. ("Location Labs") are recognised net of partners' commissions as the MNOs act as principals in contracts with the end customers.
- Sales of third party solutions are accounted for net of the costs of the third party providing the product or service to the end customer. The provision of the product or service to the end customer is the responsibility of the third party. Refer to Note 7, section Gross versus net revenue accounting for further comments.

Notes to the consolidated financial statements

4. Application of new and revised IFRS standards (continued)

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group evaluated the commissions, payment and other fees and third party licence costs related to the subscription software licences as incremental costs of obtaining a contract. As a result of IFRS 15, these capitalised contract related costs have now been classified separately in the statement of financial position, and the comparative balances have been reclassified for consistency purposes. Previously these costs were classified within prepaid expenses.

Standards issued but not yet effective

The Group has not applied the following new or revised standards and interpretations that have been issued, but are not yet effective:

IFRS 16 Leases

On 13 January 2016, IASB issued a new standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has low value. The standard applies to annual reporting periods beginning on or after 1 January 2019.

The Group applies the standard as of 1 January 2019 using the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses and assessed for impairment at the date of initial application).

The Group has used the following practical expedients permitted by the standard:

- not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the adjustment of the right-of-use asset for any recognised onerous lease provisions, instead of performing an impairment review
- 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.

As at the reporting date, the Group has non-cancellable net operating lease commitments of $87.7 million, see Note 36. Of these commitments, approximately $0.5 million relate to short-term leases which will be recognised on a straight-line basis as an operating expense in the consolidated statement of profit and loss. The Group has no low-value leases such as laptops and printers as these are purchased versus leased.

The impact of the initial recognition on 1 January 2019 is as follows:

($'m)	1 January 2019
Right-of-use assets	69.7
Prepayments	(2.0)
Accrued leased payments	4.0
Lease liabilities	(71.7)

The expected impact on the consolidated statement of profit and loss for the year 2019 (tax impact not included):

($'m)	IAS 17	Adjustment	IFRS 16
Operating costs	(8.5)	8.5	–
Depreciation	–	(7.6)	(7.6)
Interest expense	–	(2.3)	(2.3)
Net profit before tax	(8.5)	(1.4)	(9.9)

5. Basis of preparation

The audited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements have been prepared on a historical cost basis and are presented in US dollars. All values are rounded to the nearest 0.1 million ($'m), except where otherwise indicated.

As there was no change in control with the Reorganisation (see Note 1) involving Avast plc becoming the new holding company of the Group in a share for share exchange, the financial information for the year ended 31 December 2018 (and comparative information for the year ended 31 December 2017) is presented as a continuation of Avast Holding. A movement in share capital, share premium and other reserves is reflected in the statement of changes in equity at the date of the Reorganisation.

Under section 408 of the Companies Act 2006, the parent company is exempt from the requirement to present its own profit and loss account.

The Group uses the direct method of consolidation, under which the financial statements are translated directly into the presentation currency of the Group, the US Dollar ("USD"). The consolidation of a subsidiary begins when the Group obtains control over the subsidiary, and continues to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

The directors have reviewed the projected cash flow and other relevant information and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern assumption in preparing the consolidated financial statements.

Change in accounting policy – effect of IFRS 15 adoption

Refer to Note 4 for the description of the impact on the financial statements of the adoption of IFRS 15.

Change in accounting policy – reclassification of certain costs

From 1 January 2018, the Group presents certain overhead costs related to office leases within general and administrative costs instead of allocating them to cost of revenues, sales and marketing, research and development and general and administrative categories. Comparative balances have been adjusted for consistency purposes. This change has no overall effect on profit for the period or earnings per share ("EPS").

($'m)	31 December 2017	Change in accounting policy – reclassification of office costs	31 December 2017 (restated)
Revenues	652.9	–	652.9
Cost of revenues	(232.8)	2.5	(230.3)
Gross Profit	420.1	2.5	422.6
Sales and marketing	(121.4)	5.2	(116.2)
Research and development	(75.5)	7.3	(68.2)
General and administrative	(98.9)	(15.0)	(113.9)
Total Operating costs	(295.8)	(2.5)	(298.3)
Operating Profit	124.3	–	124.3

The reclassification was made to align the consolidated statement of profit and loss with the internal operating costs classification.

Notes to the consolidated financial statements

6. Summary of significant accounting policies

The accounting policies used in preparing the historical financial information are set out below. These accounting policies have been consistently applied in all material respects to all periods presented except for the changes described in Notes 4 and 5.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with a customer and excludes taxes and duty. The Group recognises the revenue when it transfers control over a product and service to a customer. Each contract is evaluated to determine whether the Group is the principal in the revenue arrangements.

Revenues from individual products and services are aggregated into the following categories:

Consumer

Direct

The principal revenue stream of the Group is derived from the sale of its software and related services for desktop and mobile which protect users' security, online privacy and device performance. Licence agreements with customers include a pre-defined subscription period during which the customer is entitled to the usage of the products, including updates of the software. The typical length of a subscription period is 1, 12, 24, or 36 months. Antivirus software require frequent updates to keep the software current in order for it to be beneficial to the customer and the customer is therefore required to use the updated software during the licence period. This provides evidence that the licence grants the right to access the software over time and therefore revenue is recognised over the term of the licence. The software licence, together with the unspecified updates, form a single distinct performance obligation.

The Group mainly sells software licences through direct sales (primarily through e-commerce services providers including Digital River and the Group's e-shop) to customers. However, the Group also sells a small portion through indirect sales via the Group's retailers and resellers. See Note 7 for the judgements made in determining whether the Group acts as a principal or agent.

Deferred revenue represents the contract liability arising from contracts with customers. The portion of deferred revenues that will be recognised as revenue in the 12 months following the balance sheet date is classified as current, and the remaining balance is classified as non-current. Deferred revenue also materially represents the transaction price relating to sales of software licences that is allocated to future performance obligations. Some of the Group's products can be used on a one-time basis (VPN and Utilities), in which case sales are recognised immediately as revenue.

Location Labs, Inc. ("Location Labs") provides mobile security solutions that partner with MNOs providing locator, phone controls and drive safe products to their customers. The revenues generated by these arrangements are based on revenue share percentages as stated in the MNO agreements. Revenue is recognised on a net basis, after deduction of partners' commissions, based on the delivery of monthly services to the end customers of the MNOs.

The Group also sells a limited amount of physical CDs through its distributors which then sell the Group's products (Internet Security and Antivirus Software) to retail stores. The retail revenue is recognised on a gross basis, before the deduction of distributors commissions, ratably over the subscription period.

The Group reduces revenue for estimated sales returns. End users may return the Group's products, subject to varying limitations, through resellers or to the Group directly for refund within a reasonably short period from the date of purchase. The Group estimates and records provisions for sales returns based on historical experience. The amount of such provisions is not material.

Indirect

Consumer indirect revenues arise from several products and distribution arrangements that represent the monetisation of the user base. The most significant sources of revenues are:

- Google – The Group has two distribution arrangements with Google Ireland Limited ("Google") pursuant to which the Group is paid fees in connection with the Group's offers to users of Google Chrome or Google Toolbar. The Group recognises revenue from Google in full in the month they are earned as the Group has no subsequent performance obligations after the date of sale.
- Secure Browsing – The Group's Secure browser earns the Group a share of advertising revenue generated by end user search activity. Revenue is recognised immediately as the Group has no performance obligation after the date of sale.
- Advertising – Other Consumer Indirect derived revenues are comprised of advertising fees and product fees. Advertising fees are earned through advertising arrangements the Group has with third parties whereby the third party is obliged to pay the Group a portion of the revenue they earn from advertisements to the Group's end users. Amounts earned are reflected as revenue in the month the advertisement is delivered to the end user. The Group also receives product fees earned through arrangements with third parties, whereby the Group incorporates the content and functionality of the third party into the Group's product offerings. Fees earned during a period are based on the number of active clients with the installed third-party content or functionality multiplied by the applicable client fee.

- Analytics – The Group offers big data and marketing analytics through its entity, Jumpshot Inc. ("Jumpshot"), generating mostly recurring subscription revenue. Subscriptions are recognised ratably over the subscription period covered by the contract.

Small and Medium-sized business ("SMB")

SMB includes subscription revenue targeted at small and medium-sized businesses. Revenue is generated through the sale of security software and other IT managed solutions (including CloudCare and AVG Managed Workplace). CloudCare is a cloud-based security suite designed for SMBs and third party managed service providers who can use this tool to manage security on behalf of their clients. Managed Workplace is a remote monitoring and management platform. Licences under these management solutions are provided in conjunction with hosting services as the customers have no control over the software independently. The licence is not distinct and would be combined with the hosting service as a single performance obligation. The performance obligation is typically satisfied over the subscription term, beginning on the date that service is made available to the customer. Revenues from sales of CloudCare and AVG Managed Workplace are recognised on a gross basis, before deduction of the payment gateways fees.

Cost of revenues

Expenses directly connected with the sale of products and the provision of services, e.g. commissions, payments and other fees and third party licence costs related to the subscription software licences, are recognised as cost of revenues.

Capitalised contract costs

The Group pays commissions, third party licence costs and payment fees to resellers and payment providers for selling the subscription software licences to end customers. Capitalised contract costs are amortised over the licence period and recognised in the cost of revenues. Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

Taxes

Current income tax assets and liabilities recognised are the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Deferred tax is recognised for all temporary differences, except:

- where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, whereby the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date for the respective tax jurisdiction.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The Group's historical financial information is presented in US dollars ("USD" or "$"). The functional currencies of all Group entities are presented in the table below. Each entity in the Group (including branch offices not representing incorporated entities) determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. For the purposes of inclusion in the historical financial information, the statement of financial position of entities with non-USD functional currencies are translated into USD at the exchange rates prevailing at the balance sheet date and the income statements are translated at the average exchange rate for each month of the relevant year. The resulting net translation difference is recorded in other comprehensive income.

Notes to the consolidated financial statements

6. Summary of significant accounting policies (continued)

The functional currencies of the Group's main entities are as follows:

Company or branch	Functional currency
Avast plc	USD
Avast Holding B.V.	USD
Avast Operations B.V.	USD
Avast Software B.V.	USD
Avast Software s.r.o.	USD
Avast Software, Inc.	USD
Avast Corporate Services B.V.	USD
AVG Technologies Canada Inc.	CAD
Avast Deutschland GmbH	EUR
AVG Technologies UK Limited	GBP
AVG Technologies USA LLC	USD
FileHippo s.r.o.	CZK
InloopX s.r.o.	EUR
Location Labs LLC	USD
Piriform Group Limited	GBP
Piriform Limited	GBP
Piriform Software Limited	GBP
Piriform, Inc.	USD
Privax Limited	USD
TACR Services, Inc.	USD
Jumpshot s.r.o.	CZK
Jumpshot, Inc.	USD

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recalculated at the functional currency spot rate of exchange valid at the reporting date. All differences are recorded in the statement of profit and loss as finance income and expenses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Contingent consideration is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. During the measurement period, which may be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statement of Profit and Loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

The amortisation expense on intangible assets with finite lives is recognised in the Consolidated Statement of Profit and Loss in the expense category consistent with the function of the intangible assets.

Indefinite lived intangibles are not amortised but are tested for impairment annually and for impairment indicators on a quarterly basis. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be appropriate.

The useful economic lives of intangible assets are as follows:

	Years
Developed technology	4-5
Avast & FileHippo Trademark	Indefinite
Piriform Trademark	10
AVG Trademark	6
Customer relationships and user base	4
Other licensed intangible assets	3-5

Research and development costs

Research costs are expensed when incurred as the criteria for capitalisation are not met. Development expenditures are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Development expenditure incurred on minor or major upgrades, or other changes in software functionalities does not satisfy the criteria, as the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense in the Consolidated Statement of Profit or Loss as incurred.

Goodwill

Goodwill is assessed as having an indefinite useful life and is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The present value of the expected cost for the restoration of rented premises after the end of their use is included in the cost of construction if the recognition criteria for a provision are met.

Ordinary repairs and maintenance costs are charged to the statement of profit and loss during the accounting period during which they are incurred.

Depreciation is recorded on a straight-line basis over the estimated useful life of an asset, as follows:

	Years
Leasehold improvements	over the lease term
Machinery and equipment	2-5
Vehicles	4-5

Gains or losses arising from the de-recognition of tangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Profit and Loss when the asset is de-recognised.

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the Consolidated Statement of Profit and Loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. The reversal is limited so that the carrying amount of the asset does not exceed the lower of its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Profit and Loss.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the operating segment level, which is the smallest group of CGUs to which the Goodwill and intangible assets with indefinite useful life can be allocated. Goodwill is allocated to the groups of CGUs, that corresponds with operating segments (Consumer and SMB) according to the allocation from past business combinations – see Note 9. Intangible assets with indefinite useful lives are all allocated to the Group of CGUs that corresponds to the Consumer operating segment.

Notes to the consolidated financial statements

6. Summary of significant accounting policies (continued)

Operating leases

Leases where the lessee does not obtain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the Consolidated Statement of Profit and Loss on a straight-line basis over the lease term.

Employee stock option plans

Employees of the Group receive remuneration in the form of share-based payment transactions whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined based on the fair value of the share-based payment award at the date when the grant is made, taking into account the market and non-vesting conditions, using an appropriate valuation model. Non-market vesting conditions, are not taken into account in determining the fair value of the award. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Consolidated Statement of Profit and Loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in compensation expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction are modified, where the modification increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification, additional expense is recognised. When an equity-settled award is cancelled other than by forfeiture, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award. The dilutive effect of outstanding options is reflected in the computation of diluted earnings per share.

