

PARENT ACCOUNTS OF
ESET RESEARCH UK LIMITED

COMPANY NUMBER 07875689

ESET, spol. s r.o.

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL
STATEMENTS (PREPARED IN
ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EU)**

For the year ended 31 December 2019

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ESET, spol. s r.o.

INDEPENDENT AUDITOR'S REPORT

To the Partners and Executives of ESET, spol. s r.o.:

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of ESET, spol. s r.o. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the consolidated financial statements, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted in the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing 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 consolidated financial statements.

This is an English language translation of the original Slovak language document.

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As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Consolidated Annual Report

The statutory body is responsible for information disclosed in the consolidated annual report prepared under the requirements of the Act on Accounting No. 431/2002 Coll. as amended (the "Act on Accounting"). Our opinion on the consolidated financial statements stated above does not apply to other information in the consolidated annual report.

In connection with the audit of consolidated financial statements, our responsibility is to gain an understanding of the information disclosed in the consolidated annual report and consider whether such information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

As at the issuance date of the auditor's report on the audit of consolidated financial statements, the consolidated annual report was not available to us.

When we obtain the consolidated annual report, we will assess whether the Group's annual report includes information whose disclosure is required under the Act on Accounting, and based on procedures performed during the audit of the consolidated financial statements, we will express an opinion on whether:

- Information disclosed in the consolidated annual report prepared for 2019 is consistent with the consolidated financial statements for the relevant year; and
- The consolidated annual report includes information pursuant to the Act on Accounting.

Furthermore, we will disclose whether material misstatements were identified in the consolidated annual report based on our understanding of the Group and its position, obtained in the audit of the consolidated financial statements.

Bratislava, 6 May 2020



Ing. Wolda K. Grant, FCCA
Responsible Auditor
Licence SKAu No. 921

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS
ADOPTED BY THE EU
For the year ended 31 December 2019**

CONTENTS

	Page
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR)**

	Note	2019	2018
Revenues from the provision of software	8	503 958	472 622
Services	9	(304 178)	(291 255)
Personnel expenses	10	(102 655)	(92 773)
Depreciation		(13 880)	(8 234)
Other operating (expenses)/income, net		(1 566)	(1 345)
Finance income	11	4 064	3 552
Finance costs	12	(2 467)	(2 989)
Profit before tax		83 276	79 578
Income tax	13	(18 229)	(17 530)
PROFIT FOR THE YEAR		65 047	62 048
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange differences on translating foreign operations into the reporting currency		(1 609)	(1 805)
TOTAL COMPREHENSIVE INCOME		63 438	60 243
Profit attributable to:			
Owners of the parent company		65 043	62 042
Minority interests		4	6
Total profit for the period		65 047	62 048
Other comprehensive income attributable to:			
Owners of the parent company		(1 573)	(1 807)
Minority interests		(36)	2
Total other comprehensive income for the period		(1 609)	(1 805)



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR)**

	<i>Note</i>	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	14	69 787	40 683
Intangible assets	15	4 612	6 579
Other assets		2 859	2 620
Deferred tax asset	18	54 026	48 949
Total non-current assets		131 284	98 831
CURRENT ASSETS			
Cash and cash equivalents	17	59 922	72 967
Trade and other receivables	16	43 031	48 565
Income tax assets		796	1 092
Inventories		479	644
Total current assets		104 228	123 268
TOTAL ASSETS		235 512	222 099
EQUITY AND LIABILITIES			
EQUITY			
Registered capital		140	140
Equity reserves		1 477	2 355
FX revaluation reserves		(4 429)	(4 162)
Retained earnings		(54 144)	(24 946)
<i>Equity attributable to the owners of the parent company in total</i>		(56 956)	(26 613)
Minority interest		10	42
Total equity		(56 946)	(26 571)
NON-CURRENT LIABILITIES			
Deferred income, net	22	68 828	62 321
Other non-current liabilities	20	29 087	5 705
Provisions for liabilities	21	1 345	1 127
Deferred tax liability	18	-	-
Total non-current liabilities		99 260	69 153
CURRENT LIABILITIES			
Trade and other payables	19	30 681	29 384
Deferred income, net	22	161 008	149 708
Provisions for liabilities	21	153	135
Current income tax		1 356	290
Total current liabilities		193 198	179 517
TOTAL EQUITY AND LIABILITIES		235 512	222 099

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR)**

	Registered Capital	Equity Reserves	Foreign Currency Translation Reserve	Financial Investment	Retained Earnings	Total (Owners of the Parent Company)	Minority Interest	Total
Balance at 31 December 2017	140	2 052	(2 355)	-	(63 437)	(63 600)	-	(63 600)
Net profit for the year	-	-	-	-	62 042	62 042	6	62 048
Allocation to reserves from profit	-	303	-	-	(303)	-	-	-
Dividends paid	-	-	-	-	(32 750)	(32 750)	-	(32 750)
Impact of IFRS 15	-	-	-	-	9 282	9 283	-	9 283
Hyperinflationary restatement	-	-	-	-	219	219	-	219
Other comprehensive income, net	-	-	(1 807)	-	-	(1 807)	36	(1 771)
Balance at 31 December 2018	140	2 355	(4 162)	-	(24 946)	(26 613)	42	(26 571)
Net profit for the year	-	-	-	-	65 043	65 043	4	65 047
Allocation to reserves from profit	-	60	-	-	(60)	-	-	-
Dividends paid	-	-	-	-	(94 000)	(94 000)	-	(94 000)
Hyperinflationary restatement	-	(938)	1 306	-	(181)	187	-	187
Other comprehensive income, net	-	-	(1 573)	-	-	(1 573)	(36)	(1 609)
Balance at 31 December 2019	140	1 477	(4 429)	-	(54 144)	(56 956)	10	(56 946)

A minority interest is attributable to a 10% share in ESET Japan Inc. (a subsidiary); the share is held by Canon Marketing Japan Inc.

Hyperinflationary restatement is recognised in accordance with the requirements of IFRS as regards the subsidiary, ESET LATINOAMERICA S.R.L., for individual items of assets, liabilities, equity, expenses and revenues that are measured at ARS due to the hyperinflation in Argentina.

The Group recognises negative equity due to differences between the Slovak accounting regulations and IFRS. Dividends are paid out annually based on the comprehensive income/loss reported in the separate financial statements of the Parent Company, which are presented in accordance with the Slovak accounting regulations. Negative equity has resulted from accumulated differences between the comprehensive income/loss under the separate financial statements and the consolidated financial statements and from thus paid dividends for previous accounting periods.



**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

	2019	2018
Cash flows from operating activities		
Profit before tax	83 276	79 578
Non-cash transactions affecting profit/loss from ordinary activities before income tax:		
Interest charged to expenses	565	15
Interest charged to income	(758)	(344)
Profit from the sale of assets	124	(20)
Depreciation	13 880	8 234
Change in revenue accruals/deferrals	23 140	9 987
Change in provisions for liabilities	236	249
Foreign exchange differences	(3 784)	(1 134)
Other non-cash items	216	817
	<u>116 895</u>	<u>97 382</u>
Effect of changes in working capital		
(Increase)/decrease in inventories	165	256
(Increase)/decrease in trade and other receivables	(798)	(11 103)
Increase/(decrease) in trade and other payables	(4 186)	2 363
	<u>112 076</u>	<u>88 898</u>
Cash flows from operating activities		
Income tax paid	(21 335)	(19 402)
Interest received	758	344
Interest paid	(564)	(15)
Net cash flows from operating activities	90 935	69 825
Cash flows from investing activities		
Acquisition of non-current assets	(5 502)	(6 845)
Proceeds from the sale of assets	98	39
Net cash flows from investing activities	(5 404)	(6 806)
Cash flows from financing activities		
Expenditures for finance lease	(6 337)	(328)
Dividends paid	(94 000)	(32 750)
Income from subscribed shares and ownership interests	-	34
Net cash flows from financing activities	(100 337)	(33 044)
Net increase/(decrease) in cash and cash equivalents	(14 806)	29 975
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	72 967	42 014
EFFECT OF FOREIGN EXCHANGE DIFFERENCES	1 761	978
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD	59 922	72 967



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

1. COMPANY'S DESCRIPTION

1.1. General Information

The consolidated financial statements for the year ended 31 December 2019 were prepared by ESET, spol. s r. o. (hereinafter the "Parent Company") and its subsidiaries (together the "Group") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). The reporting currency of the Group is the euro (EUR). The consolidated financial statements were prepared under the going-concern assumption.

The consolidated financial statements of the Group for the year ended 31 December 2019 were prepared pursuant to Article 22 of Act No. 431/2002 Coll. on Accounting, as amended, for the reporting period from 1 January 2019 until 31 December 2019.

The Parent Company was incorporated on 17 September 1992 by registration in the Commercial Register (Commercial Register of the District Court Bratislava I, Section: Sro, Insert No.: 3586/B).

Seat of the Parent Company:

Einsteinova 24
Bratislava
851 01
Identification number (IČO): 31333532
Tax identification number (DIČ): 2020317068
VAT identification number (IČ DPH): SK2020317068

At present, the owners of the Parent Company are the following individuals:

Structure of the Registered Capital by the Partners of the Reporting Parent Company

Owners	Share in Registered Capital		Voting Rights
	EUR '000	%	%
Rudolf Hrubý	31	22.000	22.000
Peter Paško	31	22.000	22.000
Miroslav Trnka	32	22.750	22.750
Richard Marko	17	12.125	12.125
Maroš Grund	17	12.125	12.125
Anton Zajac	12	9.000	9.000

Registered capital registered in the Commercial Register: EUR 140 thousand
Registered capital not registered in the Commercial Register: -

1.2. Scope of Activities

The Group develops software solutions providing immediate and comprehensive protection against constantly-evolving computer security threats. At present, the Group deals with the development of innovative security solutions focusing on the proactive detection of malware and the protection against computer crime and software piracy. Key products designed for households are ESET Internet Security and ESET NOD32 Antivirus. ESET Endpoint Security and ESET Endpoint Antivirus with the option of remote administration through ESET Remote Administrator are designed for companies. The Group also develops security solutions for servers, mobile devices and the Mac OS X and Linux platforms. The Group operates in the following geographic regions: North and South America; Europe, the Middle East and Africa (hereinafter "EMEA"), Australia and Asia.

