Avast

Protecting digital freedom

Avast plc annual report 2021

Protecting digital freedom for everyone

In this report

Financial KPIs

Billings
$948.4m
+4.3% organic growth | +2.9% actual growth

Revenue
$941.1m
+7.5% organic growth | +5.4% actual growth

Adjusted EBITDA
$517.6m
+4.5%

Adjusted net income
$389.4m
+8.1%

Unlevered free cash flow
$477.4m
+5.8%

Net debt/LTM adjusted EBITDA
0.8x

Operational KPIs

Revenue per direct desktop customer
$49.44
+8.4%

Product per direct desktop customer
1.43
+1.8%

Number of direct desktop customers
16.36m
-0.7%

Our purpose

Protecting the digital freedoms of all online citizens

At Avast, we've been working for more than 30 years to keep people safe. Today, around 61% of the world's population is connected to the internet, with an estimated 700,000 new users coming online each day.

The internet has never been more needed, as we navigate through a worldwide pandemic that has restricted everyday freedoms. Yet, it is a far from perfect place.

Cybercriminals are developing increasingly sophisticated attacks which put everything at risk, whether hospitals, oil pipelines, or food suppliers. Nation states use technology to curtail free speech, and people's privacy online is never guaranteed.

We conducted extensive research into how this makes people feel. While many appreciated the internet, they also admitted they felt increasingly watched and vulnerable online.[1]

60%

said the internet had grown more important to their lives during the pandemic

20%

said they felt more confident online than before

2/3

admitted concerns over privacy stopped them from doing something online

1 Source: https://blog.avast.com/report-online-behavior-post-pandemic-avast.

It's clear that unless the digital world has safeguards in place to protect our privacy, it has the potential to curtail, rather than expand, our freedoms. Avast has stepped up to tackle this challenge, by announcing a rebrand which includes our rigorous commitment to an expanded, deeper purpose, which is protecting the digital freedoms of all online citizens. We articulated this new purpose through the launch of a new brand in September 2021.

About us

A world leader in consumer cybersecurity, privacy and trust-based services

435m+
users[1] worldwide

1.77bn+
attacks and more than 89m new files blocked each month on average in 2021

42m+
phishing attacks and nearly 4m unique phishing URLs blocked each month on average in 2021

1.5m+
ransomware attacks blocked each month on average in 2021

~100,000
organic installs of Avast Antivirus every day

Our brands

Avast | CCleaner | AVG | evernym

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

About us continued

Our comprehensive offering protects and enhances our users' online experiences

Protection
- Small and Medium Business (SMB) security
- Smart house
- Family safety
- Consumer security

Privacy
- Data breaches
- Control
- Online anonymity
- Identity protection

Identity
- Digital identity wallet
- Decentralised identity data

Performance
- Software updates
- Speed
- PC maintenance

Continuing our commitment to free products for all Avast users

Avast pioneered free antivirus 20 years ago, and we are committed to providing the best free protection products for all our users.

In 2021, we launched Avast One Essential, our new free protection platform providing security, privacy, and performance, which is part of our Avast One platform suite of products.

Avast One is already gaining recognition with key product reviewers in media titles worldwide.

Our brand

Furthering digital freedom

In 2021, Avast launched its new brand, with the purpose of protecting digital freedom for all online citizens.

This was in response to the new challenges of safety, privacy, identity, and confident internet use that we see emerging.

Digital freedom is critical, today and in the future: to speak freely online, to access and use digital services; to participate in the digital economy; to exchange ideas and culture through online mediums; and to ensure the security and privacy of all digital citizens.

We are taking a three-pronged approach to support digital freedom and help people get the best online experience.

1. **Consulting on policy:** we are active in engaging policymakers, regulators, and think tanks in the United States and the European Union on associated topics, including cybersecurity, Artificial Intelligence (AI) research, and digital privacy standards.
2. **Developing innovative products:** the launch of our new digital protection platform, Avast One, represents the expansion of our products to begin to address the deeper needs of customers who are online in this changing digital world.
3. **Community engagement:** our philanthropic organisation, the Avast Foundation, debuted a new programme tackling digital freedom issues and supporting vulnerable people. Its new programmes focus on enabling a more equitable and inclusive digital future, in which everyone has access to the tools and opportunities to reach their full potential.