Employee benefits

Pension obligations

Contributions are made to the Government health, retirement benefit and unemployment plans at statutory rates applicable during the period and are based on gross salary payments. The arrangements of the Government health, retirement benefit and unemployment plans qualify as defined contribution plans. The Group has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit and loss in the same period as the related salary expense. As a benefit for employees, the Group also makes contributions to defined contribution schemes operated by external (third party) pension companies. These contributions are charged to profit and loss in the period to which the contributions relate.

Defined contribution plans

The Group maintains a defined contribution 401(k) retirement savings plan for its U.S. employees. Each participant in the 401(k) retirement savings plan may elect to contribute a percentage of his or her annual compensation up to a specified maximum amount allowed under U.S. Internal Revenue Service regulations. The Group matches employee contributions to a maximum of 4% of the participant annual compensation.

Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognises redundancy and termination benefits when it is demonstrably committed to have terminated the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. There are no redundancy and termination benefits falling due more than 12 months after the balance sheet date.

Key management personnel

The Group discloses the total remuneration of key management personnel ("KMP") as required by IAS 24 – Related party disclosures. The Group includes within KMP all individuals (and their family members, if applicable) who have authority and responsibility for planning, directing and controlling the activities of the Group. KMP include all members of the Board and the senior executives of the Group. See Note 35 for more details.

Financial instruments

Financial assets and liabilities are recognised on the Group's Consolidated Statement of Financial Position when the Group becomes a contractual party to the instrument. When financial instruments are recognised initially, they are measured at fair value, which is the transaction price plus, in the case of financial assets and financial liabilities not measured at fair value through profit and loss, directly attributable transaction costs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Trade and other receivables

Trade receivables are at initial recognition recorded at the original invoice amount, including value-added tax and other sales taxes. At subsequent reporting dates, the carrying amount is decreased by the expected lifetime loss allowance attributable to the receivable or group of receivables based credit assessment of the counterparty or estimate for relevant group of receivables respectively.

Bad debts are written off in the period in which they are determined to be completely unrecoverable.

Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

The Group's consolidated Statement of Cash Flows is prepared based on the indirect method from the Consolidated Statement of Financial Position and Consolidated Statement of Profit and Loss.

Pledged or restricted assets

Financial assets transferred to third parties as collateral, assets that are pledged and assets as to which the Group has otherwise restricted dispositions are classified as other long-term receivables, if the period until which the restriction ends or return of the assets in question will take place is more than 12 months from the balance sheet date.

Trade payables and other liabilities

Trade payables and other liabilities are recognised at their amortised cost which is deemed to be materially the same as the fair value.

Change in accounting policy

The Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

Loans

Loans are initially recognised at their fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability. Interest income is included in finance income in the Consolidated Statement of Profit and Loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at fair value at the end of each reporting period. The resulting gain and loss is recognised in profit and loss immediately.

A derivative embedded within a host contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

De-recognition of financial instruments

A financial asset or liability is generally de-recognised when the contract that gives right to it is settled, sold, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Statement of Profit and Loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Financial income and expenses

Financial income consist of interest income. Financial expenses consist of net foreign exchange gains and losses, interest expense and net other financial expense. When a non-current liability is discounted to a net present value the unwinding of the discount is presented as an interest expense.

Exceptional items

Exceptional items are material or non-recurring items of income and expense which the Group believes should be separately disclosed to show the underlying business performance of the Group more accurately. Such items are separately disclosed on the face of the Consolidated Statement of Profit and Loss and in the notes to the consolidated financial statements. Examples of such items include legal and advisory costs related to acquisition, integration, strategic restructuring programme costs and cost of impairment.

Notes to the consolidated financial statements

7. Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the use of judgements, estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and expenses during reporting periods.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the historical financial information:

Gross versus net revenue accounting

The Group has revenue arrangements with resellers, payment providers, partners and other third parties. When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers' commissions, payment provider fees and the third party costs). Otherwise revenues are recognised on a net basis.

The Group accounts for sales of products through E-Commerce partners on a gross basis before deduction of the E-Commerce partner's commissions and fees. The Group's e-commerce service providers fulfil administrative functions, such as collecting payment and remitting any required sales tax. The Group's e-commerce service providers collect the fees and transfer cash payments to the Group on a monthly basis within 30 days after the end of the month with respect to which payment is being made. The Group sets the retail list prices and has control over the licences before transferring them to the customer.

The Group also sells subscription software licences through an e-shop directly to end customers in cooperation with certain payment gateways providers. Revenue from sales through the e-shop are accounted for on a gross basis before the deduction of payment gateways fees. The Group sets the final retail prices and fully controls the revenue arrangement with the end customers.

Consumer Indirect monetisations such as the Google Chrome and other similar distribution arrangements are accounted for on a net basis in an amount corresponding to the fee the Group receives from the monetisation arrangement. The contracted partner in the arrangement is the customer rather than the end customer.

Sales of third-party solutions are accounted for net of the costs from the third party providing the product or service to the end customer. The factors supporting the net principle of recording revenues include:

- the third party suggests to the Group a final retail price; however, individual resellers of the Group have the discretion to set final prices;
- provision of the service or product to the end customer is primarily the responsibility of the third party, and the third party provides the actual service or product purchased by the end customer; and
- the Group has no material incremental costs from the provision of the service or product to the end customer after the moment of sale.

The Group partnered with Mobile Network Operators ("MNOs") providing various products of Location Labs. The revenues generated by these arrangements are based on revenue share percentages as stated in the MNO agreements. Once the product is developed by Avast based on the MNO's requirements, the product is then sold to the end customer via the MNO's subscription plans. Revenue is recognised on a net basis, after deduction of partners commissions, as Avast has no control of the product and no discretion to set the final prices.

Analytics subscription sales generated by Jumpshot are accounted for net of resellers' commissions and costs. Jumpshot does not determine the final resale price as it is set by resellers for the end user. In addition, Jumpshot does not have a contractual relationship with the end user, nor any financial contact with the end user.

Interest payments

Fees paid in connection with the arrangement of the term loan are being amortised to profit and loss over the term of the facility using the effective interest method. The Group made estimates about voluntary and mandatory repayments of the term loan and the future development of market interest rates (see Note 6 for a description of the method). Due to the floating rate nature of the loan, changes in the effective interest rate are accounted for prospectively from the moment the change in estimate takes place.

Impairment testing

Significant management judgement and estimates are required to determine the individual cash generating units ("CGUs") of the Group, the allocation of assets to these CGUs and the determination of the value in use or fair value less cost to sell of these individual assets. Management has concluded that the operating segments used for segment reporting represents the lowest level within the Group at which the Goodwill is monitored. Therefore, the operating segments correspond to groups of CGUs at which goodwill is tested for impairment. To determine the value in use management has used the discounted cash flow model which requires estimating the future financial results and an appropriate discount rate (see Note 25 for details of impairment test parameters).

Trademarks

Avast trademarks and domains were assessed by the Group as having indefinite useful economic lives, as the trademark has no expiration date. The Group is considered a going concern and the trademarks and domains are linked to the flagship product of the Group. The AVG trademark was assessed as having a definite useful economic life. The Group has the intention and ability to prolong the registered AVG trademark upon the expiration. Management performed an impairment test and no impairment was recognised as of 31 December 2018 as described in Note 25.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

In order to calculate the deferred tax impact from the fair value adjustments as part of the AVG acquisition, the management analysed the most likely development of tax regulations, the distribution of taxable profits within the Group (assumed to be primarily in the Czech Republic and the Netherlands) and the timing of tax credit utilisation and determined that 20% is the most suitable tax rate for the years 2018-2022 (to be re-assessed at each balance sheet date as new information becomes available). The expiration of tax losses is considered, as is the impact of business combinations.

8. Alternative performance measures ("APM")

Underlying operating profit, Underlying EBITDA, Underlying Net Income and Cash EBITDA

To supplement its historical financial information, which is prepared and presented in accordance with IFRS, the Group uses the following non-GAAP financial measures that are not defined or recognised under IFRS: Underlying operating profit, Underlying earnings before interest, taxation, depreciation and amortisation ("Underlying EBITDA"), Underlying Net Income and Underlying Cash EBITDA.

Underlying operating profit, Underlying EBITDA, Underlying Net Income and Underlying Cash EBITDA provide supplemental measures of earnings that facilitates a review of operating performance on a period-over-period basis by excluding non-recurring and other items that are not indicative of the Group's underlying operating performance. These measures are consistent with the presentation within IPO prospectus.

Underlying operating profit is defined as the Group's operating loss/profit before: (i) amortisation charges of intangible assets recognised as part of a business combinations; (ii) stock-based compensation expenses; and (iii) exceptional items.

Underlying EBITDA is defined as the Group's operating profit/loss before: (i) depreciation and amortisation charges; (ii) deferred revenue haircut reversal; (iii) share-based payments expenses; and (iv) exceptional items.

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Operating profit	248.3	124.3
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Underlying operating profit	415.3	299.7
Deferred revenue haircut reversal	15.5	98.0
Depreciation	13.4	15.0
Amortisation of non-acquisition intangible assets	2.8	3.7
Underlying EBITDA	447.0	416.4

Underlying Net Income represents profit for the financial period before the effect of business combination accounting (deferred revenue haircut reversal), share-based payments, exceptional items, amortisation of acquisition intangible assets, the unrealised foreign exchange gain/(loss) on the EUR tranche of the bank loan (see Note 29), the tax impact from the unrealised exchange differences on inter-company loans (see Note 17) and the tax impact of the foregoing adjusting items and IP sale. The Group believes that Underlying Net Income is an appropriate supplemental measure that provides useful information to the Group and investors about the Group's underlying business performance.

Notes to the consolidated financial statements

8. Alternative performance measures ("APM") (continued)

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
Profit/(loss) for the year	241.2	(33.8)
Deferred revenue haircut reversal	15.5	98.0
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Unrealised FX gain/(loss) on EUR tranche of bank loan	(26.4)	63.0
Tax impact from foreign exchange difference on inter-company Loans	(9.8)	19.0
Tax impact of IP transfer	(99.2)	–
Tax impact on adjusted items	(18.5)	(71.5)
Underlying Net Income	269.8	250.1

The tax impact of the adjusted items has been calculated by applying the tax rate that the Group determined to be applicable to the relevant item.

Cash earnings before interest, taxation, depreciation and amortisation ("Cash EBITDA") is defined as Underlying EBITDA plus the increase in deferred revenue (net of impact from foreign exchange and business combination accounting) less the net increase in prepaid expenses related to cost of goods sold.

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
Underlying EBITDA	447.0	416.4
Net change in deferred revenue	38.5	49.5
Change in prepaid expenses – cost of revenue	(8.7)	(20.6)
Underlying Cash EBITDA	476.8	445.3

9. Segment information and other disclosures

The management monitors revenues in two customer segments: consumer products (which generate direct and indirect revenue streams) and products for the SMB market. For management reporting purposes, the operating segments are determined to be Consumer and Small and Medium-sized business ("SMB"). This is the level on which the Chief Operating Decision Maker decides about the allocation of the Group's resources.

The principal products and services offered by each segment are summarised below:

Consumer – The Group's consumer products include direct revenue streams through its offerings for desktop security and mobile device protection and consist of free and premium paid products for the individual consumer market. The Group also has several value-added solutions for performance, privacy and other tools. The Group also focuses on monetising the user base indirectly, via dynamic secure search solution, including the browser toolbar, which gives users a convenient way to access a search engine at any time.

In addition, the Group offers big data and marketing analytics through its entity Jumpshot. Jumpshot aggregates anonymised data from users' full internet usage, not just the data of a user's usage on a single company's website.

SMB – The Group's SMB segment focuses on delivering high-level security and protection solutions for Small and Medium sized business customers.

Billings is one of the important metrics used to evaluate and manage operating segments. Billings represent the full value of products and services being delivered under subscription and other agreements and include sales to new end customers plus renewals and additional sales to existing end customers. Under the subscription model, end customers pay the Group for the entire amount of the subscription in cash upfront upon initial delivery of the applicable products. Although the cash is paid up front, under IFRS, subscription revenue is deferred and recognised rateably over the life of the subscription agreement, whereas non-subscription revenue is typically recognised immediately.

Billings are not defined or recognised under IFRS and considered as a non-IFRS financial measure used to evaluate current business performance.

The Group evaluates the performance of its segments based primarily on Revenue, Underlying revenue and Segment underlying operating profit. Total segment underlying operating profit is derived from underlying revenues and decreased by the cost of revenues and operating costs directly attributable to the relevant segment. Underlying revenues are adjusted for the effects of the fair value revaluation of the acquiree's pre-acquisition deferred revenues ("Deferred revenue haircut reversal").

Certain costs that are not directly applicable to the segments are identified as "Corporate Overhead" costs and represent general corporate costs that are applicable to the consolidated group. In addition, costs relating to share-based payments and exceptional items are not allocated to the segments since these costs are not directly applicable to the segments, and therefore not included in the evaluation of performance of the segments.