1.3. Employees

The number of the Group's employees for the year ended 31 December 2019 was 1 684, of which executive management: 31 (for the year ended 31 December 2018: 1 588, of which executive management: 31).

The Group's full-time equivalent was 1 647 as at 31 December 2019 (for the year ended 31 December 2018: 1 550).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

2. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CHANGES IN ESTIMATES

2.1. Application of New and Revised International Financial Reporting Standards

The Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the European Union (hereinafter the "EU") and that are relevant to its operations and effective for annual periods beginning on 1 January 2019.

The following new standards, amendments to the existing standards and new interpretation issued by the International Accounting Standards Board and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

The standard introduces changes to lease accounting. Significant changes in the standard are related to lease accounting by lessees. Lessees are no longer required to distinguish between operating lease and finance lease. Leased assets (representing the right to use identified assets over the lease term) and a lease liability (representing the obligation to pay lease payments) will be recognised for all leases, except for short-term leases and leases of low-value assets. Lease accounting by lessors remains unchanged. Details of the new requirements are provided in Note 3. The impact of the standard on the financial statements is described below.

The Group applied IFRS 16 "Leases" with effect from 1 January 2019. The initial application is described in more detail in Section 4. Changes to Accounting Principles and Methods below

- **Amendments to IFRS 9 "Financial Instruments"** – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** – Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** – Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Annual Improvements to IFRS Standards (2015 – 2017 Cycle)"** resulting from the annual IFRS improvement project (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements, except for the impact of the new IFRS 16 "Leases" described in the financial statements.

At the date of authorisation of these financial statements, the following new standard, amendments to the existing standard, and the interpretation issued by IASB and adopted by the EU are not yet effective:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Material – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** – Interest Rate Benchmark Reform – adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

The Group has elected not to adopt these new standards, amendments to the existing standards and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to the existing standards and the interpretation will have no material impact on the financial statements of the Group in the period of initial application.

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in the EU as at the reporting date (effective dates stated below are for IFRS in full):

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Group expects that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39 "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements if applied as at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of Accounting

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union (hereinafter the "EU"). IFRS as adopted by the EU do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments. The principal accounting policies adopted are detailed below. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of certain Group companies in order to conform the Slovak statutory and other financial statements to financial statements prepared in accordance with IFRS as adopted by the EU.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

a) Business Combinations

Subsidiaries

Those business undertakings in which ESET spol. s r.o., directly or indirectly, has an ownership interest of usually higher than one half of the voting rights or otherwise controls the operations are considered subsidiary undertakings (subsidiaries) and have been fully consolidated. Subsidiaries are consolidated as of the date on which ESET spol. s r.o. acquires control and are no longer consolidated as of the date when such control ceases.

All transactions, balances, and profits and losses on transactions within the Group have been eliminated upon consolidation.

b) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the acquired identifiable assets and the liabilities assumed as at the acquisition date. If, after reassessment, the net amount of the acquired identifiable assets and liabilities assumed as at the acquisition date exceeds the sum of the transferred consideration, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

The Group assesses indicators of an impairment of goodwill annually, or more frequently when there is an indication that the goodwill may be impaired. When assessing impairment of goodwill, the Group assesses the following indicators:

- Negative development in the industry;
- Decrease in the market value; and
- Growth of sales slower than estimated.

Any impairment loss for goodwill is recognised directly in comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

c) Financial Instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group as a contractual party is subject to the provisions concerning the given financial instrument.

d) Trade Receivables

Trade receivables are stated at the expected realisable value, net of provisions for debtors in bankruptcy or restructuring proceedings, and net of provisions for overdue bad and doubtful receivables where risk exists that they will not be settled by the debtor in full or in part.

The Group applied an expected loss model when assessing provisions for financial assets. The simplified approach was based on the use of a matrix for the calculation of provisions that determined the extent of impairment for groups of receivables based on the number of days until their settlement. The historical loss rate applied in the calculation of provisions also reflected future-focused information. The applied expected loss model had no significant impact on the amount of provisions for financial assets.

e) Property, Plant and Equipment and Non-current Intangible Assets

Property, plant and equipment and non-current intangible assets (hereinafter "non-current assets") are recognised at acquisition cost less accumulated depreciation. The acquisition cost includes all of the cost incurred with respect to placing non-current assets into service for intended use.

Items of non-current tangible and intangible assets that are worn out or disposed of for another reason are derecognised from the statement of financial position at the net book value. Any gain or loss resulting from such wear and tear or disposal is recognised in the statement of comprehensive income.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

All items of property, plant and equipment are depreciated using the straight-line method based on the asset's estimated useful life. Depreciation charges are recognised in the income statement so that non-current assets are depreciated over the remaining useful life up to the amount of the estimated residual value. The useful lives of non-current assets can be summarised as follows:

	Estimated Useful Lives in Years	Depreciation Method
Software	2 – 4	Straight-line
Structures and technical improvements of premises	Up to the expiration of the lease contract	Straight-line
Fixtures and fittings	Up to the expiration of the lease contract	Straight-line
Plant and machinery	3 – 5	Straight-line
Transportation means	4 – 5	Straight-line

At each reporting date, an assessment is made as to whether there is any indication that the realisable value of the Group's non-current assets is below their carrying amount. When such an indication occurs, the realisable value of the asset, being the higher of the asset's fair value less costs to sell and the present value of future cash flows ("value-in-use"), is estimated. Any impairment loss provision is recognised in full in the income statement in the year in which the impairment occurs. The discount rates used to calculate the present value of the future cash flows reflect the current market assessments of the time value of money and the risks specific to the asset. In the event that a decision is made by the Group to abandon an investment project in progress or significantly to postpone its planned completion date, the Group assesses its potential impairment and a provision is recorded, if appropriate.

Expenditures relating to an item of non-current assets after being placed into service increase the carrying amount of the asset when the Group may expect future economic benefits, in excess of the original assessed standard of performance. All other expenditures are treated as repairs and maintenance and are expensed in the period in which they are incurred.

f) Research and Development

Costs incurred in the research and development of software products are recognised in expenses (Services) as incurred until technological feasibility is established. Research and development costs include the salaries and benefits of researchers, supplies and other expenses incurred for research and development efforts. As technological feasibility of the product is determined once the product is available for general release to customers, the conditions for capitalisation of research and development costs are not met, and thus, such costs are expensed by the Group.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials and other inventories includes the acquisition price and the related incidental costs, and the cost of inventories developed internally includes raw materials, other direct costs and production overheads.

h) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and cash in bank, and highly-liquid securities with an insignificant risk of changes in value and original maturities of three months or less from the date of issue.

i) Provisions for Liabilities

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Provisions are re-assessed at each reporting date and are adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation; these expenditures are determined using the estimated risk-free interest rate as a discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

j) Revenue Recognition

The Group recognises revenue from the provision of software resulting mainly from licence fees and support services under contractual arrangements with end users.

The Parent Company provides end customers and partners in Slovakia, and partners in the EMEA region, APAC, Brazil, Russia and South Africa with the right to use the antivirus software. Eset Software spol. s r.o. (subsidiary) has concluded an agreement with the Parent Company on the distribution of products in the Czech Republic. ESET, LLC. (subsidiary) distributes ESET products primarily in the USA and the LATAM region (except for Brazil). ESET Deutschland GmbH (subsidiary) distributes products on the German, Austrian, Swiss and Croatian markets. ESET Software Australia, PTY, Ltd. (subsidiary) undertakes distribution activities in Australia and ESET ASIA primarily in the APAC region. ESET Software UK Limited (subsidiary) distributes products in the UK and Malta. ESET Canada Inc. (subsidiary) undertakes distribution activities on the Canadian market. ESET ITALIA S.r.l. (subsidiary) launched its activities on the Italian market.

Sales are made directly or indirectly. The direct sales are mainly represented by Internet sales via the ESET website to end customers. Indirect sales are mainly made through independent distributors and resellers who contribute to total sales in the greatest extent.

Based on a detailed analysis of contractual arrangements, the rights and obligations of all members of the distribution chain, the Group unified the gross revenue recognition method as of 1 January 2015. The Group assessed and applied IFRS 15 principles consistently with IAS 18 "Revenue". In 2019, the Group continued its project of increasing the accuracy of historical data on revenues, which increased the accuracy of the recognition of global contracts with customers.

The Group recognises 100% of revenues from sales from ESET products and services made by the Group's distributors and resellers in revenues. The fees for activities performed by the distributors and resellers are recognised in expenses. Such expenses are recognised from the moment of revenue recognition and are deferred in the same way as the corresponding revenue.

As a member of the ESET Technology Alliance, the Group also sells third-party products. When doing so, the Group acts as an agent and revenues are recognised in the net amount of consideration.

The Group recognises revenues from the provision of licences to use the antivirus software as follows: each customer is required to pay a fee for the right to use the software during a specified period. At the moment the licence is activated by an end customer, the revenue is deferred over the licence validity period. In addition to revenues from the sale of antivirus software, the Group also recognises revenues from the sale of encryption software. When analysing such revenues, the Group identified two primary contractual performance obligations which were measured by the Group separately using the five-step model under IFRS 15. The first performance obligation represents delivery of an encryption key used by a customer to secure their end-user devices. The Group recognises this portion of revenue as a lump sum at the moment of the sale to the end customer. The second performance obligation of the contract includes support and maintenance provided to the end customer over a specified period. The revenue from such performance is deferred over the specified period. Revenues from the sale of third-party products – members of the ESET Technology Alliance are recognised as a lump-sum at the moment of a sale to an end customer or business partner. In the current year, the proportionate amount of revenue is recognised as "revenue from the provision of software" in the consolidated statement of comprehensive income.