Our brand continued

Avast One

In September 2021, Avast released its first integrated consumer security and privacy platform, Avast One, which has three new products: Avast One Essential, our free offering, Avast One Individual, and Avast One Family, which are both subscription-based offerings.

The Avast One Essential version includes a firewall and software updater feature to protect people from using outdated software and supply chain attacks, extensive privacy protection in the form of a Virtual Private Network (VPN) for regular browsing use, and identity protection through our data breach monitoring service.

Avast One provides digital citizens with a single solution to online security, privacy, identity, and performance issues, keeping people and their data safe and their devices running smoothly. With built-in personalisation capabilities, Avast One adjusts to the individual needs of people and their family members.

Re-engineering cybersecurity products with the launch of Avast One

Our brand continued

Expanding our expertise beyond privacy into identity

During 2021, Avast expanded into the innovative area of identity and appointed a new Senior Vice President and General Manager of Identity, to head up the new area of the business.

In December 2021, we cemented our investment with the acquisition of Evernym, a pioneer in self-sovereign identity.

Passwords, centralised databases, and online tracking are part and parcel of today's internet, with all their inherent weaknesses and potential for abuse. We envisage delivering a more trustworthy digital experience to people which will give them greater control over their personal data and greater insight into where that data is being used and why, if they have chosen to share it.

NortonLifeLock Merger

On 10 August 2021, the Boards of Avast plc and NortonLifeLock Inc. ('NortonLifeLock') announced that they had agreed the terms of a recommended Merger of Avast with NortonLifeLock, in the form of a recommended offer by Nitro Bidco Limited ('Bidco'), a wholly-owned subsidiary of NortonLifeLock, for the entire issued and to-be-issued ordinary share capital of Avast (the 'Merger').

The Merger is proposed to be effected by means of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act (the 'Scheme'), and is subject to the terms and conditions set out in the Scheme Document that was published on 28 October 2021 (the 'Scheme Document'). Avast shareholders approved the Scheme at a Court-convened meeting which was held on 18 November 2021. At a special meeting of the stockholders of NortonLifeLock held on 4 November 2021, the necessary approvals in relation to the Merger were obtained. As a result, under the terms of the Merger, on completion Avast shareholders will receive a mix of cash and NortonLifeLock shares. Avast shareholders (other than those in a restricted jurisdiction) have the choice to elect between two distinct alternatives: the majority cash option (MCO), where shareholders will receive $7.61 cash and 0.0302 of a New NortonLifeLock Share for each Avast share held, or the majority stock option (MSO), where Avast shareholders will receive 0.1937 of a New NortonLifeLock Share and $2.37 for each Avast share held.

Full details of the Merger were set out in the Scheme Document, which was published on 28 October 2021 and is available on our website at http://investors.avast.com/investors/Merger-with-nortonlifelock-inc/.

On 4 February 2022, NortonLifeLock and Avast announced a timetable for the Merger, with an effective date of 24 February 2022 subject to the sanction by the Court and the satisfaction (or, where applicable, the waiver) of certain regulatory conditions (as set out in the Scheme Document).

On 18 February 2022, NortonLifeLock determined that it was appropriate to postpone the effective date of the Merger and announced that they expected (subject to the satisfaction or, if applicable, waiver by NortonLifeLock of each of the regulatory conditions that have not yet been satisfied or waived) the Merger to become effective on 4 April 2022.

Merger

with NortonLifeLock

Our impact

Partnering with organisations that are active in helping people vulnerable to tech abuse

Avast has always been focused on protecting the security and privacy of our users online.

Part of our work is to partner with organisations that are active in helping people who are more vulnerable to tech abuse. We partner with them to ensure we are sharing advice and insights that will help to educate them and empower them to make the right choices.

As security and privacy concerns become more well-known, we are doing a lot of work in educating users and speaking to policymakers and governments about these areas. The benefits of such protection must be readily available to everyone, no matter their level of technical expertise. We believe this is vitally important for the preservation of people's digital freedom, today and in the future.