The following tables present summarised information by segment reconciled from the underlying operating profit of the segment to the consolidated operating profit:

For the year ended 31 December 2018 ($'m)	Consumer	SMB	Total
Billings	801.6	60.5	862.1
Deferral of revenue	(50.7)	(3.1)	(53.8)
Revenues	750.9	57.4	808.3
Deferred revenue haircut reversal	10.0	5.5	15.5
Segment underlying revenue	760.9	62.9	823.8
Segment cost of revenues	(74.0)	(7.2)	(81.2)
Segment sales and marketing costs	(70.6)	(23.5)	(94.1)
Segment research and development costs	(44.0)	(6.6)	(50.6)
Segment general and administrative costs	(4.7)	–	(4.7)
Total Segment underlying operating profit	567.6	25.6	593.2
Corporate overhead			(146.2)
Deferred revenue haircut reversal			(15.5)
Depreciation and amortisation			(143.7)
Exceptional items			(25.6)
Share-based payments			(13.9)
Consolidated operating profit			248.3

Notes to the consolidated financial statements

9. Segment information and other disclosures (continued)

For the year ended 31 December 2017 ($'m)	Consumer	SMB	Total
Billings	736.3	64.1	800.4
Deferral of revenue	(131.5)	(16.0)	(147.5)
Revenues	604.8	48.1	652.9
Deferred revenue haircut reversal	79.3	18.7	98.0
Segment underlying revenue	684.1	66.8	750.9
Segment cost of revenues[1]	(52.9)	(8.4)	(61.3)
Segment sales and marketing costs[1]	(61.8)	(24.4)	(86.2)
Segment research and development costs[1]	(38.6)	(8.9)	(47.5)
Segment general and administrative costs[1]	(3.4)		(3.4)
Total Segment underlying operating profit	527.4	25.1	552.5
Corporate overhead[1]			(135.7)
Deferred revenue haircut reversal			(98.0)
Depreciation and amortisation			(152.0)
Exceptional items			(34.8)
Share-based payments			(7.7)
Consolidated operating profit			124.3

1 As described in Note 5, the Group reclassified office costs. Comparative information for the year ended 31 December 2017 was adjusted accordingly.

Corporate overhead costs primarily include the costs of the Group's IT, Technology (R&D), HR, Finance and Central Marketing functions and legal, rent and office related costs, which are not allocated to the individual segments.

The following table presents depreciation and amortisation by segment, these costs are excluded in the total Segment underlying operating profit above:

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
Consumer	130.5	142.0
SMB	0.4	4.0
Corporate overhead	12.8	6.0
Total depreciation and amortisation	143.7	152.0

The following table presents revenue of sub-segments:

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
Consumer Direct Desktop	568.4	420.1
Consumer Direct Mobile	81.2	71.0
Consumer Indirect	85.8	75.2
SMB	57.4	48.1
Other	15.5	38.5
Total	808.3	652.9

The following table presents goodwill by segment:

($'m)	31 December 2018	31 December 2017
Consumer	1,969.8	1,962.8
SMB	23.9	23.9
Total goodwill	1,993.7	1,986.7

The following table presents the Group's non-current assets, net of accumulated depreciation and amortisation, by country. Non-current assets for this purpose consist of property and equipment and intangible assets.

	31 December 2018		31 December 2017	
	($'m)	(in %)	($'m)	(in %)
Czech Republic	263.5	88.9%	156.0	36.8%
UK	22.2	7.5%	3.8	0.9%
Netherlands	0.4	0.1%	227.2	53.6%
Other countries[1]	10.5	3.5%	36.8	8.7%
Total	296.6	100.0%	423.8	100.0%

1 No individual country represented more than 5% of the respective totals.

The following table presents revenue attributed to countries based on the location of the end user:

	Year–ended 31 December 2018		Year–ended 31 December 2017	
	($'m)	(in %)	($'m)	(in %)
United States	349.6	43.3%	297.3	45.5%
United Kingdom	68.6	8.5%	53.6	8.2%
France	61.1	7.6%	48.4	7.4%
Germany	50.7	6.3%	36.1	5.5%
Other countries[2]	278.3	34.3%	217.5	33.4%
Total	808.3	100.0%	652.9	100.0%

2 No individual country represented more than 5% of the respective totals.

Revenues from relationships with certain third parties exceeding 10% of the Group's total revenues were as follows:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Revenues realised through online resellers: Digital River	370.1	212.1

Revenues of Digital River significantly increased by $158.0 million due to the move of part of the business from in-house payment processing to the external vendor.

Notes to the consolidated financial statements

10. Exceptional items

The following table presents the exceptional items by account:

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
Cost of revenues	0.6	1.7
Operating costs (excl. depreciation and amortisation)	25.0	32.7
Depreciation	–	0.4
Total	25.6	34.8

The following table presents the exceptional items by activity:

($'m)	Year-ended 31 December 2018	Year-ended 31 December 2017
IPO related costs	18.8	4.1
Acquisition, Integration and Restructuring costs	6.8	30.7
Total	25.6	34.8

IPO related costs

The costs include one-time advisory, legal and other professional service fees related to the IPO. The majority of these costs were tax non-deductible. Total IPO costs comprise of $18.8 million recorded to the Consolidated Statement of Profit and Loss in 2018, $4.1 million already accrued in trade payables in 2017 and additional $4.0 million direct share issue expenses recorded to equity, which gives total IPO costs of $26.8 million. The full cash impact of the IPO costs was recorded in 2018 showing $(4.0) million under the cash flows from financing activities as directly linked to the share issue and the remaining $(22.8) million is included in the cash flows from operating activities.

Acquisition, Integration and Restructuring costs

The costs include one-time payments directly related to business combinations of AVG in 2016 and Piriform in 2017. Remaining costs relate to AVG integration and other programs implemented in prior years that were completed in 2018. Tax impact on these exceptional items amounted to $1.5 million (2017: $6.3 million).

11. Auditor's remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other non-audit services provided to the Group.

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Audit of the financial statements	1.1	1.6
Audit of the financial statements of subsidiaries	0.2	0.4
Total audit fees	1.3	2.0
Other assurance services	2.5	–
Corporate finance services	2.2	0.5
Tax services	0.2	0.3
Total non-audit fees	4.9	0.8
Total fees	6.2	2.8

The majority of other services related to the Company's IPO, including work as a reporting accountant, and related tax and other advisory work, which is an exceptional cost. See Note 10.

12. Cost of revenues

Cost of revenues consist of the following:

($ 'm)	Year–ended 31 December 2018	Year–ended 31 December 2017 (restated)
Amortisation	129.4	135.0
Depreciation	7.4	7.8
Personnel costs of product support and virus updates	17.3	17.2
Digital content distribution costs	15.4	17.0
Third party licence costs	5.2	7.6
Other product support and virus update costs	13.9	19.9
Commissions, payment and other fees	52.8	25.8
Total	241.4	230.3

13. Operating costs

Operating costs are internally monitored by function; their allocation by nature is as follows:

($ 'm)	Year–ended 31 December 2018	Year–ended 31 December 2017 (restated)
Depreciation	6.0	7.6
Amortisation	0.9	1.6
Personnel expenses	168.3	160.1
Purchases of services from third party vendors (legal, advisory and other services)	135.8	120.6
Gifts and charities	5.0	3.8
Other operating expenses	2.6	4.6
Total	318.6	298.3

14. Personnel expenses

Personnel expenses consist of the following:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
($ 'm)	Employees	Non-executive directors	Employees	Non-executive directors
Wages and salaries	135.2	0.8	133.9	0.2
Social security and health insurance[1]	23.5	0.1	22.4	–
Pension costs	0.5	–	0.5	–
Social costs	6.7	–	7.5	–
Severance payments and termination benefits	4.9	–	5.1	–
Share-based payments	13.7	0.2	7.2	0.5
Total personnel expense	184.5	1.1	176.6	0.7

1 State and Government pension costs of Czech employees are also included in the social security and health insurance costs.

Notes to the consolidated financial statements

14. Personnel expenses (continued)

The average number of employees by category during the period was as follows:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Technical	1,111	1,139
Sales and marketing	266	281
Administration	204	235
Total average number of employees	1,581	1,655

15. Finance income and expenses

Interest income:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Interest on bank deposits	0.3	–
Total finance income	0.3	–

Interest expense:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Term loan interest expense	(85.8)	(90.4)
Total interest expense	(85.8)	(90.4)

Other finance income and expense (net):

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Changes of fair values of derivatives	1.9	(3.2)
Revolving loan – commitment fee	(1.3)	(0.4)
Foreign currency gains/(losses)	(7.1)	6.2
Unrealised foreign exchange gains/(losses) on borrowings	26.4	(63.0)
Other financial expense	(0.2)	(2.4)
Total other finance income and expense (net)	19.7	(62.8)

16. Depreciation and amortisation

Amortisation by function:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Cost of revenues	127.5	132.9
Total amortisation of acquisition intangible assets	127.5	132.9
Cost of revenues	1.9	2.1
Sales and marketing	0.1	0.8
Research and development	0.1	0.1
General and administration	0.7	0.7
Total amortisation of non-acquisition intangible assets	2.8	3.7
Total amortisation	130.3	136.6

Depreciation by function:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Cost of revenues	7.4	7.8
Sales and marketing	0.3	0.7
Research and development	1.1	1.5
General and administration	4.6	5.4
Total depreciation*	13.4	15.4

* Total depreciation of $15.4 million in 2017 includes $0.4 million of exceptional depreciation classified under exceptional costs.

Tangible and intangible assets are allocated to each department of the Group. The depreciation and amortisation of these assets is reported as part of operating costs and cost of revenues.

17. Income tax

In the Consolidated Statement of Financial Position, the Corporate Income tax receivable of $5.8 million (2017: $0.5 million) is part of the caption Tax receivables.

The major components of the income tax in the consolidated statement of comprehensive income are:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Current income tax		
Related to current year	(86.7)	(55.8)
Related to prior year	(0.6)	(3.1)
Current income tax total	(87.3)	(58.9)
Deferred tax		
Related to current year	145.9	54.0
Related to prior year	0.1	0.0
Deferred tax total	146.0	54.0
Total income tax through P&L	58.7	(4.9)

Notes to the consolidated financial statements

17. Income tax (continued)

On 1 May 2018, AVG E-comm web shop was transferred to Avast Software B.V. ("Avast BV") and subsequently, the former Dutch AVG business (including the web shop) from Avast BV was sold to Avast Software s.r.o. As a result, the deferred tax asset was increased by $143.8 million. In addition, an exit charge of $49.4 million has been agreed upon with the Dutch tax authorities. The net tax effect of the transaction is a tax benefit of $94.4 million.

On 1 August 2018, intangible assets of Piriform IP were sold to Piriform UK. As a result, a deferred tax asset of $5.6 million was recognised by the Group. The current tax expense related to the transaction was $0.7 million. The net tax effect of the transaction is a tax benefit of $4.8 million.

The Group did not recognise a potential deferred tax asset related to certain tax losses and non-deductible interest expenses respectively, for which the Group considers future recoverability to be uncertain. The total impact was $7.5 million for tax losses, of which $5.6 million relates to prior periods, and $6.3 million for non-deductible interests. Tax losses above, for which the deferred tax asset was not recognised, were generated during the years 2014-2018 and the expiration period is 20 years.

From 2018, the Group generates a temporary difference relating to an intragroup loan denominated in USD received by Avast Software s.r.o., a subsidiary with a USD functional currency (but with a tax currency of CZK). This loan is subject to hedging in its local statutory books (with the effect that current tax relief does not cover the full period exchange differences). The tax impact related to the loan is a deferred tax benefit of $9.8 million. In 2017, the loan was not part of statutory hedging relationship (thus exchange differences were taxable) and generated current income tax charge of $19.0 million.

The reconciliation of income tax benefit applicable to accounting profit before income tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate is as follows:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Profit/(loss) before tax	182.5	(28.9)
Group effective income tax rate (20%[1] in 2017 and 2018)	(36.5)	5.8
Recurring adjustments		
Non-deductible expenses	(3.2)	(2.9)
Share-based payments	(2.8)	(1.5)
FX effect on Inter-company loans	9.8	(19.0)
Non recurring adjustments		
Non-deductible expenses (IPO related)	(3.8)	–
AVG IP transfer net tax benefit	94.4	–
Piriform IP transfer net tax benefit	4.8	–
Current year deferred tax assets not recognised	(4.9)	(1.2)
Derecognition of previously recognised deferred tax assets	(8.9)	(4.5)
Usage of previously not recognised deferred tax assets	1.6	–
Effect of enacted changes in tax rates on deferred taxes	(2.5)	–
Remaining impact of tax rate variance and other effects	10.7	18.4
Total income tax	58.7	(4.9)

1 Estimated as a Group's blended rate across the jurisdictions where the Group operates.

The deferred tax relates to following temporary differences:

($ 'm)	31 December 2018	31 December 2017
Temporary differences	Asset/(Liability)	Asset/(Liability)
Fixed assets	(53.1)	(76.2)
IP transfer tax benefit	142.9	–
Deferred revenue and unbilled receivables	15.9	31.2
Tax loss carryforward	16.6	6.9
Tax credits carryforward	3.7	3.6
Loans and derivatives	11.0	14.0
Carryforward of unutilised interest	–	3.4
Provisions	1.8	1.5
Tax impact from FX difference on inter-company loans	9.8	–
Other	0.8	3.6
Net	149.4	(12.0)

As a result of the IPO option exercise, there was a $70.0 million tax deduction in Avast Software Inc., Jumpshot Inc. and AVG UK that created a deferred tax benefit of $14.8 million, that was recognised directly in equity.

The movement in deferred tax balances:

($ 'm)	31 December 2018	31 December 2017
	Asset/(Liability)	Asset/(Liability)
Deferred tax as at 1 January	(12.0)	(59.9)
Effect of business combination (Note 3)	–	(6.1)
Deferred tax recognised in the profit & loss	146.0	54.0
Deferred tax recognised in the equity	14.8	–
Translation difference	0.6	–
Deferred tax as at 31 December	149.4	(12.0)

Notes to the consolidated financial statements

18. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of shares of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued if all dilutive potential ordinary shares were converted into ordinary shares.

Underlying EPS is calculated by dividing the underlying net profit for the period attributable to equity holders by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in calculating EPS:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Net profit (loss) attributable to equity holders ($ 'm)	241.2	(33.8)
Basic weighted average number of shares	914,567,949	836,413,568
Effects of dilution from share options and restricted share units	62,120,397	83,835,481
Total number of antidilutive shares not used in computing diluted earnings per share[1]	–	(83,835,481)
Total number of shares used in computing dilutive earnings per share	976,688,346	836,413,568
Basic earnings/(losses) per share ($/share)	0.26	(0.04)
Diluted earnings/(losses) per share ($/share)	0.25	(0.04)

1 If the result of the Group is a loss for the relevant period such options are considered antidilutive and are not included in calculating diluted earnings per share.