The Group also distributes license products in the form of registration keys and a series of registration keys – batches, when a time mismatch occurs between the distributor's billing and activation by the end-user. At the moment of a sale, the Group incurs a contractual liability, which is recognised in deferred income. At the moment of licence activation by the end user, the Group recognises revenue which is deferred over the licence validity term.

The generated revenue attributable to the sold and non-activated registration keys is estimated by the Group based on the historical development of the activation of licenses from the respective batch. Such revenue is recognised by the Group over the term of a contractual liability in individual reporting periods. Significant differences may arise in the amount and timing of revenues for a certain period if management applies different judgments or different estimates. Such estimates impact the "Deferred income" in the consolidated statement of financial position and the "Revenues from the provision of software" in the consolidated statement of comprehensive income.

End users may return ESET products, subject to limitations, via distributors and resellers or may ask the ESET Group directly for a refund within a reasonably-short period from the date of purchase. The Group estimates and recognises a refund liability based on historical experience by decreasing revenues. The amount of the refund liability is immaterial.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

The Group has identified the main types of contract modifications and recognises revenues in accordance with IFRS 15 requirements. The main types of contract modifications over the contract term include the extension of the license validity term, addition or reduction of requirements, products and services, when the Group accounts for a contract modification on a prospective basis. In the event of a price change or product return by an agreed time limit, the Group cumulatively adjusts recognised revenues. If a contract modification is made after the termination of a contract's validity, the Group recognises such contract modification as a separate contract.

k) Mandatory Social Insurance and Pension Security

The Group is required to make contributions to various mandatory government insurance schemes, together with contributions by employees. Social security expenses are charged to the consolidated statement of comprehensive income in the same period as the related wages and salaries.

l) Leases

A lease is a contract under which the right to use an asset (the underlying asset) over a certain period of time is transferred in exchange for consideration.

A finance lease is a lease that transfers all of the risks and rewards incidental to the ownership of an asset (economic substance of value). The accounting treatment of leases is not dependent on which party is the legal owner of the leased asset. An operating lease is a lease other than a finance lease.

Before 2018, the lease of property, plant and equipment was classified as a finance lease or operating lease. An operating lease was recognised directly through profit or loss over the lease term. As of 1 January 2019, in respect of an operating lease, the lessee recognises a right-of-use asset (lease asset) and the related lease liability. Each lease payment is divided into the payment of a lease liability and the accrued financial interest expense. Finance costs are recognised directly through profit or loss over the lease term. Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life of the assets, or the lease term.

Lease assets and lease liabilities are primarily measured at their present values. The present value of lease liabilities comprises:

- Fixed payments less any lease incentives receivable;
- Variable lease payments (based on an index);
- The exercise price of an option to extend the lease (if reasonably certain);
- Penalties for early termination (if reasonably certain);
- Amounts payable under residual value guarantees.

Lease payments are discounted using a weighted average interest rate, which is the interest rate that the lessee would have to pay if it had to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment under similar conditions.

Right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of a lease liability;
- Initial direct costs;
- Lease payments less lease incentives before the commencement date of a lease;
- An estimate of costs of disposal/restoring to the original condition.

Payments for short-term lease contracts, lease contracts for low-value assets and lease contracts for other assets excluded from the scope of IFRS 16 due to materiality are recognised on a straight-line basis over the lease term as an expense of the current year included in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise leases of assets with a value of up to EUR 5 thousand, such as printers, coffee machines and water dispenser stands. Other assets excluded from the scope of IFRS 16 due to materiality are leases of cars and data storage.

m) Income Tax

Income taxes of the Parent Company are calculated on accounting profit as determined under Slovak accounting procedures after adjustments for certain items for taxation purposes using the income tax rate of 21%. Subsidiaries' income taxes are calculated on accounting profit as determined under accounting procedures effective in the subsidiary's country of domicile using the income tax rate valid in the respective country.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

n) Deferred Income Tax

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the net tax value and the net book value of assets and liabilities. Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is expected to be realised or the liability settled. Deferred tax is recognised in the consolidated statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recognised in equity.

The valid income tax rates are as follows:

Country	2020	2019	2018
Slovakia	21%	21%	21%
USA – federal tax	21%	21%	21%
– California state tax (effective tax rate – 1.14% in FY19, 1.09% in FY18)	8.84%	8.84%	8.84%
Czech Republic	19%	19%	19%
Argentina	30%	30%	30%
Singapore	17%	17%	17%
Poland	19%	19%	19%
Germany	31.58%	31.58%	31.73%
UK	19%	19%	19%
Canada	26.5%	26.5%	26.5%
Australia	26%	27.5%	27.5%
Brazil**	24%	24%	24%
Romania	16%	16%	1%*
Mexico	30%	30%	30%
Italy***	28%	-	-
Japan	23.2%	23.2%	23.4%

* A special scheme applies to small businesses (ie micro businesses – turnover less than EUR 1 million), which are taxed using a tax rate of 1% or 3% (tax rate of 3% applies to businesses with no employees).

** In addition to the statutory corporate income tax rate of 15%, a 10% tax is applied to annual income exceeding BRL 240 000 and 9% social security income tax applied on adjusted net income (20% for financial institutions).

*** Italian legal entities are subject to corporate income tax of 24% and a regional production tax of 3.9%.

Major temporary differences arise as a result of differences between the carrying amount and tax value of deferred income. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is recognised on temporary differences arising on financial investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be realised in the foreseeable future.

o) Transactions in Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated to euros using the reference exchange rate determined and announced by the European Central Bank (hereinafter the "ECB") on the date preceding the transaction date and also on the reporting date. Advances received and made in a foreign currency are not translated as at the reporting date. For foreign currency purchases and sales in euros, and upon transfers of funds from the account established in a foreign currency to the account established in euros and from the account established in euros to the account established in a foreign currency, the exchange rates at which these amounts were purchased or sold were applied. If the sale or purchase is not performed with a commercial bank, the reference exchange rate determined and announced by the ECB on the date preceding the transaction settlement date is used.

On consolidation, the assets and liabilities of foreign subsidiaries are translated at the ECB exchange rates prevailing on the reporting date. Revenues and expenses are translated at the average exchange rates for the relevant period. Foreign exchange differences, if any, are included in equity classified as foreign exchange translation reserve. Such reserve is dissolved in the consolidated statement of comprehensive income as at the moment the financial investment in a subsidiary is disposed of.

Expenses and revenues, items of assets, liabilities and equity of foreign subsidiaries in a functional currency which is hyperinflationary are translated using the ECB's rate prevailing as at the reporting date. Resulting differences from the consolidation of capital are included in equity as retained earnings or accumulated loss from previous years.

4. CHANGES IN ACCOUNTING PRINCIPLES AND METHODS

The Group applies the new standard IFRS 16 "Leases" ("IFRS 16") as adopted by the EU with effect from 1 January 2019 using a modified retrospective approach consistently for all types of lease contracts, except for items of low value and operating leases terminating within 12 months. The Group analysed all main lease contracts and assessed their impact on the disclosures in the financial statements. Based on materiality, the Group only applied the new standard IFRS 16 "Leases" to the lease of office premises. Leases of cars, data storage, beverage vending machines and office equipment were assessed in terms of their materiality as low-value assets and the recognition exemption under IFRS 16 was applied to such assets. The application of the transition to IFRS 16 related to lease contracts through a modified retrospective approach represents a change to the accounting policy. This change to the accounting policy does not restate comparable data in the statement of financial position. The cumulative effect of the initial application of IFRS 16 represents the restatement of the opening balance of retained earnings as at 1 January 2019 in the consolidated statement of changes in equity. The application of IFRS 16 has a significant impact on the disclosures in the financial statements as at 1 January 2019. The total impact of the application of IFRS 16 is shown in the tables below.

Upon the initial application of IFRS 16, the Group applied the following practical expedients:

- Application of a single discount rate for the whole portfolio of leases with similar characteristics;
- Measurement of a lease asset in the amount of a lease liability adjusted for prepaid or accrued lease payments and incentives from the lessor;
- Recognition of operating leases with a residual lease term of less than 12 months as at 1 January 2019 as short-term;
- Exclusion of the initial direct costs for the measurement of right-of-use assets (lease asset) at the date of initial application;
- Use of a retrospective approach when determining the lease term if the contract contains options to extend or to terminate the lease;
- Legacy lease assessments under IAS 17 and IFRIC 4 of whether the contract contains a lease.

As a result of the adoption of IFRS 16, the Group recognises lease liabilities in relation to leases that were previously classified as operating leases under IAS 17 "Leases". Under IFRS 16, lease liabilities are measured at the present value of future lease payments discounted using the weighted average lessee's incremental borrowing rate as at 1 January 2019. As at 1 January 2019, the weighted average lessee's incremental borrowing rate was 2.443%.

When applying IFRS 16, the Group used a modified approach with a cumulative effect. The Group did not restate comparable data and disclosed data for the previous period, which is in compliance with IAS 17.