We have outlined below some of the initiatives we are involved with to help people who are more vulnerable to tech abuse.

Our impact continued

38
new Cyberhood Watch ambassadors onboarded in 2021

336
Neighbourhood Watch members received cybersecurity training

12,007
new Neighbourhood Watch social media followers

4,561
new Facebook followers

The Cyberhood Watch partnership

Beginning in 2020, Avast has teamed up with Neighbourhood Watch to create the UK Cyberhood Watch initiative, that has helped people in England and Wales learn more about the cybersecurity risks that exist every time we go online, and discover which regions of the UK are the most at risk. From phishing to viruses to ransomware, this community-led awareness programme looks at the impact cybercrime can have on our everyday lives, and provides simple tips on the steps we can take to protect ourselves, our friends and family, and our local community through resources, training, and regional ambassadors.

Engaging

elders to tackle the digital divide

Our impact continued

Avast in partnership with NCOA delivers education and awareness programmes

In 2019, 54.1 million US adults were 65 or older, representing 16% of the population. That number is expected to reach 80.8 million by 2040.

To help raise awareness for cybersecurity and privacy issues among the fastest-growing demographic group in the United States, Avast partnered with the National Council on Aging (NCOA) to deliver education and awareness programmes. Founded in 1950, the non-profit is focused on reaching underserved older adults through its website, digital products, and ageing services professionals, who work in community settings throughout the country. Through NCOA's Age Well Planner, we have created articles, videos, and webinars to teach older adults the basics of cybersecurity and privacy, tips to avoid being scammed online, and how to make their online lives more productive and satisfying with simple, actionable advice.

Our impact continued

Avast has contributed to Refuge's tech support service since May 2021. Refuge supports women, children, and men who experience domestic violence, with a range of services.

With help from Avast's support, the Refuge tech team was able to provide support to 210 women with complex tech abuse cases.

Avast and Refuge are both members of the industry group Coalition Against Stalkerware. The group's purpose is to address technology-facilitated abuse and unite organisations that work to combat domestic abuse within the IT security community. In October 2021, Avast and Refuge launched their Tech Safety Campaign, with an interactive tool that lists the top 10 most complained about Internet of Things (IoT) devices, and advice on how to mitigate risks.

On leaving the service:

95% of clients felt safer

97% reported an improved quality of life

94% felt less frightened

99% felt confident in knowing where to access help

82% of clients were supported to obtain new, safe devices and accounts

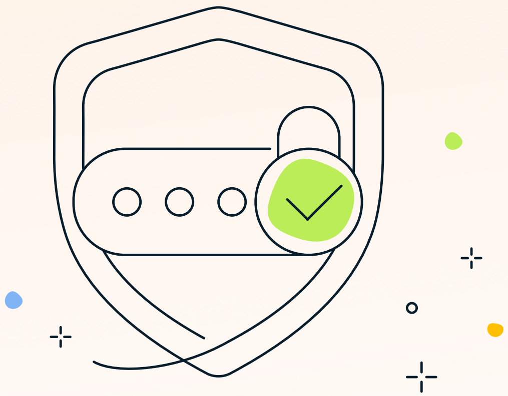
100% of clients who requested assistance were supported to involve police in their cases

68% of clients were supported to secure their devices

Protecting

the digitally vulnerable

Our impact continued



At the start of 2021, Avast provided donations to the think tanks Open Technology Institute (OTI), based in the United States, and Stiftung Neue Verantwortung (SNV), based in Germany, to support their civil society work into surveillance practice reform on both sides of the Atlantic. This is an important part of our public affairs work, focused on supporting our deep interest in privacy in technology.

A series of workshops were held by both organisations to explore solutions to address the Schrems II decision and its implications for transatlantic data flows and mutual respect for privacy rights, as well as holistically considering what surveillance reforms might be needed both in the United States and the European Union. The workshop brought together a range of stakeholders from companies, civil society, former government officials, and academia, and was attended by Avast representatives.