The weighted average number of shares for the year ended 31 December 2017 of 836,413,568 has been determined as a weighted average that adjusts for options to purchase shares in Avast Holding exercised during 2017 multiplied by the ratio at which these shares were exchanged for shares in Avast plc on 10 May 2018.

Supplementary earnings per share measures:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Net profit (loss) attributable to equity holders ($ 'm)	241.2	(33.8)
Deferred revenue haircut reversal	15.5	98.0
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Unrealised FX gain/loss on EUR tranche of bank loan	(26.4)	63.0
Tax impact from foreign exchange difference on inter-company loans	(9.8)	19.0
Tax impact of IP transfer	(99.2)	–
Tax impact on adjusted items	(18.5)	(71.5)
Underlying net profit attributable to equity holders ($ 'm)	269.8	250.1
Basic weighted average number of shares	914,567,949	836,413,568
Underlying basic earnings per share ($/share)	0.30	0.30
Diluted weighted average number of shares	976,688,346	920,249,049
Underlying diluted earnings per share ($/share)	0.28	0.27

Management regard the above adjustments necessary to give a fair picture of the underlying results of the Group for the period.

Dividend Proposed

The Directors propose to pay a final dividend of 8.6 cents per share, in respect of the period 15 May 2018 to 31 December 2018 (13.6 cents per share on an annualised basis). This represents 40% of the Group's levered free cash flow on a pro-rated basis from 15 May 2018 to 31 December 2018, in accordance with the Company's dividend policy. Subject to shareholder approval, this will be paid in US dollars on 17 June 2019 to shareholders on the register on 24 May 2019. There will be an option for shareholders to elect to receive the dividend in pounds sterling and such an election should be made no later than 24 May 2019. The foreign exchange rate at which dividends declared in US dollars will be converted into pounds sterling will be calculated based on the average exchange rate over the five business days prior to 5 June 2019 and announced immediately thereafter.

19. Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents comprise of the following:

($ 'm)	31 December 2018	31 December 2017
Cash on hand and cash equivalents	2.0	–
Cash in bank	270.3	176.3
Total	272.3	176.3

20. Trade and other receivables

($ 'm)	31 December 2018	31 December 2017
Trade receivables	35.7	54.1
Unbilled revenues	49.2	40.3
Other receivables	4.0	4.1
Trade receivables, gross	88.9	98.5
Less: Expected loss allowance on trade receivables, unbilled revenues and other receivables	(6.0)	(5.3)
Trade receivables, net	82.9	93.2

Trade receivables are non-interest bearing and are generally payable on 30-day terms. The fair value of receivables approximates their carrying value due to their short term maturities. The expected loss allowance relates to trade receivables (with only insignificant amounts relating to other classes of receivable).

Unbilled revenues represent sold products (for which the revenue has been deferred over the term of the product licence) but for which an invoice has not yet been issued.

Other receivables represent mainly advances to and receivables from employees.

($ 'm)	Amount
Allowances at 31 December 2016	2.7
Charged	5.3
Utilised	(2.7)
Allowances at 31 December 2017	5.3
Charged	6.0
Utilised	(5.3)
Allowances at 31 December 2018	6.0

Movements in allowances above relate mainly to trade receivables.

As of 31 December 2017 and 2018, the nominal value of receivables overdue for more than 360 days are $2.8 million (carrying value: nil) and $2.0 million (carrying value: $0.1 million), respectively.

Notes to the consolidated financial statements

20. Trade and other receivables (continued)

The ageing analysis of trade receivables, unbilled receivables and other receivables was as follows (carrying amounts after valuation allowance):

($ 'm)	Not past due	Past due 1-90 days	Past due more than 90 days	Past due more than 180 days	Past due more than 360 days	Total
31 December 2017	85.2	8.0	–	–	–	93.2
31 December 2018	74.6	7.2	0.9	0.1	0.1	82.9

21. Capitalised contract costs

($ 'm)	31 December 2018	31 December 2017 (restated)
Capitalised contract costs at 1 January	27.2	5.5
Additions	66.1	54.2
Sales commissions and fees	59.8	45.1
Licence fees	6.3	9.1
Amortisation	(57.5)	(32.5)
Sales commissions and fees	(52.1)	(24.9)
Licence fees	(5.4)	(7.6)
Capitalised contract costs at 31 December	35.8	27.2
Total current	31.2	27.1
Total non-current	4.6	0.1

Capitalised contract costs include commissions and fees and third party licence costs related to the subscription software licences that are amortised on a straight-line basis over the licence period, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs are reviewed for impairment annually. All costs are expected to be recovered.

22. Other financial assets

($ 'm)	31 December 2018	31 December 2017
Restricted cash		
– acquisition agreements	–	0.6
– office lease agreements	0.2	1.3
– other	0.4	0.3
Total	0.6	2.2
Derivatives – foreign currency contracts	–	0.1
Investment in equity securities	0.5	0.6
Total	1.1	2.9
Total current	0.4	1.0
Total non-current	0.7	1.9

23. Property, plant and equipment

($ 'm)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Cost at 31 December 2016	28.1	0.2	10.6	2.9	41.8
Additions	5.9	0.1	1.4	2.7	10.1
Transfers	2.4	–	–	(2.4)	–
Net foreign currency exchange difference	0.4	–	–	–	0.4
Disposals	(0.3)	–	–	–	(0.3)
Cost at 31 December 2017	36.5	0.3	12.0	3.2	52.0
Additions	11.5	0.1	0.6	1.3	13.5
Transfers	2.0	–	–	(2.0)	–
Net foreign currency exchange difference	(0.8)	0.1	0.4	–	(0.3)
Disposals	(3.3)	(0.1)	(2.7)	–	(6.1)
Cost at 31 December 2018	45.9	0.4	10.3	2.5	59.1

($ 'm)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Acc. depreciation at 31 December 2016	(6.7)	(0.1)	(0.3)	–	(7.1)
Depreciation	(13.2)	(0.1)	(2.1)	–	(15.4)
Acc. depreciation at 31 December 2017	(19.9)	(0.2)	(2.4)	–	(22.5)
Depreciation	(11.6)	(0.1)	(1.7)	–	(13.4)
Disposals	3.3	0.1	2.7	–	6.1
Acc. depreciation at 31 December 2018	(28.2)	(0.2)	(1.4)	–	(29.8)
NBV at 31 December 2017	16.6	0.1	9.6	3.2	29.5
NBV at 31 December 2018	17.7	0.2	8.9	2.5	29.3

There has been no impairment to the property, plant and equipment held by the Group during the year.

There has been no individually significant addition to the property, plant and equipment during the year.

For the information about items of property, plant and equipment pledged as security refer to Note 29.

Notes to the consolidated financial statements

24. Intangible assets

($ 'm)	Developed Technology	Trade marks	Software	Customer relationship and user base	Other	In progress	Total
Cost at 31 December 2016	250.5	159.3	15.5	243.3	10.5	0.5	679.6
Business combination	–	4.8	24.5	3.3	–	–	32.6
Additions	–	–	–	–	4.3	1.5	5.8
Net foreign currency exchange difference	–	–	–	–	0.2	–	0.2
Cost at 31 December 2017	250.5	164.1	40.0	246.6	15.0	2.0	718.2
Additions	–	–	–	–	2.4	1.0	3.4
Transfers	–	–	–	–	1.5	(1.5)	–
Net foreign currency exchange difference	–	–	–	–	(0.1)	–	(0.1)
Cost at 31 December 2018	250.5	164.1	40.0	246.6	18.8	1.5	721.5

($ 'm)	Developed Technology	Trade marks	Software	Customer relationship and user base	Other	In progress	Total
Acc. amortisation at 31 December 2016	(125.7)	(3.7)	(8.9)	(44.5)	(4.5)	–	(187.3)
Amortisation	(51.5)	(15.0)	(5.3)	(61.2)	(3.6)	–	(136.6)
Acc. amortisation at 31 December 2017	(177.2)	(18.7)	(14.2)	(105.7)	(8.1)	–	(323.9)
Amortisation	(51.5)	(15.0)	(8.1)	(52.6)	(3.1)	–	(130.3)
Acc. amortisation at 31 December 2018	(228.7)	(33.7)	(22.3)	(158.3)	(11.2)	–	(454.2)
NBV at 31 December 2017	73.3	145.4	25.8	140.9	6.9	2.0	394.3
NBV at 31 December 2018	21.8	130.4	17.7	88.3	7.6	1.5	267.3

Avast and FileHippo trademarks, with a gross value of $71.5 million, have indefinite useful lives. AVG trademark, with a gross value of $89.3 million, has a remaining useful life of 3.8 years. Piriform trademark, with a gross value of $3.7 million, has a remaining useful life of 8.6 years.

Avast developed technology, with a gross value of $223.2 million, has a remaining useful life of 0.3 years. AVG developed technology, with a gross value of $27.3 million, has a remaining useful life of 1.8 years.

Piriform and FileHippo software, with a gross value of $24.5 million, has a remaining useful life of 3.6 years.

AVG customer relationship, with a gross value of $197.1 million, has remaining useful life of 1.8 years.

For the information about intangible assets pledged as securities, refer to Note 29.

The major additions are primarily through business combinations in the year ended 31 December 2017 (Note 3). There have been no individually significant additions to the intangible assets during the year ended 31 December 2018.

The Group has not capitalised development costs in the year ended 31 December 2018 (2017: nil) as the Company believe the criteria set out in IAS 38 has not been met. See Note 7.

25. Goodwill and impairment

($ 'm)	31 December 2018	31 December 2017
1 January	1,986.7	1,911.7
Acquisitions	7.0	90.9
Impairment	–	(15.9)
31 December	1,993.7	1,986.7

Goodwill was calculated as the difference between the acquisition date fair value of consideration transferred less the fair value of acquired net assets. See Note 2 and 3 for further details and Note 9 for the details of the allocation to individual business segments.

Goodwill & Intangible assets impairment tests

Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. The impairment test as of 31 December 2018 is performed on the basis of two groups of cash generating units that correspond to the two operating segments, refer to Note 9.

In determining the value in use as of 31 December 2018, the Group used the following parameters:

- Projected 2019-2021 free cash flows based on the most current financial plan of the Group and the perpetuity growth rate of 3% p.a. after 2021 allocated to individual operating segments; and
- An after-tax discount interest rate representing the WACC of the Group. The WACC was calculated from the cost of equity and cost of debt at a ratio typical for an industry of 70% equity and 30% debt.

The recoverable amount of tested assets exceeds their carrying value. As the Group's management is not aware of any other indications of impairment and given the results of the impairment tests, no impairment was recorded.

Changes to the individual parameters used by the Group would impact the value in use to varying degrees:

- An increase in the WACC of 100 basis points would decrease the value in use by 7%;
- A decrease in the projected free cash flows by 10% in each of the projected periods would decrease the value in use also by 10%;
- A decrease in the perpetuity growth rate from 3% p.a. to 1.5% p.a. would decrease the value in use by 7%;
- Part of the income and expenses of the Group are in other currencies. The impairment tests performed by the Group are carried out in USD and are not significantly sensitive to foreign exchange volatilities.

No reasonable possible change in the assumptions would lead to an impairment.

In determining the value in use as of 31 December 2017, the Group used the following parameters:

- Projected 2018-2020 free cash flows ("FCF") based on the most current financial plan of the Group and a perpetuity growth rate of 3% p.a. after 2020 allocated to individual operating segments; and
- An after-tax discount interest rate representing the weighted average cost of capital ("WACC") of the Group; The WACC was calculated from a cost of equity and cost of debt at a ratio typical for an industry of 70% equity and 30% debt.

The recoverable amount of tested assets exceeded their carrying value. As the Group's management was not aware of any other indications of impairment and given the results of the impairment tests, no impairment was recorded. No reasonable possible change in the assumptions would lead to an impairment.

26. Trade payables and other liabilities

($ 'm)	31 December 2018	31 December 2017
Trade payables	8.5	6.8
Accruals	30.5	28.4
Amounts owed to employees	19.3	15.2
Social security and other taxes	1.5	10.2
Other payables and liabilities	4.2	13.5
Total trade payables and other liabilities	64.0	74.1

As described in Note 6, the Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

On 3 August 2018, the Company paid the remaining portion of the consideration for the acquisition of AVG Technologies B.V. of $8.0 million.

Notes to the consolidated financial statements

27. Provisions

The movements in the provision accounts were as follows:

($ 'm)	Accrued vacation provision	Provision for restructuring	Legal provision	Other	Total
As at 31 December 2016	3.7	15.6	7.7	2.5	29.5
Additions	2.0	–	–	–	2.0
Utilisation	(3.7)	(11.4)	(7.7)	(1.3)	(24.1)
As at 31 December 2017	2.0	4.2	–	1.2	7.4
Additions	1.4	5.6	–	2.8	9.8
Utilisation	(2.0)	(4.2)	–	(1.0)	(7.2)
As at 31 December 2018	1.4	5.6	–	3.0	10.0
Total current	1.4	4.9	–	2.8	9.1
Total non-current	–	0.7	–	0.2	0.9

28. Deferred revenue

The Group sells consumer and corporate antivirus products for periods of 12, 24 or 36 months with payment received at the beginning of the licence term. Revenues are recognised ratably over the subscription period covered by the agreement.