The Group performed a detailed assessment of lease contracts (as regards their lease term and amount of lease payments) and their modifications, based on which a lease liability of EUR 19 839 thousand and right-of-use assets of EUR 16 472 thousand are recognised as at 1 January 2019 (the initial estimated disclosure in the financial statements as at 31 December 2018 amounted to EUR 22 932 thousand). As a result of the reassessment of lease contracts as regards disclosures as at 31 December 2018, the initial amounts of the lease liability and the right-of-use assets differ as at 1 January 2019. The explanation of change in lease liabilities as at 1 January 2019 and right-of-use assets as at 1 January 2019 when compared to the original disclosures is provided in the tables below:

Lease liabilities as at 31 December 2018 (in EUR '000)

Obligations under an operating lease disclosed as at 31 December 2018	22 932
Adjustments related to the reassessment of lease contracts	(2 944)
Adjustments related to the assessment of an interest rate	(148)
Discounted operating lease liabilities as at 1 January 2019	19 839

Right-of-use assets as at 31 December 2018 (in EUR '000)

Right-of-use assets as at 31 December 2018	22 932
Adjustments related to the reassessment of lease contracts*	(6 461)
Right-of-use assets as at 1 January 2019	16 472

*Right-of-use assets recognised as at 31 December 2018 were decreased following the detailed assessment of all lease contracts by EUR 6 461 thousand as at 1 January 2019. The total amount of adjustments resulted from the following assessments:

- Decrease in the measurement of right-of-use assets by accruals of uneven lease payments and incentives from lessors in the amount of EUR 4 103 thousand;
- The application of an exemption under IFRS 16 for short-term leases of up to one year (inclusive) resulted in a decrease in right-of-use assets by EUR 1 614 thousand;
- The application of an exemption under IFRS 16 for other assets (cars) resulted in a decrease in right-of-use assets by EUR 368 thousand;
- Other adjustments resulting from the assessment of lease contracts (exclusion of unidentifiable parts of lease contracts, reassessment of a lease term, etc) in the amount of EUR 376 thousand.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

A right-of-use asset (lease asset) is recognised in the amount a lease liability adjusted for prepaid lease payments, accrued lease payments and incentives provided by lessors. The Group identified lease contracts to which the exemption under IFRS 16 is applied: total lease liabilities from the lease of low-value assets as at 1 January 2019 amount to EUR 46 thousand (initial disclosure: EUR 44 thousand), total lease liabilities from short-term leases amount to EUR 681 thousand (initial disclosure: EUR 211 thousand). The total amount of other assets excluded from the scope of IFRS 16 due to materiality is EUR 464 thousand. Low-value assets include leases of assets with a value of up to EUR 5 thousand (printers, coffee machines, water dispenser stands). Short-term leases are leases of up to 1 year inclusive, and other assets excluded from the scope of IFRS 16 due to materiality mainly comprise leases of cars and data storage.

Restatement of disclosures in the financial statements due to the implementation of IFRS 16 as at 1 January 2019:

Assessment of lease liabilities under IFRS 16 as at 1 January 2019 in EUR '000

Operating lease liabilities as at 1 January 2019 discounted using the weighted average interest rate	19 839
Of which:	
<i>gross operating lease liabilities as at 1 January 2019</i>	20 260
(-) Advance payments	-
(-) Accrued expenses (prepaid lease payments)	(421)
Lease liabilities as at 1 January 2019	19 839
Of which:	
Current	6 309
Non-current	13 530

Assessment of right-of-use assets under IFRS 16 as at 1 January 2019 in EUR '000

Right-of-use assets as at 1 January 2019	16 472
Of which:	
<i>gross right-of-use assets</i>	20 260
(-) Accruals of uneven lease payments	(2 345)
(-) Incentives from lessors	(1 444)
(-) Other adjustments	-
Right-of-use assets as at 1 January 2019	16 472

Right-of-use assets under IFRS 16 in EUR '000

	31 Dec 2019	1 Jan 2019
Recognised right-of-use assets apply to the following types of assets:		
Buildings	29 691	16 472
Equipment	-	-
Motor vehicles	-	-
Total	29 691	16 472

Retained earnings as at 1 January 2019 in respect of IFRS 16 in EUR '000

The change in the accounting policy under IFRS 16 has an impact on the following items of the financial statements as at 1 January 2019.

	Change	31 Dec 2019	1 Jan 2019
Property, plant and equipment	-	40 683	40 683
Right-of-use assets	16 472	-	16 472
Deferred tax	-	48 949	48 949
Lease liabilities	(19 839)	-	19 839
Incentives from lessors	1 444	1 444	-
(-) Accruals of uneven lease payments	2 345	2 345	-
Accrued expenses (prepaid lease payments)	(421)	421	-

The total impact of the change in the accounting policy on retained earnings as at 1 January 2019 owing to the application of IFRS 16 is EUR 0.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, as described in Note 3, the Group has made the following decisions concerning uncertainties and estimates that have a significant impact on the amounts recognised in the financial statements. There is a significant risk of material adjustments in future periods relating to such matters, including the following:

- The Group derives a substantial portion of its revenues from system security and network security solutions. The market in which the Group operates is highly competitive and rapidly changing. Significant technological changes, changes in customer requirements, and the emergence of competitive products with new capabilities or technologies could adversely affect the operating results.
- The Group sells its antivirus product through intermediaries such as distributors, resellers and others. The top ten distributors accounted for 42% of revenues in 2019 and 41% of revenues in 2018.
- A significant portion of revenues and net income is derived from international sales. Fluctuations of the euro against foreign currencies, changes in local regulatory or economic conditions, piracy, or non-performance by distributors or partners could adversely affect the operating results.
- The Group regularly reviews the collectability and creditworthiness of its distributors and resellers to determine an appropriate provision for receivables. The uncollectible accounts could exceed the current or future provisions. Receivables are written off on a case by case basis, considering the probability whether the amounts can be collected. At 31 December 2019 and 2018, the provision for receivables amounted to EUR 2 594 thousand and EUR 2 671 thousand, respectively.
- The Group maintains a significant portion of cash balances and all of its short-term investments with two financial institutions. The Group invests with financial institutions that have high quality credit; under an internal policy, ESET limits the amount of deposit exposure to any one financial institution.
- The Group applies accounting policy relating to deferred income over the licence validity period in accordance with IFRS. Given the comprehensiveness of the portfolio and the number of active licences, the Group determines some revenues from licences which are deferred using estimates. A change in judgments used to calculate these estimates could have a material impact on the financial statements. Other information related to revenue recognition in the Group is stated in Note 3.1 j) Revenue Recognition.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

6. GROUP STRUCTURE

Consolidated Subsidiaries

The consolidated subsidiaries as at 31 December 2019:

Name <i>Subsidiaries</i>	Seat	Ownership Share %		Principal activity
		2019	2018	
ESET, LLC	610 West Ash Street, Suite 1700, San Diego, CA 92101, USA	100%	100%	Antivirus software distributor
ESET software spol. s r.o.	Praha 7 - Classic 7 Business Park, Jankovcova 1037/49, 170 00 Prague 7, Czech Republic	100%	100%	Antivirus software distributor
ESET LATINOAMERICA S.R.L. (1)	1270 Juan Diaz de Solis, 2nd Floor, Vicente Lopez, Buenos Aires CP: B1638BH, Argentina	100%	100%	Service provider
ESET ASIA PTE. LTD.	3 Anson Road Springleaf Tower #12-01/02, Singapore 079909, Singapore	100%	100%	Service provider + Antivirus software distributor
ESET Canada Recherche Inc. (2)	473, Rue Sainte-Catherine Ouest, Bureau 300, Montreal QC, H3B 1B1, Canada	100%	100%	Research and development
ESET DO BRASIL MARKETING LTDA (3)	Rua Verbo Divino, 2.001, Cjts 1407/1410 Chacara Santo Antônio São Paulo/SP - Brazil Zip 04.719-002	100%	100%	Service provider
ESET Polska Sp. z o.o. (4)	Jasnogórska 9, 31 - 358 Kraków, Poland	100%	100%	Research and development
ESET Deutschland GmbH	Spitzweidenweg 32, 07743 Jena, Germany	100%	100%	Antivirus software distributor
ESET Research Czech Republic s.r.o. (5)	U Přehrady 3204/61, Mšeno nad Nisou, 466 02 Jablonec nad Nisou, Czech Republic	100%	100%	Research and development
ESET Software Australia, PTY, LTD.	Level 3, 50 Yeo Street, Neutral Bay NSW 2089, Sydney, Australia	100%	100%	Antivirus software distributor
ESET RESEARCH UK Limited (3) (4) REGISTERED NUMBER 07875689	3 Heron Gate Office Park Hankridge Way, Taunton, Somerset TA1 2LR, United Kingdom	100%	100%	Research and development
ESET Canada Inc.	44 Chipman Hill Suite 1000, Saint John NB, E2L 2A9, Canada	100%	100%	Antivirus software distributor
Nadácia ESET	Einsteinova 24 851 01 Bratislava, Slovak Republic	100%	100%	Foundation
PGNB Limited	5th Floor Holland House, 20 Oxford Road, Bournemouth, Dorset, BH8 8EZ, United Kingdom	100%	100%	(5)
ESET SOFTWARE UK Limited (6) (7)	5th Floor Holland House, 20 Oxford Road, Bournemouth, Dorset, BH8 8EZ, United Kingdom	100%	100%	Antivirus software distributor
ESET Romania S.R.L. (8) (9)	Strada Palas Nr. 7D-7E, Cladirea United Business Center 3 (Corp C2), Etaj 2, Spatiul C259, Municipiul Iași, Judet Iași, Romania	100%	100%	Research and development
ESET MÉXICO S. de R.L. de C.V. (10)	Av. Paseo de la Reforma 250 - Office 981 A-B-C-D-, Colonia Juárez, Delegación Cuauhtémoc, Ciudad de México, Mexico	100%	100%	Service provider
ESET Japan Inc. (11) (12)	2-16-4 Konan, Minato-ku, Tokyo 108-0075, Japan	90%	90%	Service provider
ESET ITALIA S.p.A. (13)	Francesco Richnini 6 CAP, 20 122 Milan, Italy	100 %		Service provider Antivirus software distributor

(1) 90% of the shares are held by ESET, LLC and 10% are held by the Parent Company.