The movements in the deferred revenue were as follows:

($ 'm)	31 December 2018	31 December 2017
1 January	378.8	231.1
Additions – billings	862.2	800.4
Deductions – revenue	(808.3)	(652.9)
Translation and other adjustments	2.8	0.2
31 December	435.5	378.8
Current	384.3	324.3
Non-current	51.2	54.5
Total	435.5	378.8

29. Term loan

Term loan balance is as follows:

($ 'm)	31 December 2018	31 December 2017
Current term loan	73.4	92.5
Long-term term loan	1,318.1	1,688.8
Total term loans	1,391.5	1,781.3

The carrying amount of the term loan is net of the total costs incurred on the arrangement of the term loan (including repricings) which are being amortised to profit and loss over the term of the term facility using the effective interest rate method.

($ 'm)	31 December 2018	31 December 2017
USD tranche principal	864.7	1,213.8
EUR tranche principal	545.8	601.7
Total principal	1,410.5	1,815.5

The Group re-financed its bank loan from the primary proceeds arising from the IPO on 16 May 2018, reducing the USD tranche by $300 million and reducing the margin on both the USD and EUR tranche by 0.25% p.a. The fees for the reduction and repricing were $3.1 million. The Group allocated the drawing fees as of the repricing date between the $300 million repaid amount and the balance of the loan. The portion of unamortised issue costs allocated to the repaid loan of $6.9 million was released into the Consolidated Statement of Profit and Loss as a non-cash interest expenses. Avast Software B.V. may voluntarily prepay term loans in whole or in part without premium or penalty.

The bank loans are repayable as follows:

($ 'm)	31 December 2018	31 December 2017
Due within one year	73.3	91.9
Due within two years	73.3	91.9
Due between three and five years	1,263.9	275.8
Due over five years	–	1,355.9
Total term loans	1,410.5	1,815.5

Under the Repricing agreement, the following terms apply to the bank loans outstanding at 31 December 2018:

Facility	Interest	Margin	Floor	Principal ($ 'm)
USD Tranche	3-month USD LIBOR	2.50% p.a.	1.00% p.a.	864.7
EUR Tranche	3-month EURIBOR	2.75% p.a.	0.00% p.a.	545.8

The repricing details in 2017 were as follows:

	Until 31 March 2017		From 1 April 2017		From 21 November 2017	
	USD tranche	EUR tranche	USD tranche	EUR tranche	USD tranche	EUR tranche
Indexed-based rate	3m USD LIBOR	3m EURIBOR	3m USD LIBOR	3m EURIBOR	3m USDLIBOR	3m EURIBOR
Applicable interest rate (spread)	4.00% p.a.	3.75% p.a.	3.25% p.a.	3.50% p.a.	2.75% p.a.	3.00% p.a.
Interest rate floor	1.00% p.a.	1.00% p.a.	1.00% p.a.	0.00% p.a.	1.00% p.a.	0.00% p.a.

Both facilities are repayable in full at the end of the 84-month term on 30 September 2023. The margin payable on both facilities is dependent upon the ratio of the Group's net debt to adjusted EBITDA as defined in the facility agreement.

The Credit Agreement ("CA") requires the following mandatory repayments in addition to the quarterly amortisation payments: *Excess Cash Flow Payment Amount* ("ECF Payment Amount", defined in the CA as the consolidated net increase in cash and cash equivalents of Avast plc for the period adjusted for potential future business combinations and the results of Jumpshot, Inc., Jumpshot s.r.o. and Avast plc and other adjustments) – 50% of Excess Cash Flow (as defined, and subject to certain reductions and to the extent where ECF Payment Amount exceeds $40 million), with a reduction to 25% and elimination based upon the achievement of Total Net First Lien Leverage Ratios ("Net debt ratio") not exceeding 3.5:1 and 3.0:1, respectively. The net debt ratio is defined as the nominal value of debt less cash on hand as of the relevant date divided by adjusted operating profit for the preceding four calendar quarters. The operating profit is adjusted for amortisation and depreciation, non-cash expenses such as Share-based payments, the effects of business combination accounting and other non-cash items. The Net debt ratio was 2.5:1 as of 31 December 2018 so no mandatory repayment required.

The following pledge agreements existed as of the date of issuance of these consolidated financial statements. All of these pledge agreements were executed as of 31 December 2018.

- Avast Software B.V. pledged its 100% share in Avast Software s.r.o. and 100% share in Avast Operations B.V.
- Avast Software B.V. pledged its receivables
- Avast Software B.V. pledged its securities
- Avast Holding B.V. pledged its 100% share in Avast Software B.V.
- Avast Operations B.V. pledged its receivables from intragroup loan agreements

Avast Software s.r.o. pledged its receivables from bank accounts, trade receivables, receivables from insurance policies, trademarks, receivables from intragroup loan agreements, its movable assets, domain names, source codes and virus databases.

Notes to the consolidated financial statements

29. Term loan (continued)

Term loan balance reconciliation

The table below reconciles the movements of the balance of the Term loan with the information on above and the statement of cash flows.

($ 'm)	31 December 2018	31 December 2017
Term loan balance at beginning of period	1,781.3	1,558.0
Additional loan drawn (gross of fees)	–	217.5
Drawing fees	(3.1)	(3.5)
Interest expense	85.8	90.4
Interest paid	(67.6)	(77.6)
Loan repayment	(378.5)	(67.8)
Unrealised foreign exchange loss/(gain)	(26.4)	63.0
Other	–	1.3
Total	1,391.5	1,781.3

Revolving facility

Avast Software B.V. also obtained a revolving credit facility of $85.0 million for operational purposes which has not been drawn as of the date of these consolidated financial statements. It is valid up to 30 September 2022. The Credit Agreement includes a financial covenant that is triggered if at any time $35.0 million or more is outstanding under the revolving credit agreement as of 31 December 2018. If the revolving credit facility exceeds this threshold, then the Group must maintain, on a consolidated basis, a leverage ratio of less than 6.50:1.00. This covenant is tested quarterly at such time as it is in effect.

30. Derivatives

The carrying amount of derivative financial instruments held by the Group was as follows:

		31 December 2018		31 December 2017	
($ 'm)	Type	Assets	Liabilities	Assets	Liabilities
Type of derivative					
Interest rate Cap	Level 3	–	1.0	–	3.2
Total		–	1.0	–	3.2
Classified as					
Non-current financial liability		–	1.0	–	3.2
Total		–	1.0	–	3.2

The Group has not designated the derivatives as hedging instruments, and therefore changes in the fair value during the period are recorded in the Consolidated Statement of Profit and Loss.

Interest rate cap

On 20 February 2017, Avast Software B.V. entered into an interest rate cap with an effective date from 31 March 2017 until 31 March 2021 ("Cap"). As of 31 December 2018, the 3-month USD LIBOR is capped at 2.75% p.a. for a notional amount of $798.8 million. The capped notional amount will gradually decrease to $709.0 million by 31 March 2021. The fee for the cap is $1.6 million annually paid in quarterly installments.

During the reporting period ended 31 December 2018 there were no transfers between the Level 2 and Level 3 fair value measurements.

The movement in fair value of the derivatives was as follows:

($ 'm)	Interest rate Cap
31 December 2016	0.2
Change in fair value through profit and loss	3.0
31 December 2017	3.2
Change in fair value through profit and loss	(2.2)
31 December 2018	1.0

31. Financial risk management

The Group's classes of financial instruments correspond with the line items presented in the Consolidated Statement of Financial Position.

The management of the Group identifies the financial risks that may have an adverse impact on the business objectives and through active risk management mitigates these risks to an acceptable level.

The specific risks related to the Group's financial assets and liabilities and sales and expenses are interest rate risk, credit risk and exposure to the fluctuations of foreign currency.

Credit risk

The outstanding balances of trade and other receivables are monitored on a regular basis, and the aim of management is to minimise exposure of credit risk to any single counterparty or group of similar counterparties. The credit quality of larger customers is assessed based on the credit rating and individual credit limits are defined in accordance with the assessment.

The Group did not issue any guarantees or credit derivatives. The ageing of receivables is regularly monitored by Group management. The Group does not consider the credit risk related to cash balances held with banks to be material.

A significant portion of sales is realised through the Group's online resellers, mainly Digital River. From 2018, the Group manages its credit exposure by receiving advance payments from Digital River.

The Group evaluates the concentration of risk with respect to accounts receivable as medium, due to the relatively low balance of trade receivables that is past due. The risk is reduced by the fact that its customers are located in several jurisdictions and operate in largely independent markets and the exposure to its largest individual distributors is also medium. Sales to customers are required to be settled upfront by credit card or cash, thus further mitigating the risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in foreign currency).

At the parent company level, the functional and presentation currency is the US dollar and the Group's revenue and costs are reported in US dollars. The Group is exposed to translation risk resulting from the international sales and costs denominated in currencies other than US dollars and the resulting foreign currency balances held on the balance sheet. The Group is exposed to material transaction and translation currency risk from fluctuations in currency rates between USD, GBP, CZK and EUR.

The following table shows payments for the Group's products and services by end users (either directly to Group or paid to an e-commerce service provider) in individual currencies. Based on agreements with the Group, e-commerce service providers may convert billings collected on behalf of the Group in specific currencies to a remittance currency (usually USD and EUR) at the existing market rates which does not remove the underlying foreign exchange risk. The table below shows the original currency composition of payments made by end users to illustrate the foreign exchange risk to billings.

	Year-ended 31 December 2018	Year-ended 31 December 2017
USD	49%	52%
EUR	22%	19%
GBP	9%	8%
Other	20%	21%
Total	100%	100%

As the majority of revenues represent sales of software licences, the revenues are recognised over the duration of the licence period, despite payment being received at the start of the licence period. Because the release of deferred revenues is performed using the exchange rates valid at the start of the licence term, they are not subject to foreign currency risk.

Notes to the consolidated financial statements

31. Financial risk management (continued)

The following table shows financial assets and liabilities in individual currencies, net:

($ 'm)	31 December 2018	31 December 2017
USD	(644.0)	(712.8)
EUR	(518.8)	(404.7)
CZK	(32.6)	(217.8)
GBP	53.3	78.3
Other	44.0	15.8
Total	(1,098.1)	(1,241.2)

Financial assets and liabilities include cash and cash equivalents, trade and other receivables and trade and other payables, term loan, lease liabilities, other current liabilities and non-current financial assets and liabilities.

The table below presents the sensitivity of the profit before tax to a hypothetical change in EUR, CZK and other currencies and the impact on financial assets and liabilities of the Group. The sensitivity analysis is prepared under the assumption that the other variables are constant. The analysis against USD is based solely on the net balance of cash and cash equivalents, trade and other receivables, trade and other payables and term loan.

($ 'm)	% change	31 December 2018	31 December 2017
EUR	+/-10%	(51.9)/51.9	(40.5)/40.5
CZK	+/-10%	(3.3)/3.3	(21.8)/21.8
GBP	+/-10%	5.3/(5.3)	7.8/(7.8)
Other	+/-10%	4.4/(4.4)	1.6/(1.6)

The sensitivity analysis above is based on the consolidated assets and liabilities, i.e. excluding inter-company receivables and payables. However, Avast Software s.r.o. has a significant inter-company loan from Avast Operations B.V. denominated in USD. As the functional currency of Avast Software s.r.o. is the USD but the tax basis of Avast Software s.r.o. is denominated in CZK the income tax gains or losses of Avast Software s.r.o. are exposed to significant foreign exchange volatility. If the CZK depreciates against the USD, the corporate income tax expense would decrease. Avast Operations B.V. is not exposed to any similar volatilities as its functional and tax currency is the USD.

Interest rate risk

Cash held by the Group is not subject to any material interest. The only liabilities held by the Group subject to interest rate risk are the loan and derivatives described in Note 29 and 30. The liabilities and provisions themselves are not subject to interest rate risk. The Group keeps all its available cash in current bank accounts or term deposit contracts (see Note 19) with a fixed interest rate and original maturity not exceeding three months.

As at 31 December 2018, the Group has a term loan with an interest rate of 3-month USD LIBOR plus a 2.50% p.a. mark-up for USD tranche and 3-month EURIBOR plus a 2.75% p.a. mark-up for EUR tranche. The 3-month USD LIBOR and 3-month EURIBOR is subject to a 1% interest rate floor and 0% interest rate floor, respectively. As of 31 December 2018 the 3-month USD LIBOR was 2.39% p.a. and 3-months EURIBOR was -0.32%.

To reduce the interest rate risk, Avast Software B.V. entered into an interest rate cap ("Cap") with certain counterparties on 20 February 2017 effective from 31 March 2017. Under the Cap, 3 month USD LIBOR is limited to 2.75% p.a. for a notional amount of $844 million at the beginning to $709 million through 31 March 2021.

Interest rate sensitivity

A change of 100 basis points in market interest rates would have increased/(decreased) equity and profit and loss before tax by the amounts shown below (based on average gross debt during the year):

	Year-ended 31 December 2018	Year-ended 31 December 2017
Increase in interest rates	(15.3)	(17.6)
Decrease in interest rates	15.3	17.6

Liquidity risk

The Group performs regular monitoring of its liquidity position to maintain sufficient financial sources to settle its liabilities and commitments. The Group is dependent on a long-term credit facility and so it must ensure that it is compliant with its terms. As it generates positive cash flow from operating activities, the Group is able to cover the normal operating expenditures, pay outstanding short-term liabilities as they fall due without requiring additional financing and has sufficient funds to make meet the capital expenditure requirement. The Group considers the impact on liquidity each time it makes an acquisition in order to ensure it does not adversely affect its ability to meet the financial obligation as they fall due.

As at 31 December 2018 and 2017, the Group's current ratio (current assets divided by current liabilities including the current portion of deferred revenue) was 0.71 and 0.60. The ratio is significantly impacted by the high current deferred revenue balance due to the sales model, where subscription revenue is collected in advance from end users and deferred over the licence period. The Group's current ratio excluding deferred revenue was 2.15 and 1.55 as at 31 December 2018 and 2017, respectively.

The Group has established long-term credit ratings of Ba3 with Moody's and BB with Standard & Poor's. The credit ratings are subject to regular review by the credit rating agencies and may change in response to economic and commercial developments.