(2) 90% of the shares are held by the Parent Company and 10% are held by ESET, LLC.

This is an English language translation of the original Slovak language document.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

- (3) In January 2019, ESET RESEARCH UK Limited changed its principal activity from DESLock software distributor to research and development.
- (4) ESET RESEARCH UK Limited changed its business name in April 2019. The original name of the company was DESLock Limited.
- (5) PGNB Limited carried out no business activities in 2019.
- (6) ESET SOFTWARE UK Limited is a 100% subsidiary of PGNB Limited.
- (7) ESET SOFTWARE UK Limited changed its business name in April 2019. The original name of the company was QNH Limited.
- (8) 99.9963% of the shares are held by ESET, spol. s r.o. and 0.0037% are held by ESET Research Czech Republic s.r.o.
- (9) Change of the business name of ESET Romania S.R.L. – August 2018; original business name: ESET Research and Development S.R.L.
- (10) 90% of the shares are held by the Parent Company and 10% are held by ESET, LLC.
- (11) ESET Japan Inc. was established in November 2017 and 100% is held by the Parent Company. Since April 2018, 90% has been held by the Parent Company and 10% by Canon IT Solutions Inc. In January 2019, Canon IT Solutions Inc. transferred its 10% share in ESET Japan Inc. to Canon Marketing Japan Inc.
- (12) Change of the address of ESET Japan Inc. – September 2018; original address: Akasaka K-Tower 4F, 2-7, Motoakasaka 1-chome, Minato-ku, Tokyo, Japan.
- (13) ESET ITALIA S.r.l. was established in February 2019 and 100% is held by the Parent Company. The company launched its distribution activity in September 2019.

The Group had an organisational unit in the Republic of Poland: ESET, spol. s r. o., Sp. Z o.o. Oddział w Polsce, ul. Pilotów 2, 31-462 Krakow. Based on the shareholders' decision of 5 November 2018, the organisational unit was dissolved as at 31 December 2018 and entered into liquidation, which was completed on 28 December 2018. The organisational unit was deleted from the Polish Business Register on 19 April 2019.

ESET RESEARCH UK LIMITED, FORMERLY
DESLock Limited registered under No. 078 75 689 is exempt from the obligation to have its separate financial statements audited by an auditor under section 479A of the Companies Act 2006.

Under the contract for transfer of intellectual property rights concluded on 20 December 2018 between the Parent Company and DESLock Limited, the transfer of the rights to the DESLock encryption software was agreed. The Parent Company became the new owner of the DESLock encryption software as at 1 January 2019. The subsidiary, DESLock Limited, was transformed into a branch providing R&D services.

Based on the shareholders' decision dated 22 March 2017, a subsidiary was established in Mexico for product marketing and distribution under the name ESET MÉXICO S. de R.L. de C.V. on 13 December 2017. On 24 January 2019, the Governing Board of the Parent Company decided to increase the registered capital of the subsidiary.

Based on a shareholders' decision of 18 October 2017, the Parent Company decided to acquire a 100% ownership interest in the registered capital of ESET Japan Inc. established and registered in Japan, which was acquired as at 21 November 2017. Subsequently, the Parent Company's shareholders decided to increase the registered capital of ESET Japan Inc. and transfer some ESET Japan Inc. shares to Canon IT Solution Inc. in order to establish a joint venture in Japan. As at 1 April 2018, the registered capital of Eset Japan Inc. was increased and was owned by Eset spol. s r.o. (90.00%) and Canon IT Solutions (10.00%) as at the same date. In January 2019, Canon IT Solutions Inc. transferred its 10% share to Canon Marketing Japan Inc.

7. ACQUISITION OF A BUSINESS

The Group acquired no investments in subsidiaries in 2019 and 2018.

8. REVENUES FROM THE PROVISION OF SOFTWARE

	2019	2018
Revenues from the provision of end user licenses and services	503 958	472 622
Total	503 958	472 622

Other operating revenues in the amount of EUR 1 338 thousand (2018: EUR 1 208 thousand) are presented in the consolidated statement of comprehensive income under Other operating (expenses)/revenues, net.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

In 2019, the Group continued its project of making historical data on revenues more accurate, which increased the accuracy of the recognition of global contracts with customers. The Group also identified non-material errors in the consolidated financial statements prepared as at 31 December 2018. The total impact of errors on the profit/(loss) after tax in the Group's consolidated financial statements as at 31 December 2018 would be a decrease by EUR 3 000 thousand. Due to the identified non-material errors, the Group corrected errors of previous reporting periods with an impact on individual items of assets, liabilities, expenses and revenues in 2019 in accordance with IFRS. The Group recognised incorrectly accrued revenues from global contracts in previous years, which resulted in a decrease of revenues from the provision of software in 2019 by EUR 3 430 thousand. The Group also clarified its relationships with distributors in Australia resulting in a decrease in revenues from the provision of software in 2019 of EUR 793 thousand.

9. SERVICES

	2019	2018
Costs of services provided	248 335	234 017
Advertising and promotion expenses	24 664	21 070
Rent	4 016	9 149
Internet, data services, IT services	11 082	9 925
Accounting, economic, legal and audit services	6 902	8 111
Travel expenses	3 886	3 835
Other	5 293	5 148
Total	304 178	291 255

As a result of the increase of the accuracy of historical data on revenues and the correction of non-material errors in the consolidated financial statements prepared as at 31 December 2018, as described in Note 8 above, the Group adjusted the corresponding costs of services provided resulting in a total decrease of costs in 2019 in the amount of EUR 741 thousand.

10. PERSONNEL EXPENSES

	2019	2018
Wages and salaries	77 845	70 431
Health and social security insurance payments	20 137	18 079
Other personnel and social expenses	4 673	4 263
Total	102 655	92 773

11. FINANCE INCOME

	2019	2018
Foreign exchange gains	3 209	3 147
Interest income	758	344
Other	97	61
Total	4 064	3 552

12. FINANCE COSTS

	2019	2018
Bank fees	123	120
Foreign exchange losses	1 892	2 023
Interest expense	565	707
Other	(113)	139
Total	2 467	2 989



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

13. INCOME TAX

13.1. Income tax recognised in the statement of comprehensive income

	2019	2018
Current income tax	(22 710)	(20 485)
Deferred income tax – (income)	4 481	2 955
Total income tax for the year	(18 229)	(17 530)

As a result of the increased accuracy of historical data on revenues and the correction of non-material errors in the consolidated financial statements prepared as at 31 December 2018, as described in Note 8 above, the Group adjusted the corresponding deferred tax expenses resulting in a total decrease of deferred tax expenses in 2019 in the amount of EUR 482 thousand.

13.2. Reconciliation of the effective income tax rate recognised in the statement of comprehensive income

	2019	2018
Profit before income tax	83 276	79 578
Income tax at statutory tax rate of 21% (2018: 21%)	17 488	16 712
Tax effect of permanent differences	(368)	1 242
Impact of different tax rates of the subsidiaries in other jurisdictions	(123)	(145)
Effect of an unrecognised deferred tax asset	1 127	(403)
Effect of change of deferred tax rate	27	134
Other	78	(10)
Total income tax for the year	18 229	17 530



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

14. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and Buildings, Structures – Construction Modifications</i>	<i>Plant, Machinery & Equipment</i>	<i>Other Tangible Assets</i>	<i>Total</i>
Cost				
At 1 January 2018	18 243	23 998	19 294	61 535
Additions	1 052	15	4 411	5 478
Disposals	(129)	(1 552)	(4)	(1 685)
Transfers	1 071	3 278	(4 511)	(162)
Effects of exchange rate	166	45	(4)	207
At 31 December 2018	20 403	25 784	19 186	65 373
At 1 January 2019	20 403	25 784	19 186	65 373
Additions from the initial application of IFRS 16 as at 1 Jan 2019	16 472	-	-	16 472
Additions	19 878	3 031	750	23 659
Disposals	(496)	(1 205)	-	(1 701)
Transfers	10	158	(168)	-
Effects of exchange rate	105	34	1	140
At 31 December 2019	56 372	27 802	19 769	103 943
Accumulated Depreciation and Impairment				
At 1 January 2018	6 008	16 046	(13)	22 041
Additions	1 475	2 895	-	4 370
Disposals	(105)	(1 632)	-	(1 737)
Transfers	18	(180)	-	(162)
Effects of exchange rate	106	72	-	178
At 31 December 2018	7 502	17 201	(13)	24 690
At 1 January 2019	7 502	17 201	(13)	24 690
Additions	7 230	3 707	-	11 035
Disposals	(480)	(1 201)	-	(1 681)
Transfers	20	5	-	25
Effects of exchange rate	98	(11)	-	87
At 31 December 2019	14 378	19 791	(13)	34 156
Net Book Value				
At 31 December 2018	12 901	8 583	19 199	40 683
At 31 December 2019	41 994	8 011	19 782	69 787

The Group recognises acquisitions of property, plant and equipment placed into service in 2018 as additions in 2019. The acquisitions of property, plant and equipment from preceding periods, which were placed into service in 2019, are classified as transfers.

In 2019, the Group performed a review of non-current assets with respect to the recoverability of amounts. No indicators of impairment were identified. Also, a review of the useful lives of depreciated assets was performed. The depreciation period has not changed compared to 2018.

The total amount of the damage liability insurance and the insurance of other risks related to property, plant and equipment and non-current intangible assets within the Group is EUR 76 556 thousand as at 31 December 2019.

As at 31 December 2019, the Group recognised assets representing right-of-use assets in accordance with IFRS 16 as "Buildings, Structures – Construction Modifications". Detailed information on lease contracts and right-of-use assets is provided in Note 25 below.