The following table shows the ageing structure of financial liabilities as of 31 December 2018:

($ 'm)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	18.3	55.0	1,337.2	–	1,410.5
Interest payment	14.9	44.8	195.3	–	255.0
Trade payables and other liabilities[1]	54.6	9.4	–	–	64.0
Derivative financial instruments	0.4	0.6	–	–	1.0
Other non-current liabilities	–	3.8	0.3	0.2	4.3
Total	88.2	113.6	1,532.8	0.2	1,734.8

1 As described in Note 6, the Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

The following table shows the ageing structure of financial liabilities as of 31 December 2017:

($ 'm)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	23.0	68.9	367.7	1,355.9	1,815.5
Interest payment	18.0	55.8	283.0	47.5	404.3
Finance Lease liability	1.0	1.0	2.8	0.2	5.0
Trade payables and other liabilities	51.2	22.9	–	–	74.1
Derivative financial instruments	0.4	1.2	1.6	–	3.2
Other non-current liabilities	–	–	1.5	0.7	2.2
Total	93.6	149.8	656.6	1,404.3	2,304.3

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in circumstances, including economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group currently expects to maintain dividend payments of approximately 40% of Group's levered free cash flow in the short to medium term.

The Group monitors capital using the net liability position and gearing ratio (the net liability position divided by the sum of the net liability position and equity). The Group includes within the net liability position all current and non-current liabilities, less cash and cash equivalents.

Notes to the consolidated financial statements

31. Financial risk management (continued)

($ 'm)	31 December 2018	31 December 2017
Current and non-current liabilities	2,004.4	2,358.4
Less: cash and short – term deposits	(272.3)	(176.3)
Net liability position	1,732.1	2,182.1
Equity	900.4	435.1
Gearing ratio	65.8%	83.4%

32. Share capital

Shares issued and fully paid:	Number of shares	Share Capital ($ 'm)	Share Premium ($ 'm)
Share capital at 31 December 2016[1]	94,212,768	565.3	23.4
Exercise of options	1,302,134	2.5	0.5
Transfer within equity[2]	–	23.0	(23.0)
Capital distribution[2]	–	(219.1)	–
Share capital at 31 December 2017[3]	95,514,902	371.7	0.9
Exercise of options	5,345	–	–
Share capital immediately prior to IPO	95,520,247	371.7	0.9
Converted at IPO[4]	844,058,216	371.7	0.9
Net exercise of options at IPO[4]	49,603,491	–	7.4
Initial public offering[5]	58,977,478	8.0	191.8
Share issue expenses[5]	–	–	(4.0)
Group re-organisation[6]	–	(250.8)	(0.9)
Capital reduction[7]	–	–	(180.6)
Exercise of options	799,114	0.1	0.8
Share capital at 31 December 2018 (Ordinary shares of £0.10 each)	953,438,299	129.0	15.4

1 Share capital at 31 December 2016 represented 51,075,525 common and 43,137,243 preferred shares, each with a nominal value of $6.0 per share and a share premium of $0.284 per share.

2 On 11 October 2017, the Management Board and Shareholders of Avast Holding B.V. approved the Distribution of $264.8 million. The Distribution consisted of two sources:
- Reduction in the nominal value of all Preferred Shares resulting in a Distribution of $219.1 million; and
- Payment of a regular dividend to holders of all Preferred Shares of $45.7 million.

On 10 October 2017, the other reserves were decreased by $54.9 million (with a corresponding increase in retained earnings) for the purpose of dividend distribution. On 11 October 2017, the share premium was decreased by $23.0 million with a corresponding increase in share capital. The Distribution is presented as a $219.1 million reduction in share capital and $45.7 million reduction in retained earnings.

3 Share capital at 31 December 2017 represented 52,377,659 common and 43,137,243 preferred shares. The nominal value of the 51,264,275 class A common shares is $6.24 per share with a share premium of $0.044 and nominal value of the 1,113,384 class B common shares is $1.57 with a nil share premium. The nominal value of the 43,136,243 preferred shares is $1.16 with a share premium of $0.044 and nominal value of the 1,000 management preferred shares is $6.24 per share with a share premium of $104.76 per share.

4 Avast plc listed its shares on the London Stock Exchange on 10 May 2018. As part of the IPO, holders of equity instruments in Avast Holding received 844,058,216 shares in Avast plc. In addition, holders of options in Avast Holding net-exercised at the IPO 49,603,491 shares in Avast plc and 58,977,478 new shares were issued, bringing the total amount of shares outstanding on Admission to 952,639,185. The net exercise of options resulted in the Group recording a share premium of $7.4 million.

5 The increase in share capital and share premium of $195.8 million represents the net proceeds from the IPO, less direct share issue expenses of $4 million.

6 $250.8 million was reclassified from share capital and $0.9 million from share premium into other reserves to reflect the nominal value of 10 pence per outstanding share.

7 On 6 November 2018, the High Court of Justice in England and Wales made an order confirming the reduction of the share premium account by £138 million ($180.6 million) and the cancellation of the subscriber share of the company under section 648 Companies Act 2006. The Company is able to apply the distributable reserves arising from the capital reduction and the subscriber share cancellation towards the payment of dividends in line with the Company's dividend policy and for the purposes of future share buybacks.

33. Other reserves

The movements in the other reserves were as follows:

($ 'm)	31 December 2018	31 December 2017
Other reserves at 31 December 2017	2.4	49.7
Defined benefit plan actuarial gain	–	0.1
Transfer within equity (see Note 32)	–	(54.9)
Group re-organisation (see Note 32)	251.7	–
Share-based payments[1]	13.8	7.5
Net exercise of options (see Note 32)	(7.4)	–
Other reserves at 31 December 2018	260.5	2.4

1 The fair value of share awards granted to employees is recorded over the vesting periods of individual options granted as a personnel expense with a corresponding entry to other reserves. Refer to Note 34 for further details of share-based payments.

34. Share-based payments

Existing Employee Share plan (formerly known as Avast Holding 2014 Share Option Plan "Avast Option Plan")

The Avast Option Plan was the primary share option plan of the Group prior to the IPO under which certain employees and Directors were granted options over A-Ordinary and/or B-Ordinary Shares of Avast Holding. Following the IPO, the Avast Option Plan was adjusted such that the options granted under the plan ceased to be options over shares of Avast Holdings and, instead, became options over shares of the Company of equivalent value.

No new options have been granted under the Avast Option Plan since the IPO. Furthermore, the Company does not intend to grant any further options under the Avast Option Plan.

Options generally vest over a four-year period in four equal installments. Some of the options granted to the key management personnel are performance-based. The contractual life of all options is 10 years.

Avast plc, 2018 Long Term Incentive Plan ("LTIP")

Following the IPO, the Company has adopted the LTIP for employees and Executive directors. The purpose of the LTIP is to incentivise employees and Executive Directors whose contributions are essential to the continued growth and success of the business of the Company, in order to strengthen their commitment to the Company and, in turn, further the growth, development and success of the Company. The following types of awards can be granted:

Performance Stock Units ("PSUs")

PSUs will be granted to Executive Directors and members of the Executive Management Team. Each PSU entitles a participant to receive a share in the Company upon the attainment, over a three year performance period, of challenging performance conditions determined by the Remuneration Committee.

Restricted Stock Units ("RSUs")

RSUs will be granted to key employees of the Group who are not Executive Directors or members of the Executive Management Team. Each RSU entitles a participant to receive a share in the Company upon vesting of the RSU. Each award of RSUs will ordinarily vest either in three equal proportions over a three year period or on the third anniversary of grant or over such other period as the Committee may determine, provided the participant remains in service.

Stock Options ("Options")

Options may be granted to key employees of the Group who are not Executive Directors or members of the Executive Management Team. Each option entitles a participant to the right to acquire a share of the Company upon vesting of the option. Each option will ordinarily become exercisable either in three equal proportions over a three year period or on the third anniversary of the grant, or over such other period as the Remuneration Committee may determine.

Notes to the consolidated financial statements

34. Share-based payments (continued)

Share Matching Plan ("SMP")

The Company has adopted the Avast Share Matching Plan ("SMP") for employees and Executive Directors of the Group. The purpose of the SMP is to encourage and enable employees and Executive Directors to acquire a significant stake in the Company so that they can share in the future growth, development and success of the Company. Under this plan, employees will be granted one matched share for every three purchased shares after a two-year period. No award under SMP was granted in 2018.

Deferred Bonus Plan ("DBP")

The Company has adopted the Deferred Bonus Plan for only Executive Directors. Where a participant is required to defer a portion of their annual bonus into shares under the terms of the Company's annual bonus arrangements, the Remuneration Committee may grant an award to acquire shares under the DBP in order to facilitate such deferral. Awards will ordinarily vest on the second anniversary of the date of grant. No award under DBP was granted in 2018.

Jumpshot Inc., 2015 Share Option Plan ("Jumpshot Option Plan")

The Jumpshot Option Plan was designed in order to grant options to purchase shares of common stock of Jumpshot Inc. to certain employees and directors of Jumpshot Inc. The purpose of the Jumpshot Option Plan is to provide employees with an opportunity to participate directly in the growth of the value of Jumpshot by receiving options for shares.

Each option converts into one ordinary share of Jumpshot Inc. on exercise. Options that are forfeited are available to be granted again. Options generally vest over a four-year period in four equal installments. Some of the options granted to the key management are performance-based. The contractual life of all options is 10 years.

Share-based payment expense

The total expense that relates to the equity-settled share-based payment transactions during the year is as follows:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Avast Option Plan	8.5	7.5
LTIP	5.3	–
Jumpshot Option Plan	0.1	0.2
Total share-based payment expense	13.9	7.7

Share Options

The fair value of equity-settled share options granted is, based on the several assumptions, on the date of the grant award using the Black-Scholes option valuation model. The following table illustrates the weighted average inputs into the Black-Scholes model in the year:

Avast Option Plan	Year-ended 31 December 2018	Year-ended 31 December 2017
Number granted in year	1,810,000	3,198,398
Weighted average grant date fair value (in $ cents/per share)	6.77	2.35
Weighted average exercise price (in $ cents)	26.98	13.17
Expected volatility	31.58%	32.66%
Weighted average expected lives (years)	6.25	6.12
Risk free interest rate	2.67%	1.93%
Expected dividends	Nil	Nil

Jumpshot Option Plan	Year-ended 31 December 2018	Year-ended 31 December 2017
Number granted in year	1,049,289	861,789
Weighted average grant date fair value (in USD cents/per share)	0.35	0.26
Weighted average exercise price (in USD cents)	0.86	0.56
Expected volatility	44.88%	45.34%
Weighted average expected lives (years)	6.92	6.25
Risk free interest rate	2.71%	2.07%
Expected dividends	Nil	Nil

Expected volatility was determined by calculating the historical share price volatility of comparable listed companies over the expected life of the options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be necessarily be the actual outcome. An increase in the expected volatility will increase the estimated fair value. The expected life is the average expected period to exercise.

The number and weighted average exercise prices of, and movements in, share options in the year is set out below:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average exercise ($ cents)	Number of shares	Weighted average exercise ($ cents)
Outstanding – 1 January	9,383,398	8.99	6,739,000	6.90
Granted	1,810,000	26.98	3,198,398	13.17
Forfeited	(74,750)	9.32	(365,250)	7.44
Exercised	–	–	(188,750)	6.48
Outstanding on Admission	11,118,648	12.13	–	–
Converted on Admission	69,905,909	1.69	–	–
Forfeited	(234,963)	1.23	–	–
Exercised	(729,114)	1.14	–	–
Outstanding – 31 December	68,941,832	1.60	9,383,398	8.99
Vested and exercisable – 31 December	26,685,849	0.98	2,985,992	6.86

The weighted average share price for options exercised during the year was £ pence 225.88.

Options outstanding at the end of the year had the following range of exercise prices and weighted average remaining contractual life:

	31 December 2018		31 December 2017	
Exercise price:	Number of shares outstanding	Weighted average remaining life (years)	Number of shares outstanding	Weighted average remaining life (years)
$6.28 – $9.27	–	–	6,974,365	7.68
$14.37 – $15.22	–	–	2,409,033	9.32
$0.77 – $0.88	23,736,711	6.14	–	–
$1.13 – $1.84	31,141,544	8.21	–	–
$2.73 – $3.41	14,063,577	9.22	–	–
Outstanding – 31 December	68,941,832	7.61	9,383,398	8.10

Notes to the consolidated financial statements

34. Share-based payments (continued)

Replacement options

Out of 7,717,640 options that were fully vested as of 21 March 2014 as part of a business combination, 5,345 options with an exercise price of $1.57 were exercised before the IPO. The outstanding number of options on Admission was 6,598,911 which were converted into 12,336,682 options over Avast plc shares. 70,000 options with the weighted average exercise price of $0.18 were exercised after the IPO. As of 31 December 2018, the outstanding and vested number of options was 12,266,682 with the weighted average exercise price of $0.19.