Additions to buildings, structures – construction modifications include an addition to the right-of-use assets in the amount of EUR 18 804 thousand resulting from the modification of lease contracts during 2019 and hyperinflationary adjustment to the right-of-use assets in the amount of EUR 301 thousand.

As at 31 December 2019, the Group recognises items of assets acquired under a finance lease that were previously classified as finance leases as part of non-current tangible assets. As at 31 December 2019, the net book value of such assets amounted to EUR 39 thousand (2018: EUR 48 thousand).

The Group has no assets pledged. The Group has no assets with a restricted right to handle such assets.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**
(in thousands EUR, if not stipulated otherwise)

15. INTANGIBLE ASSETS

	<i>Software</i>	<i>Valuable Rights</i>	<i>Goodwill</i>	<i>Other</i>	<i>Non-Current Intangible Assets in Acquisition</i>	<i>Total</i>
Cost						
At 1 January 2018	6 187	790	1 769	12 364	148	21 258
Additions	680	-	-	2	913	1 595
Disposals	(349)	-	-	-	27	(322)
Transfers	107	-	-	334	(441)	-
Exchange differences	(39)	(1)	-	(49)	(32)	(121)
At 31 December 2018	6 586	789	1 769	12 651	615	22 410
At 1 January 2019	6 586	789	1 769	12 651	615	22 410
Additions from the initial application of IFRS 16	-	-	-	-	-	-
Additions	122	-	-	894	292	1 308
Disposals	(2)	-	-	(262)	-	(264)
Transfers	(77)	-	-	487	(410)	-
Exchange differences	26	2	-	401	(37)	392
At 31 December 2019	6 655	791	1 769	14 171	460	23 846
Accumulated Depreciation and Impairment						
At 1 January 2018	4 894	750	-	6 499	-	12 143
Depreciation charge	1 576	6	-	2 526	-	4 108
Disposals	(359)	-	-	-	-	(359)
Transfers	-	-	-	-	-	-
Exchange differences	(19)	-	-	(42)	-	(61)
At 31 December 2018	6 092	756	-	8 983	-	15 831
At 1 January 2019	6 092	756	-	8 983	-	15 831
Depreciation charge	428	6	-	2 718	150	3 302
Disposals	(22)	-	-	(262)	-	(284)
Transfers	3	-	-	-	-	3
Exchange differences	23	2	-	357	-	382
At 31 December 2019	6 524	764	-	11 796	150	19 234
Net Book Value						
At 31 December 2018	494	33	1 769	3 668	615	6 579
At 31 December 2019	131	27	1 769	2 375	310	4 612

The Group recognises acquisitions of non-current intangible assets placed into service as additions in 2019. The acquisitions of non-current intangible assets from preceding periods, which were placed into service in 2019, are classified as transfers.

The Group acquired goodwill that is annually subject to impairment testing under IAS 36 by the acquisition of Datsec in Germany and PGNB Limited and ESET SOFTWARE UK (formerly QNH Limited Group) in the UK.

When assessing the impairment of goodwill, the Group analyses the following indicators:

- Negative development in the industry;
- Decrease in the market value; and
- Growth of sales slower than estimated.

Based on the above criteria, the Group concluded that goodwill was not impaired as at 31 December 2019.

16. TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	38 329	43 716
Other receivables and other assets	7 296	7 520
Less: provision for doubtful receivables	(2 594)	(2 671)
Trade and other receivables, net	43 031	48 565



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

A summary of the ageing structure of the Group's trade receivables:

	2019	2018
Overdue receivables	7 146	14 572
<i>of which:</i>		
Overdue by up to 30 days	1 931	7 081
Overdue between 30 – 90 days	1 366	1 325
Overdue by more than 90 days	3 849	6 166

The average maturity period of receivables from the sale of software is 30 days. The Group recorded a provision mainly for doubtful trade receivables of its subsidiaries ESET spol. s r.o., ESET Canada Inc. and ESET ASIA PTE. LTD. in the amount of EUR 2 594 thousand (2018: EUR 2 671 thousand).

A summary of the ageing structure of the Group's trade receivables excluding receivables of the subsidiaries, for which provisions were recorded:

	2019	2018
Receivables, for which provisions were recorded	6 969	6 093
<i>of which:</i>		
Due	2 912	2 844
Overdue by up to 30 days	196	599
Overdue between 30 – 90 days	31	28
Overdue by more than 90 days	3 830	2 622

The Group has developed a system that is uniformly used to assess the creditworthiness of customers. When determining the recoverability of trade receivables, the Group considers their creditworthiness as at the reporting date. The creditworthiness of customers is also assessed when deciding on a new customer. The Group performs the assessment of doubtful receivables based on historical experience and on management analysis.

The Group regularly assesses credit risk associated with its customers based on their financial position. In the case of default, the customer's access to the updated software version can be in certain cases restricted or cancelled, which makes the software unusable.

A summary of the ageing structure of the Group's overdue trade receivables, for which no provisions were recorded:

	2019	2018
Overdue receivables, for which no provisions were recorded:	3 089	11 323
<i>Of which:</i>		
Overdue by up to 30 days	1 735	6 481
Overdue by between 30 and 90 days	1 334	1 298
Overdue by more than 90 days	20	3 544

The Group records a substantial amount of trade receivables with no or minimal credit risk. The carrying amount of receivables approximates their fair value.

17. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	268	62
Bank accounts	58 885	72 871
Bank term deposits	769	34
Total cash	59 922	72 967

The Group invests free cash in bank term deposits (overnights, money market funds). The carrying amounts of these financial assets approximate their fair value.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

18. DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

18.1. Deferred Tax Balances

	2019	2018
Deferred asset	54 026	48 949
Deferred liability	-	-
Total	54 026	48 949

18.2. Deferred Tax Assets/(Liabilities) Comprise:

	Balance at 1 Jan 2019	Charged Through Equity	Charged to Profits/ Losses*	Recognised in Other Comprehensive Income	Balance at 31 Dec 2019
Deferred income	46 667	-	3 486	569	50 722
Other	2 282	-	987	35	3 304
Total	48 949	-	4 473	604	54 026

	Balance at 1 Jan 2018	Charged Through Equity (Impact of IFRS 15) *	Charged to Profits/ Losses	Recognised in Other Comprehensive Income	Balance at 31 Dec 2018
Deferred income	46 777	(2 619)	1 854	655	46 667
Other	1 137	-	1 101	44	2 282
Total	47 914	(2 619)	2 955	699	48 949

* There were no adjustments to the deferred tax as at 1 January 2019 in respect of the initial application of IFRS 16. The impact of IFRS 16 is an amount of EUR 168 thousand and is recognised as revenue for the current year.

As at 31 December 2019, the Group did not recognise a deferred tax asset in the amount of EUR 4 209 thousand (2018: EUR 3 028 thousand) relating mainly to temporary differences from the possibility of carrying forward tax paid abroad by the subsidiary, ESET LLC. The Group does not anticipate that it will be able to carry forward tax paid abroad by tax deduction.

As a result of increased accuracy of the historical data on revenues and the correction of non-material errors in the consolidated financial statements prepared as at 31 December 2018, as described in Note 8 above, the Group adjusted the corresponding deferred tax asset by increasing it by EUR 482 thousand as at 31 December 2019.

19. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	5 811	4 152
Employee benefits liabilities	7 488	7 717
Social security liabilities	2 364	2 120
Other tax liabilities	2 920	3 254
Obligations under finance lease	6 623	33
Other payables	5 475	12 108
Total	30 681	29 384

<i>Of which:</i>		
Liabilities within maturity	30 042	28 781
Overdue liabilities	639	603

The Group has rules under which liabilities must be paid by their maturity. Other payables are primarily related to accrued expenses.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

20. OTHER NON-CURRENT LIABILITIES

	2019	2018
Accrued expenses	-	2 569
Obligations under finance lease	25 921	8
Other non-current liabilities	3 166	3 128
Total	29 087	5 705

Other non-current liabilities primarily comprise a fund from profit designated for the bonuses to selected employees, which is regulated by the bonus scheme rules. Accrued expenses in 2018 are primarily related to the recognition of rent for office premises over the term of the lease on a straight-line basis. The expenses were credited to obligations under finance lease in accordance with the initial application of IFRS 16 as at 1 January 2019.

An overview of the ageing structure of non-current financial liabilities for the Group:

	2019	2018
Maturity of 1 to 5 years	22 663	3 136
Maturity over 5 years	6 423	-

21. PROVISIONS FOR LIABILITIES

	2019	2018
Short-term provisions for liabilities	153	135
Long-term provisions for liabilities	1 345	1 127
<i>of which:</i>		
Maturity up to 5 years	465	413
Maturity over 5 years	880	714

The provisions for liabilities include a provision for employee benefits that was created in connection with an employee loyalty benefit.

22. DEFERRED INCOME, NET

	2019	2018
Opening balance	212 029	212 586
Effect of IFRS 15 as at 1 Jan 2018	-	(11 902)
The adjustments were made in 2019.	2 566	-
Deferred income for the current year	318 011	295 311
Released to revenues for the current year	(293 380)	(275 594)
Accrued expenses for the current year	(153 159)	(146 123)
Released to expenses for the current year	141 085	134 740
Effect of FX differences	2 682	3 012
Closing balance	229 836	212 029
<i>Of which:</i>		
Deferred income – current, net	161 008	149 708
Deferred income – non-current, net	68 828	62 321

Deferred income, net presented in the consolidated statement of financial position represents the difference between deferred income of the Group from the sale of ESET products and services and deferred expenses for services of distributors and resellers.