The following table summarises share option activity of Jumpshot Option Plan:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average exercise	Number of shares	Weighted average exercise
Outstanding – 1 January	6,815,525	0.34	6,365,986	0.31
Granted	1,049,289	0.86	861,789	0.56
Forfeited	(1,154,152)	0.50	(280,500)	0.33
Exercised	(138,371)	0.35	(131,750)	0.30
Outstanding – 31 December	6,572,291	0.40	6,815,525	0.34
Vested and exercisable – 31 December	3,766,538	0.31	2,767,836	0.31

Options outstanding of Jumpshot Option Plan at the end of the year had the following range of exercise prices and weighted average remaining contractual life:

	31 December 2018		31 December 2017	
Exercise price:	Number of shares outstanding	Weighted average remaining life (years)	Number of shares outstanding	Weighted average remaining life (years)
$0.30	4,653,252	6.18	4,703,250	7.19
$0.36	583,500	7.45	1,265,486	8.53
$0.56	358,750	8.45	846,789	9.50
$0.86	976,789	9.55	–	–
Outstanding – 31 December	6,572,291	6.92	6,815,525	7.73

Restricted Share units

The following table illustrates the number and weighted average share price on date of award, and movements in, restricted share units granted under the LTIP:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average share price (£ pence)	Number of shares	Weighted average share price (£ pence)
Outstanding – 1 January	–	–	–	–
Granted	5,188,917	234.94	–	–
Forfeited	(261,585)	234.29	–	–
Vested	–	–	–	–
Outstanding – 31 December	4,927,332	234.97	–	–

The fair value of RSUs granted is measured as at date of grant using Black-Scholes model, the outcome of which is a weighted average fair value of RSUs granted during the year was £ pence 219.07. Future dividends have been taken into account based on expected cash flow and dividend policy.

Performance Share Units

The following table illustrates the number and weighted average share price on date of award, and movements in, performance share units granted under the LTIP:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average share price (£ pence)	Number of shares	Weighted average share price (£ pence)
Outstanding – 1 January	–	–	–	–
Granted	6,309,881	219.60	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Outstanding – 31 December	6,309,881	219.60	–	–

The fair value of PSUs granted is measured as at date of grant using the Black-Scholes model, the outcome of which is a weighted average fair value of PSUs granted during the year was £ pence 219.60.

35. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel (including Directors)

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Short term employee benefits (including salaries)	13.3	10.9
Share-based payments	9.3	6.1
Total	22.6	17.0

The amounts in the table above includes, in addition to the compensation of key management personnel of the Group, the remuneration of employees of the Group that are considered related parties under IAS 24 Related party disclosures.

As a part of the IPO and Reorganisation, share transactions occurred between Avast plc and key management personnel and significant shareholders, including Sybil Holdings S.à r.l. The aggregate amount of gains made by directors on the exercise of share options during the year was approximately $100 million (£75 million). These share options were granted in previous years, and exercised upon IPO date of 10 May 2018. Additionally, Mr. Erwin Gunst realised a $0.2 million gain from the exercise of 233,034 further options in July 2018. Statutory director's remuneration amounted to $3.3 million for qualifying services to the Company during the year. Further details about the Directors remuneration is set out on pages 72-91.

Other Related Parties

Nadační fond AVAST ("AVAST Foundation")

The foundation was established by Avast Software s.r.o. and it distributes the gifts to other charities and foundations in the Czech Republic. The foundation is considered to be a related party as the spouses of Messrs. Kucera and Baudis are members of the management board of the foundation.

On 13 March 2018, the Board approved that the donation for 2018 will be CZK 100 million ($5.0 million). The donation is paid in quarterly installments during the year.

During the twelve months ended 31 December 2018, Avast Software s.r.o. made donations of CZK 68.4 million ($3.1 million) 2017: CZK 117.2 million ($5 million) to the Foundation. As of 31 December 2018, the Company recorded an accrual of CZK 41.8 million ($1.9 million) (2017: nil).

CVC Administration Services S.à r.l.

The Group's subsidiaries (Avast Software B.V., Avast Operations B.V, Avast Holding B.V., Avast Corporate Services B.V., AVG Ecommerce CY Limited, Norman Data Defense Systems B.V.) signed sub-rental agreements with CVC Administration Services S.à.r.l. for the lease of office premises which are automatically renewed every year. Total rent expenses for the year ended December 2018 amounted to $16.8 thousand (2017: $11.8 thousand).

Enterprise Office Center

On 15 November 2016, Enterprise Office Center (owned by Erste Group Immorent) where Avast Software s.r.o. resides was sold by a third party to a group of investors including co-founders of Avast Group, Eduard Kucera and Pavel Baudis for $119.5 million (ca. €110 million). The term of lease ends in August 2028 and offers an option to extend for another 4 years under the same conditions. The annual rent is €3.1 million ($3.5 million).

Notes to the consolidated financial statements

36. Commitments

Operating lease commitments

The Group leased office space which incurred $12.4 million of the lease expense for the year ended 31 December 2018. The minimum future rentals on operating leases (excluding prolongation options) are as follows as of 31 December 2018:

($ 'm)	Less than 1 year	1 to 5 years	> 5 years	Total
Lease	9.5	33.6	44.6	87.7
Sublease income	(0.9)	(2.2)	–	(3.1)
Net lease	8.6	31.4	44.6	84.6

The Group incurred a lease expense of $17.3 million for the year ended 31 December 2017. The minimum future rentals on operating leases are as follows as of 31 December 2017:

($ 'm)	Less than 1 year	1 to 5 years	> 5 years	Total
Lease	12.6	40.0	23.9	76.6
Sublease income	(0.4)	(1.6)	–	(2.0)
Net lease	12.2	38.4	23.9	74.6

Finance lease commitments

The Group leased servers with a gross value $4 million; there are no associated commitments as at 31 December 2018.

The future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	31 December 2018		31 December 2017	
($ 'm)	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	–	–	1.5	1.4
Total minimum lease payments	–	–	1.5	1.4
Present value of minimum lease payments	–	–	1.5	1.4

37. Principal exchange rates

	Year-ended 31 December 2018	Year-ended 31 December 2017
Translation of Czech crown into US dollar ($:CZK1.00)		
Average	0.0461	0.0429
Closing	0.0445	0.0470
Translation of Sterling into US dollar ($:£1.00)		
Average	1.3357	1.2882
Closing	1.2882	1.3520
Translation of Euro into US dollar ($:€1.00)		
Average	1.1814	1.1292
Closing	1.1451	1.1996

38. Subsequent events

On 1 February 2019 Avast plc sold the non-core asset of Managed Workplace, its remote monitoring and management product, to Barracuda Networks, Inc. ("Barracuda") Managed Workplace was Avast's solution in the Remote Monitoring and Management ("RMM") space, which is sold to Managed Service Providers ("MSPs"). This business is not core to our SMB strategy, which focuses on securing the workplace. Barracuda, which has a large existing MSP base but does not currently offer an RMM solution, provides a better long-term solution for this business. In addition, Barracuda has signed a reseller agreement, and will resell Avast's business security solutions to MSPs.

In the year ended 31 December 2018, the asset generated low teen revenue (USD million) with a materially lower margin profile than the Group. The proceeds of the sale will be used for general corporate purposes.

On 29 March, The Group voluntarily paid down $200m of existing USD debt using cash on the balance sheet. To further optimise its capital structure, Avast executed an incremental €177.5m (c. $200m) add-on to its Euro-denominated term loan, in order to pay down USD-denominated debt of the same amount.

On 29 March 2019, Sybil Holdings S.à r.l. sold an aggregate of 95.4 million ordinary shares of Avast plc, representing approximately 10.0%. of the Company's existing issued ordinary share capital, at a price of 284 pence per share raising aggregate gross proceeds of approximately $359 million (£271 million). Sybil Holdings S.à r.l. will now hold approximately 12.7% of the Company's issued share capital.

39. Full list of subsidiaries as of 31 December 2018

Country of incorporation	Registered office	Registered address	Class of shares held	Percentage of share held
Netherlands	Avast Holding B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Software B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Operations B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Corporate Services B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Norman Data Defense Systems B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	AVG Ecommerce CY Limited	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
Czech Republic	Avast Software s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
	Jumpshot s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
	FileHippo s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
Germany	Avast Deutschland GmbH	Otto-Lilienthal-Straße 6, 88046 Friedrichshafen, Germany	Ordinary	100%
United Kingdom	AVG Technologies UK Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Privax Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Avast plc	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Privax Services (UK) Limited	Hill House, 1 Little New Street, London, England, EC4A 3TR	Ordinary	100%
	Piriform Software Ltd	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%

Notes to the consolidated financial statements

39. Full list of subsidiaries as of 31 December 2018 (continued)

Country of incorporation	Registered office	Registered address	Class of shares held	Percentage of share held
USA	AVAST Software, Inc.	2625 Broadway Street, Redwood City, County of San Mateo, CA, 94063, USA	Ordinary	100%
	Remotium Inc.	2625 Broadway Street, Redwood City, County of San Mateo, CA, 94063, USA	Ordinary	100%
	Avast Ancillary Services LLC	251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	TACR SERVICES, INC	Corporation Service Company 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	Fero, Inc.	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, DE 19801, USA	Ordinary	100%
	Sybil Software LLC	Corporation Service Company 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	Jumpshot, Inc.	329 Bryant Street, Suite 3C San Francisco, CA 94107, USA	Ordinary	100%
	AVG Technologies USA, LLC	1313 N. Market Street, Suite 1500 Wilmington, DE 19801, USA	Ordinary	100%
	Location Labs, LLC	2100 Powell St, Emeryville, CA 94608, USA	Ordinary	100%
	Piriform Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
Hong Kong	AVAST Software (Asia) Limited	7/F Hong Kong Trade Centre, 161-167 Des Voeux Road Central, Hong Kong	Ordinary	100%
Israel	AVG Mobile Technologies Ltd*	2 HaShlosha Street, Tel Aviv Yaffo 6706054, Israel (PO BOX 9244)	Ordinary	100%
Cyprus	Piriform Group Ltd	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
	Piriform Limited	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
Australia	AVG Technologies AU Pty Ltd	Level 7, 122 Arthur Street, 2060 Sydney – North Sydney, New South Wales, Australia	Ordinary	100%
Canada	AVG Technologies Canada Inc.	1125 Innovation Drive, Ottawa, Ontario K2K 3G6 Canada	Ordinary	100%
Brasil	AVG Distribuidora de Tecnologias do Brasil Ltda.	Conj 38, R. Amazonas, 669 – Santa Paula, São Caetano do Sul – SP, 09520-070, Brasil	Ordinary	100%
Norway	AVG Technologies Norway AS	Lysaker Torg 5, 1366 Lysaker, Bærum, Norway	Ordinary	100%
Slovak Republic	InloopX s.r.o.	Veľká Okružná 26A, 010 01 Žilina, Slovakia	Ordinary	100%
Switzerland	Avast Switzerland AG	Münchensteinerstr. 43, 4052 Basel, Switzerland	Ordinary	100%
Serbia	Privax d.o.o Beograd	Bulevar Mihaila Pupina 6, 11070 Belgrade-Novi Beograd, Serbia	Ordinary	100%
Japan	Avast Software Japan Godo Kaisha	1F and 2F Otemachi Building, 1-6-1 Otemachi, Chiyoda-ku, Tokyo, Japan	Ordinary	100%
Barbados	Piriform (Barbados) Ltd	Chancery House, High Street, Bridgetown, Barbados	Ordinary	100%

* in liquidation

The Company's directly held subsidiary is Avast Holding B.V. All other subsidiaries are indirectly held.

Company financial statements

Company statement of financial position

As at 31 December 2018

	Notes	31 December 2018 $M	31 January 2018 $M
Non-current assets			
Investments in subsidiaries	5	3,217.5	–
Total non-current assets		3,217.5	–
Current assets			
Current tax receivables		0.1	–
Trade and other receivables:			
Amounts due from related party		5.1	–
Prepayments		0.6	–
	6	5.7	
Cash and cash equivalents	7	1.3	–
Total current assets		7.1	–
Total assets		3,224.6	–
Current liabilities			
Trade payables and other liabilities:			
Trade payables		1.9	–
Amounts due to related party		12.2	–
	8	14.1	
Total current liabilities		14.1	–
Net assets		3,210.5	–
Capital and reserves			
Share capital	9	129.0	–
Share premium	9	15.4	–
Merger reserve	10	2,893.9	–
Other reserve	10	10.6	–
Retained earnings		161.6	–
Total equity		3,210.5	–

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual profit and loss account.

These financial statements were approved by the Board of Directors on 9 April 2019 and signed on its behalf by:

Philip Marshall
Chief Financial Officer

The accompanying notes form an integral part of these financial statements.

Company financial statements

Company statement of changes in equity

For the year-ended 31 December 2018

	Notes	Share capital $M	Share premium $M	Merger reserve $M	Other reserve $M	Retained earnings $M	Total equity $M
At 1 January 2017 and 31 January 2018		–	–	–	–	–	–
Loss for the period		–	–	–	–	(19.0)	(19.0)
Total comprehensive loss for the period		–	–	–	–	(19.0)	(19.0)
Capital reduction	9	–	(180.6)	–	–	180.6	–
Primary proceeds	9	8.0	191.8	–	–	–	199.8
Net exercise of options	9,10	6.7	7.4	153.6	–	–	167.7
Contribution of shares	9,10	114.2	–	2,740.3	–	–	2,854.5
Share issue expense		–	(4.0)	–	–	–	(4.0)
Share-based payments	10	–	–	–	10.6	–	10.6
Exercise of options		0.1	0.8	–	–	–	0.9
At 31 December 2018		129.0	15.4	2,893.9	10.6	161.6	3,210.5

The accompanying notes form an integral part of these financial statements.

Notes to the company financial statements

1. General

Avast plc ("Company") is a public limited company incorporated in the UK and registered under the laws of England & Wales. The Company's registered address is at 110 High Holborn, London WC1V 6JS. The Company's registered number is 07118170.

The Company was incorporated on 7 January 2010 as a private company limited by shares under the Companies Act 2006 (as amended) with the name Avast Limited. On 3 May 2018, the Company re-registered as a public company under the name Avast plc. Prior to this date, the Company was dormant.

The share capital of Avast Limited was £1 for the accounting period ended 31 January 2018. On 8 May 2018, the Company changed its accounting period from 31 January to 31 December. Thus, the new period for which the financial statements are prepared are as at 31 December 2018.

2. Summary of significant accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102") and under the historical cost accounting rules.