In 2019, the Group continued its project of increasing the accuracy of historical data on revenues, which increased the accuracy of the recognition of global contracts with customers. The Group also identified non-material errors in the consolidated financial statements prepared as at 31 December 2018. Due to the identified non-material errors, the Group corrected errors of previous reporting periods with an impact on individual items of assets, liabilities, expenses and revenues in 2019 in accordance with IFRS. The total impact of the recognised errors on deferred income, net in the Group's consolidated statement of financial position as at 31 December 2019 is an increase of EUR 2 566 thousand. In previous years, the Group incorrectly recognised deferred income and accrued expenses related to global contracts that resulted in an increase of deferred income, net in the amount of EUR 3 406 thousand. The Group also clarified its relationships with distributors in Australia that resulted in a decrease of deferred income, net in the amount of EUR 839 thousand.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

The Group applied a modified retrospective approach as the transition method to the new standard IFRS 15. The Group recognised the impact of the initial application of IFRS 15 as at 1 January 2018 in equity and in "Deferred income" and "Deferred tax asset". This impact results from a project of making more accurate historical data on revenues from contracts open at the IFRS 15 application date, and from the application of a five-step revenue recognition model as described in more detail in Note 3. 1 j) Revenue Recognition. Prior to the IFRS 15 application, the Group used significant management judgments and estimates to determine revenue to be recognised in individual reporting periods.

23. CONTINGENT LIABILITIES

Tax returns of the Parent Company remain open and may be subject to review over a five-year period. The fact that a certain period or tax return related to this period has been subject to review does not eliminate the possibility of this period being subject to a further review during the five-year period. Accordingly, as at 31 December 2019, the Parent Company's tax returns for 2015 to 2019 remain open and may be subject to review.

24. LITIGATION

FINJAN Inc.

The Parent Company and its subsidiaries is currently a party to four legal disputes with FINJAN.

- a. In litigation in which Eset, spol. s r.o. and its subsidiary, Eset LLC, are the defendant, FINJAN Inc. took legal action against both companies due to an alleged breach of six patents registered in the US by FINJAN Inc.
- b. Litigation in which ESET, spol. s r.o. and ESET LLC seek the invalidity of the '305 patent registered in the United States of America by FINJAN Inc.
- c. In litigation in which Eset, spol. s r.o. and its subsidiary, Eset Deutschland GmbH, are the defendant, FINJAN Inc. took legal action against both companies due to an alleged breach of a patent registered by FINJAN Inc.
- d. In litigation before a court in Munich between FINJAN Inc. as the defendant and ESET spol. s r.o. as the plaintiff regarding the invalidity of a patent for the alleged breach of which FINJAN Inc. took legal action at a court in Dusseldorf against ESET, spol. s r.o. and ESET Deutschland GmbH. In November 2018, the first-instance court ruled on the invalidity of a patent of FINJAN Inc.; an appeal by FINJAN Inc. is expected.

The outcome of litigations in Germany is mutually-dependent. The litigation on patent infringement is currently stayed until a ruling in the dispute concerning patent invalidity is issued. Given the ruling of the first-instance court in favour of the Group, the current situation is very favourable. It is currently uncertain as to when the litigations will be completed.

The hearing was held in the USA in March 2020, but the hearing was terminated early due to the coronavirus. The relevant courts are currently closed and it is uncertain as to when and whether the hearing will be rescheduled. As the conditions for provisioning are not met in any of these litigations, the Group did not record any provisions for potential losses as at 31 December 2019.

Enigma Software Group USA LLC

The Group, or its subsidiaries, was a party to the following legal dispute with Enigma Software Group USA LLC. in 2019.

- a. Against ESET Deutschland GmbH regarding PUA – potentially unwanted application (RegHunter detections). In 2018, the court refused to issue an interim measure in favour of Enigma. In its written ruling delivered in 2019, the court ruled in favour of ESET, spol. s r.o. Enigma did not appeal against the ruling and the legal dispute is ended. Therefore, the Group recorded no provision for potential losses as at 31 December 2019.

NSS Labs

In September 2018, a legal action was brought in the US by NSS Labs against the subsidiary ESET LLC, and another 50 companies, including AMTSO, concerning an agreement on software testing. AMTSO is an association of antivirus companies and testing companies aimed to create common standards. All parties to the dispute are the AMTSO members. In 2019, NSS Labs withdrew its filing and the legal dispute ended. As the legal dispute ended, the Group recorded no provision for potential losses as at 31 December 2019.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

25. COMMITMENTS

25.1. Lease

The Group leases various office premises and contracts are usually concluded for a definite period with the option to extend or shorten the lease term based on individually agreed contractual terms. Lease contracts are negotiated separately and comprise various contractual terms. Lease contracts do not impose an obligation to meet covenants and leased assets cannot be used as collateral.

Right-of-use assets in EUR '000

	<i>Land and Buildings, Structures – Construction Modifications</i>
At 1 Jan 2019	16 472
Additions	19 105
Disposals	-
Depreciation	(5 801)
Effects of exchange rate	(85)
At 31 Dec 2019	29 691

Profit/(loss) as at 31 December 2019 in respect of IFRS 16 in EUR '000

	31 December 2019	31 December 2018
Depreciation of right-of-use assets	(5 801)	-
Of which:		
Buildings	(5 801)	-
Equipment	-	-
Motor vehicles	-	-
Interest expense from lease liabilities	(563)	-
Expenses relating to low-value assets	(45)	-
Expenses relating to short-term leases	(666)	-
Expenses relating to other assets excluded from the scope of IFRS 16	(265)	-

The total outflow of cash for leases is presented in a separate line in the consolidated statement of cash flows, page 8.

The Group leases office and operation premises under an operating lease. In several contracts, the Group has an option of extension of the lease contract, one-off termination of the contract by the lessee, or is entitled to terminate the lease contract for any reason or for convenience within a specified notice period. Upon termination of some lease contracts, the Group is also required to remove any modifications made and remedy any damage. Compensations and contractual penalties arising from such provisions of the contracts have no significant impact on the amount of the obligation under finance lease.

As at 31 December 2019, the Group concluded no significant contracts for the purchase of non-current tangible and intangible assets.

26. COSTS OF AUDIT SERVICES

	2019	2018
Costs of auditing financial statements	312	328
Other assurance audit services	2	2
Tax advisory	159	173



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

27. RELATED PARTIES

27.1. Trading transactions

The Group is owned and controlled by individuals (refer to Note 1.1.). There were no transactions between the Group and related parties except for the transactions below:

	2019	2018
Transactions with related parties through personal connection	-	-
Borrowing from a minority owner	56	73

The Group's management considers related party transactions to be performed on an arm's length basis.

Balances and transactions between the Parent Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

27.2. Compensation of key management personnel

	2019	2018
Short-term benefits	6 812	6 732

28. FINANCIAL RISK MANAGEMENT

A summary of categories of financial instruments – balances as at 31 December:

	Carrying Amount		Fair Value	
	2019	2018	2019	2018
Assets per the statement of financial position				
Other non-current assets	2 314	1 932	2 314	1 932
Trade and other receivables	36 713	42 273	36 713	42 273
Cash and cash equivalents	59 922	72 967	59 922	72 967
Total	98 949	117 172	98 949	117 172
Liabilities per the statement of financial position				
Other non-current liabilities	3 166	3 136	3 166	3 136
Non-current lease liabilities	25 921	-	25 921	-
Long-term provisions for liabilities	1 345	1 127	1 345	1 127
Trade and other payables	21 146	26 129	21 146	26 129
Current lease liabilities	6 615	-	6 615	-
Short-term provisions for liabilities	153	135	153	135
Total	58 346	30 527	58 346	30 527

Cash and cash equivalents, trade receivables and trade payables and other current receivables and payables are recognised at carrying amounts that approximate their fair values as they have short-term maturities.

28.1. Risk Management

The Group is exposed to various financial risks such as market risk (mainly, foreign exchange risk) and liquidity risk. As the Group did not draw any loans, it is not exposed to interest rate risk or credit risk. The Group has set rules to manage these exposures; risk management is performed by the Parent Company's finance department and the subsidiaries' finance departments.

28.2. Foreign Exchange Risk

The Group operates on international markets and is exposed to foreign exchange risk inherent in foreign currency transactions when translating them into the functional currency. The risks arise from future transactions, recognised assets and liabilities. The euro is the functional currency of the Parent Company. The Parent Company has subsidiaries, which report in twelve different currencies (Czech koruna, British pound, Polish zloty, Romanian leu, US dollar, Canadian dollar, Singapore dollar, Brazilian real, Argentine peso, Australian dollar, Mexican peso and Japanese yen). The Group does not use any special financial instruments to hedge against foreign exchange risk. The Group relies on natural hedging through adjusting purchases and sales. The exposures are further mitigated through the use of short-term placements in banks.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

The following items of assets and liabilities are denominated in a currency other than the functional currency that is material to the Group:

Cash: USD, CZK, PLN, CAD, GBP, JPY
Receivables: USD, CZK, CAD, GBP, JPY
Payables: USD, CZK, PLN, GBP, ARS

The Group also has assets and liabilities denominated in the Brazilian real, Canadian dollar, Romanian leu, Mexican peso, Singapore dollar and Swiss franc. The Parent Company has assets and liabilities denominated primarily in the functional currency – euro, and also in USD, UK pound, Canadian dollar, Japanese yen, CZK, Polish zloty and Brazilian real.