The Company is a qualifying entity as it prepares consolidated financial statements. In its individual financial statements, the Company has applied the disclosure exemptions available under the FRS 102 reduced disclosure framework in respect of preparation of a cash flow statement and disclosure of key management personnel compensation.

As the Consolidated Financial Statements of the Company include the equivalent disclosures, the Company has also taken the exemptions available under FRS 102 in respect of disclosures in respect of share-based payments, financial instruments and the requirements of Section 33 Related Party Disclosures.

Going concern

The Company and its subsidiaries have considerable financial resources and a large number of customer contracts across different geographic areas and industries. The Directors have reviewed the projected cash flows for the Group and have a reasonable expectation that the Company is well placed to manage its business risk successfully and has adequate resources to continue in operational existence for the foreseeable future, and a period of at least 12 months from the signing of the accounts. For this reason, the directors have adopted the going concern assumption in preparing the financial statements.

Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated in the Company's separate financial statements at cost less impairment losses. The carrying value of investments in subsidiaries are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less.

Capitalisation of share-based payments

Where the Company grants share-based awards over its own shares in exchange for employee services rendered to its subsidiaries, it recognises in its individual financial statements, an increase to the cost of investment equivalent to the share-based payment expense recognised in the consolidated financial statements and a corresponding credit in equity.

Refer to Note 6 of the consolidated financial statements for the accounting policy in respect of share-based payments.

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange valid at the balance sheet date and the gains or losses on translation are included in profit or loss as finance income and expenses. Non-monetary assets and liabilities denominated in foreign currencies are stated at historical foreign exchange rates.

Functional Currency

The Company's functional currency is US dollars.

Notes to the company financial statements

3. Profit and loss

The loss after tax of the Company was $19.0 million for the year ended 31 December 2018 (2017: $nil).

4. Auditor's remuneration

The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 are not presented as the consolidated financial statements comply with this regulation on a consolidated basis.

5. Investments in subsidiaries

Investments in subsidiaries represent the investment in Avast Holding B.V. ("Avast Holding"), a wholly owned subsidiary of the Company. A full list of the Company's direct and indirect subsidiaries is included in Note 39 of the consolidated financial statements.

($ 'm)	31 December 2018	31 January 2018
Investment in Avast Holding B.V.	3,208.4	–
Capitalisation of share-based payments	9.1	–
Total	3,217.5	–

Investment in Avast Holding B.V.

Prior to the Company's Initial Public Offering ("IPO"), Avast Holding B.V. ("Avast Holding") was the parent company of the Avast Group.

On 10 May 2018, as part of a re-organisation related the IPO ("Reorganisation"), the shareholders of Avast Holding contributed their shares in the capital of Avast Holding to the Company in exchange for which the Company issued ordinary shares of equivalent value to each shareholder. This resulted in the Company issuing in aggregate 844,058,216 ordinary shares at a value of 250 pence per share.

In connection with the Reorganisation, the option plan of Avast Holding ("Avast Option Plan") was adjusted in accordance with their terms such that the options granted under the plan ceased to be options over shares of Avast Holding and, instead, became options over shares of the Company of equivalent value (with an appropriate adjustment to the per share exercise price so that there was no change in overall value).

On 10 May 2018, holders of options under the Avast Option Plan net-exercised certain of their options which resulted in the Company issuing 49,603,491 shares. The Reorganisation resulted in the Company recording an investment in Avast Holding of £2,234.2 million ($3,022.2 million).

In addition, on 16 May 2018, Avast Holding issued one share to the Company at an issue price of $186.2 million, which the Company paid for in cash.

6. Trade and other receivables

($ 'm)	31 December 2018	31 January 2018
Amounts due from related party	5.1	–
Prepayments	0.6	–
Total	5.7	–

Amounts due from related party are recharges of management services provided by the Company to Group subsidiaries.

7. Cash and cash equivalents

($ 'm)	31 December 2018	31 January 2018
Cash in bank	1.3	–
Total	1.3	–

8. Trade payables and other liabilities

($ 'm)	31 December 2018	31 January 2018
Trade payables	1.9	–
Amounts due to related party	12.2	–
Total	14.1	–

As of 15 May 2018, the Company entered into a cash management agreement with Avast Corporate Services B.V., its indirect subsidiary, which operates a cash pooling arrangement for the Group. Under this agreement on 3 July 2018, the Company received a short-term loan of USD 12.2 million, repayable on demand, with a variable interest rate based on 3-month USD LIBOR + 5.25% assessed quarterly. The interest expense for the period ended 31 December 2018 was $0.4 million.

9. Share capital

Shares issued and fully paid:	Number of shares	Share Capital ($ 'm)	Share Premium ($ 'm)
Share capital at 31 January 2018 (Ordinary share of £1 each)[1]	1	–	–
Initial public offering[2]	58,977,478	8.0	191.8
Share issue expense[2]	–	–	(4.0)
Contribution of shares (see Note 5)	844,058,216	114.2	–
Net exercise of options[3]	49,603,491	6.7	7.4
Capital reduction[4]	–	–	(180.6)
Exercise of options	799,114	0.1	0.8
Share capital on 31 December 2018 (Ordinary share of £0.10 each)	953,438,299	129.0	15.4

As a part of the IPO and Reorganisation, share transactions occurred between Avast plc and key management personnel and significant shareholders, including Sybil Holdings S.à r.l.

For proposed dividends, see Note 18 of consolidated financial statements.

1 As of 31 January 2018 and 31 January 2017, nominal value of the Company was £1 and no transactions occurred between the periods since the Company was dormant.
2 The ordinary shares of the Company were admitted to trading on the London Stock Exchange's main market for securities on 15 May 2018 . As part of the Company's primary offer, it issued 58,977,478 new shares in the Company with a nominal value of 10 pence and a premium of 240 pence which resulted in the increase in share capital of $8.0 million and share premium of $191.8 million. Expenses incurred in relation to the direct share issue amounted to $4.0 million.
3 As described in the Note 5, the net exercise resulted in the Company recording $6.7 million into share capital and $7.4 million into share premium, equal to the exercise price paid by employees and remaining $153.6 million into merger reserve (see Note 10).
4 On 6 November 2018, the High Court of Justice in England & Wales made an order confirming the reduction of the share premium account of the Company by £138 million ($180.6 million).

Notes to the company financial statements

10. Reserves

Merger reserve

The share-for-share exchange transaction described in Note 5 and Note 9 qualified for merger relief in accordance with section 612 and the Company elected to record a merger reserve. This reserve also includes the value of the options over PLC shares that were subsequently net exercised on the IPO, in excess of the share capital and premium arising on exercise. The merger reserve is non-distributable.

Other reserve

The increase in other reserves of $10.6 million represents the expense from the share awards from the date of the IPO. The fair value of share awards granted to employees is recorded over the vesting periods of individual options granted as a personnel expense (or where appropriate, capitalised as investment in subsidiary) with a corresponding entry to other reserves.

11. Share-based payments

The total expense that relates to the equity-settled share-based payment transactions of employees of the Company during the period is as follows:

($ 'm)	2018	2017
Avast Option Plan	1.2	–
LTIP	0.3	–
Total share-based payment expense	1.5	–

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, further details of which are given in Note 34 of consolidated financial statements.

Glossary

Adjusted Billings	Adjusted Billings ("Adjusted Billings") is comprised of the Group's Billings (including the Billings of Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Billings for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Billings"). A reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted Revenue	Adjusted Revenue represents the Group's reported revenue (including Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Revenue for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Revenue") adjusted for the Deferred Revenue Haircut Reversal, the Gross-Up Adjustment and the Piriform Revenue Adjustments (from pre-acquisition billings). A reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted Billings/ Revenue excluding FX	Growth rate excluding currency impact calculated by restating 2018 actual to 2017 FX rates. Deferred revenue is translated to USD at date of invoice and is therefore excluded when calculating the impact of FX on revenue. For the FX rates applied, see "Principal exchange rates applied".
Adjusted Cash EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal, the COGS Deferral Adjustments and Piriform pre-acquisition EBITDA. A full reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted Cost of Revenues/Operating costs	Adjusted Cost of Revenues/Operating costs represent the Group's cost of revenues/operating costs adjusted for depreciation and amortisation charges, share-based payments charges, exceptional items, COGS deferral adjustment, gross-up adjustment and Piriform pre-acquisition costs. A full reconciliation is included in the "Costs" section of the "FINANCIAL REVIEW".
Adjusted EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal, the COGS Deferral Adjustments and Piriform pre-acquisition EBITDA. A full reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of Adjusted Revenue.
Adjusted effective tax rate	Adjusted Income tax as a percentage of Adjusted Profit before tax (defined as Adjusted Net Income before deduction of Adjusted Income tax). For Adjusted Income Tax reconciliation see "Income Tax" section of "FINANCIAL REVIEW".
Adjusted EPS	Basic Adjusted earnings per share amounts are calculated by dividing the Adjusted net income for the period by the weighted average number of shares of common stock outstanding during the year. The diluted Adjusted earnings per share amounts consider the weighted average number of shares of common stock outstanding during the year adjusted for the effect of dilutive options. For reconciliation see "Earnings per share" in the "FINANCIAL REVIEW" section.
Adjusted Net Income	Adjusted Net Income represents statutory net income plus the Deferred Revenue Haircut Reversal, share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the COGS Deferral Adjustments, Piriform's pre-acquisition Net Income, the tax impact from the unrealised exchange differences on inter-company loans and the tax impact of the foregoing adjusting items and IP transfers. For reconciliation see "PRESENTATION OF RESULTS AND DEFINITIONS" section.
Amortisation of acquisition intangibles	Represents the amortisation of intangible assets acquired through business combinations which does not reflect the ongoing normal level of amortisation in the business.

Glossary

Average Products Per Customer (APPC)	APPC defined as the Consumer Direct Desktop simple average valid licences or subscriptions for the financial period presented divided by the simple average number of Customers during the same period. See "Consumer Direct Desktop Operational KPIs".
Average Revenue Per Customer (ARPC)	ARPC defined as the Consumer Direct Desktop revenue for the financial period divided by the average number of Customers during the same period. See "Consumer Direct Desktop Operational KPIs".
Cash conversion	Unlevered Free Cash Flow as a percentage of Adjusted Cash EBITDA. See "Cash flow" section of "FINANCIAL REVIEW".
COGS Deferral Adjustments	There was no deferred cost of goods sold ("COGS") balance consolidated by the Group in the acquisition balance sheet of AVG in 2016 and thus no subsequent expense was recorded as the revenue in respect of pre-acquisition date billings was recognised. The "COGS Deferral Adjustments" refers to an adjustment to reflect the recognition of deferred cost of goods sold expenses that would have been recorded in 2016 and 2017 in respect of pre-acquisition date AVG billings, had the AVG and the Group's businesses always been combined and had AVG always been deferring cost of goods sold. See "PRESENTATION OF RESULTS AND DEFINITIONS".
Deferred Revenue Haircut Reversal	Under IFRS 3, Business Combinations, an acquirer must recognise assets acquired and liabilities assumed at fair value as of the acquisition date. The process of determining the fair value of deferred revenues acquired often results in a significant downward adjustment to the target's book value of deferred revenues. The reversal of the downward adjustment to the book value of deferred revenues of companies the Group has acquired during the periods under review is referred to as the "Deferred Revenue Haircut Reversal". See "PRESENTATION OF RESULTS AND DEFINITIONS".
Discontinued Business	As the company is exiting its toolbar-related search distribution business, which had previously been an important contributor to AVG's revenues (referred throughout the Full Year Report, with the Group's browser clean-up business, as "Discontinued Business"), the growth figures for Adjusted Revenues and Adjusted Billings exclude Discontinued Business, which the Group expects to be negligible by 2019. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5 since it has not been disposed of but rather it is being continuously scaled down and is considered to be neither a separate major line of business, nor geographical area of operations.
Exceptional items	Exceptional items are material and non-recurring items of income and expense which Group believes should be separately disclosed to show the underlying business performance of the Group more accurately. For details see "Exceptional items" of "FINANCIAL REVIEW" and "Note 10".
Gross debt	Represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals). A reconciliation is included in the "Financing" section of the "FINANCIAL REVIEW".
Gross-Up Adjustment	The "Gross-Up Adjustment" refers to the estimated impact of the additional amount of 2015 and 2016 revenue and expenses and their deferral that would have been recognised by Avast had the contractual arrangements with certain customers qualified to have been recognised on a gross rather than a net basis prior to 2017 (AVG had historically recognised Billings and revenues on a gross basis, whereas Avast recognised them on a net basis). See "PRESENTATION OF RESULTS AND DEFINITIONS".
Levered Free Cash Flow	Represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments. See "Cash flow" section of "FINANCIAL REVIEW" for reconciliation.
Net debt	Net debt indicates gross debt netted by the company's cash and cash equivalents. A reconciliation is included in the "Financing" section of the "FINANCIAL REVIEW".
Number of customers	Users who have at least one valid paid Consumer Direct Desktop subscription (or licence) at the end of the period.
Piriform Pre-Acquisition Billings/EBITDA	Piriform's Billings/EBITDA for the period prior to its acquisition, from 1 January 2017 to 17 July 2017. See "FINANCIAL REVIEW" for details.
Unlevered Free Cash Flow	Represents Adjusted Cash EBITDA less capex, plus cash flows in relation to changes in working capital (excluding change in deferred revenue and change in deferred cost of goods sold as these are already included in Adjusted Cash EBITDA) and taxation. Changes in working capital and taxation are as per the cash flow statement on an unadjusted historical basis and unadjusted for exceptional items. See "Cash flow" section of "FINANCIAL REVIEW" for reconciliation.
Unrealised FX on EUR tranche of bank loan	In the reported financials, the Group retranslates into USD at each balance sheet date the Euro value of the Euro tranche of the bank debt, with the unrealised FX movement going to the income statement. This adjustment reverses this unrealised element of the FX gain/loss.

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