The sensitivity analysis is based on the same assumptions as used internally by the management for financial risk management planning and strategy. This is based on past movements, and on knowledge of and experience in financial markets. These are the movements that are considered to be reasonably possible in the next twelve months:

Movements in EUR/foreign currency exchange rates by 10% would represent the following amounts:

	Exchange Rate at 31 Dec 2019	Exchange Rate Appreciation by 10%	Exchange Rate Depreciation by 10%
EUR / USD	1.1234	1.2357	1.0111
EUR / CZK	25.4080	27.9488	22.8672
EUR / JPY	121.9400	134.1340	109.7460
EUR / GBP	0.8508	0.9359	0.7657
EUR / PLN	4.2568	4.6825	3.8311
EUR / AUD	1.5995	1.7595	1.4396
EUR / BRL	4.5157	4.9673	4.0641
EUR / SGD	1.5111	1.6622	1.3600
EUR / CAD	1.4598	1.6058	1.3138
EUR / ARS*	67.0900	73.7990	60.3810
EUR / RON	4.7830	5.2613	4.3047
EUR / MXN	21.2202	23.3422	19.0982
EUR / CHF	1.0854	1.1939	0.9769

Based on the sensitivity analysis, if the EUR exchange rate increased/decreased by 10% against these foreign currencies and other variables remained unchanged, the impact on the profit/loss from the translation would be as follows:

	Depreciation of the Exchange Rate by 10%	Appreciation of the Exchange Rate by 10%
EUR / USD	(1 764)	2 156
EUR / CZK	(726)	887
EUR / JPY	(390)	477
EUR / GBP	(608)	743
EUR / PLN	(79)	96
EUR / AUD	(49)	60
EUR / BRL	(15)	19
EUR / SGD	5	(6)
EUR / CAD	(183)	224
EUR / ARS*	46	(57)
EUR / RON	(7)	9
EUR / MXN	(9)	11
EUR / CHF	2	(2)

A 10% movement in the exchange rate was used in the analysis since at this level the management is informed about the currency risk and makes decisions.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

28.3. Exchange Rates

Currency	Average Exchange Rate for 2019	Exchange Rate as at 31 Dec 2019	Average Exchange Rate for 2018	Exchange Rate as at 31 Dec 2018
EUR / USD	1.1190	1.1234	1.1810	1.1450
EUR / CZK	25.6700	25.4080	25.6470	25.7240
EUR / JPY	122.0060	121.9400	130.3960	125.8500
EUR / GBP	0.8780	0.8508	0.8850	0.8945
EUR / PLN	4.2980	4.2568	4.2610	4.3014
EUR / AUD	1.6110	1.5995	1.5800	1.6220
EUR / BRL	4.4130	4.5157	4.3080	4.4440
EUR / SGD	1.5270	1.5111	1.5930	1.5591
EUR / CAD	1.4850	1.4598	1.5290	1.5605
EUR / ARS*	52.8980	67.0900	32.5110	43.0760
EUR / RON	4.7450	4.7830	4.6540	4.6635
EUR / MXN	21.5570	21.2202	22.7050	22.4921
EUR / CHF	1.1120	1.0854	1.1550	1.1269

*As regards the foreign subsidiary in Argentina, whose functional currency is hyperinflationary, all items (assets, liabilities, equity, revenues and expenses) were translated using the ECB's exchange rate valid as at the reporting date. Comparable items presented as data of the previous period were translated into a non-hyperinflationary currency and thus were not adjusted for subsequent changes in price, or subsequent movements in exchange rates.

28.4. Liquidity Risk

The Group keeps a sufficient volume of cash primarily from its own resources. At the Group level, the management monitors the sufficiency of liquid reserves based on the forecasted cash flows.

The bulk of trade receivables within the Group arise from sales to customers outside of Slovakia. The Group performs a continuous assessment of the customers' creditworthiness and financial standing while no guarantees are required in general. The Group delivers its products in a manner that enables it to limit upgrades of versions and these become less usable.

The Group's deposits that are not covered by any special insurance. In the USA, the insurance is provided by US Federal Deposit Insurance Corporation (FDIC). The management believes that the non-insured portion is placed in financial institutions where no concern regarding their insolvency exists at present.

29. CAPITAL MANAGEMENT

The Group manages capital to ensure that it is able to continue as a going concern. To achieve this, the Company uses its equity. The amount of the Company's own funds is optimised in relation to the distribution thereof.

Equity comprises registered capital, reserve funds and retained earnings from previous years. The capital structure is reviewed semi-annually and, simultaneously, capital risks of individual capital groups are assessed. Based on this review, the capital structure may be adjusted for profit sharing, an increase in the registered capital, etc. As the Group has no loans, it does not present the debt-to-equity ratio.

30. POST-BALANCE SHEET EVENTS

By end of 2019 we were receiving first information regarding COVID-19 infection in China. In first months of 2020 the virus has been spread all around the world including all negative impacts.

ESET, spol. s r.o. and its subsidiaries promptly took preventive measures to continue providing customer services fully working, ensuring the safety and health of our employees and customers. In March 2020 ESET immediately stopped all international business travels, implemented preventive hygienic measures in office environment. Employees were encouraged to working remote from their homes but turned to mandatory mode for almost all employees in all ESET entities. All workforce that doesn't require physical presence at office was transferred to home office environment.

The Group has implemented Pandemic flu business continuity plan that is updated on regular basis. According to the plan, the company is able to deliver customer services also during long-term crisis situation. However this is depending on future decisions and restrictions of government agencies.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

By the time of releasing of ESET financial statements for 2019 we haven't experienced any significant decrease of sales. As the situation is fluid and seems to change day to day, it is not possible to estimate any future impacts at this stage.

ESET management is monitoring the situation and is ready to take all possible steps to mitigate any negative impact of COVID-19 infection on ESET company and employees.

From 31 December 2019 up to the preparation date of the financial statements, there were no other events that would have a significant impact on the Group's assets and liabilities.

**31. OTHER SUPPLEMENTARY INFORMATION REQUIRED PURSUANT TO SLOVAK
LEGISLATION**

These disclosures are required by the Slovak legislation beyond the scope of IFRS disclosures – consolidated financial statements. Other required disclosures are included in the previous notes.

Reporting Entity

ESET, spol. s r. o. prepared these consolidated financial statements in line with IFRS, as adopted in the EU, as annual consolidated financial statements pursuant to the Slovak Act on Accounting.

Business name of the consolidating entity:	ESET, spol. s r.o.
Registered seat:	Einsteinova 24, 851 01 Bratislava
Date of establishment:	26 June 1992
Date of incorporation:	17 September 1992
Company ID (IČO):	31 333 532
Tax ID (DIČO):	2020317068
Number of employees in the consolidation group:	1 588

Consolidated entities

Business name:	ESET, spol. s r.o.
Registered seat:	Slovak Republic Parent company
Business name:	ESET software spol. s r.o.
Registered seat:	Czech Republic Subsidiary
Business name:	ESET, LLC,
Registered seat:	California, USA Subsidiary
Business name:	ESET LATINOAMERICA, SRL
Registered seat:	Argentina Subsidiary
Business name:	ESET ASIA PTE. LTD.
Registered seat:	Singapore Subsidiary
Business name:	ESET DO BRASIL MARKETING LTDA
Registered seat:	Brazil Subsidiary
Business name:	ESET POLSKA SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNOŚCIĄ
Registered seat:	Poland Subsidiary
Business name:	ESET CANADA Recherche Inc.
Registered seat:	Canada Subsidiary
Business name:	ESET Canada Inc.
Registered seat:	Canada Subsidiary

This is an English language translation of the original Slovak language document.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

Business name:	ESET Research Czech Republic s.r.o.
Registered seat:	Czech Republic Subsidiary
Business name:	ESET DEUTSCHLAND GmbH
Registered seat:	Germany Subsidiary
Business name:	ESET SOFTWARE AUSTRALIA PTY, LTD.
Registered seat:	Australia Subsidiary
Business name:	ESET RESEARCH UK Limited
Registered seat:	UK Subsidiary
Business name:	PGNB LIMITED
Registered seat:	UK Subsidiary
Business name:	ESET SOFTWARE UK Limited
Registered seat:	UK Subsidiary
Business name:	ESET Romania S.R.L.
Registered seat:	Romania Subsidiary
Business name:	Nadácia ESET
Registered seat:	Slovak Republic Subsidiary
Business name:	ESET Japan Inc.
Registered seat:	Japan Subsidiary
Business name:	ESET MÉXICO S. de R.L. de C.V.
Registered seat:	Mexico Subsidiary
Business name:	ESET ITALIA S.r.l.
Registered seat:	Italy Subsidiary

Ultimate consolidating company

Business name:	ESET, spol. s r.o.
Registered seat:	Bratislava, Slovak Republic

Consolidating companies where the consolidated financial statements are kept

Business name:	ESET, spol. s r.o.
Registered seat:	Bratislava, Slovak Republic
Address of the Court of Record:	Commercial Register of the District Court Bratislava I., section: Sro, file No.: 3586/B

The reporting entity is not an unlimited liability partner in any company.

Executives of the consolidating company as at 31 December 2019:

Rudolf Hrubý;
Peter Paško; and
Miroslav Trnka.

There was no change up to the preparation date of these consolidated financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands EUR, if not stipulated otherwise)**

Other data for the Group:

- The Parent Company and subsidiaries have their tangible assets covered by insurance;
- Non-current immovable assets that are not registered in the land register as at the date of authorisation of the financial statements for issue (and is used) – none;
- Assets acquired in privatisation with the specification of their cost – none; and
- Social fund payables, opening balance, creation, drawing, balance at the end of the reporting period for the Company:

	2019	2018
Balance at 1 January 2019	84	45
+ Creation debited to costs	289	275
+ Transfer from other funds	-	-
- Drawing	251	236
- Transfer to funds from profit	-	-
Balance at 31 December 2019	122	84

Prepared on:

5.5.2020

Approved on:

**Signature of a Member of the
Statutory Body of the
Reporting Entity or a Natural
Person Acting as a Reporting
Entity:**

**Signature of the Person
Responsible for the
Preparation of the
Consolidated Financial
Statements:**

**Signature of the Person
Responsible for
Bookkeeping:**