In February 2021, the OTI hosted a virtual workshop focused primarily on the Schrems II decision – that Privacy Shield, the EU-US personal data transfer mechanism, was no longer lawful – and what short- to medium-term surveillance reforms could be made in the United States, at executive and legislative level, to address some of the issues leading to this decision. The discussions provided input into the surveillance reform report published by the OTI in April 2021. In May 2021, SNV hosted a similar workshop, focusing on German and EU surveillance reform, including consideration of what kind of legal mechanisms could or should be introduced in the European Union for US citizens and other non-Europeans who are subject to surveillance.

A joint workshop was held in May 2021 to consider these issues more broadly in a transatlantic context, and the possibility for reforms in multiple jurisdictions and at international level. These discussions fed heavily into the final joint report, which was published in December 2021 and which we were proud to support.

Working with think tanks to educate on privacy technology

Chair's report

Milestone achievements in 2021

The pandemic has forced us all to adjust to a new way of life.

This is not without challenges – while innovations in the medical field are making it possible for most people to return to work without taking undue risks, it has become clear that not everything will go back to the way it was. Things are changing everywhere, and I am very pleased to say that Avast is at the forefront of this transformation in the real and the cyber world.

> "We at Avast take it as our responsibility to give everyone the opportunity to protect their online life, so that people feel safe
>
> **John Schwarz**
> Chair of the Board

Chair's report continued

When the Company started, more than 30 years ago, the world was a different place. Around the year 2000, when Avast made the defining decision to change the traditional antivirus business model and offer a fully featured free antivirus to all, only around 7% of the world population was online.

Now, more than half of the world's population uses the internet daily. We at Avast take it as our responsibility to give everyone the opportunity to protect their online life, so that people feel safe. Safe internet access is a critical human need.

In 2021, Avast expanded its commitment to protect digital freedom for all online citizens. This goes beyond safeguarding individual machines; we need to protect people. In December, we announced the acquisition of Evernym, a pioneer in identity technology. Their expertise comes to complement our experience in security and privacy, and will contribute to the delivery of the next generation of personal identity management solutions.

Our wider purpose is also reflected in the Company's refreshed brand and its new flagship product, Avast One. Launched in September, Avast One is an all-in-one, multi-platform service that combines robust threat detection with advanced privacy and performance features into an easy-to-use, user-friendly format. Today's user needs go beyond just device protection, and the customisable Avast One platform allows users to choose how and when they interact online, and who they share information with, offering them full control over their relationship with the internet. Since its launch, Avast One has received positive reviews from key technology product reviewers worldwide.

I am also pleased to announce progress on the development of Avast's environmental,social, and governance (ESG) programme. While still in its early stages, a tremendous amount of effort has gone into collecting data and developing report cards on ESG metrics and performance. Avast has taken part in the S&P Global Sustainability Assessment and placed in the 93rd percentile in our industry sector. This shows exceptional progress compared to the previous year, and is a testament to our commitment to give back and focus not only on product innovation and success, but also on our community.

The newly established Avast Foundation, which was announced last year and began operations in 2021, complements our mission to protect digital freedom through its three-pronged approach: thought leadership, that looks to engage communities to understand the challenges and possibilities of digital freedom; grant making for impact, an initiative that will focus on thematic areas and responsive work for humanitarian crises; and employee engagement. More details on the new Foundation and its areas of focus can be found on page 78.

In the global competition for talent, it is more important than ever to make sure that our employee needs are being met. Building on the blocks set in 2020 by the Future of Work project, an initiative created to address the COVID-19 crisis, Avast's Work from Anywhere and Whole Life Flexibility policies have provided support to all employees who chose to work remotely or from abroad.

The Prague headquarters have also seen a complete redesign, catering to the evolving needs of employees as they adapt to a new way of working, with more dynamic spaces that encourage collaboration and more areas for deep-focus work.

When it comes to diversity, Avast has stood by its commitments. The percentage of women within the Company has increased across the board. Female representation in technology roles has grown to 16.5%, while on the Executive team, the target of 33% female representation has been exceeded. At the Board level, the percentage of women has also increased to a full one-third.

16.5%

female representation in technology roles

Chair's report continued

Merger with NortonLifeLock

On 10 August 2021, the Boards of Avast plc and NortonLifeLock Inc. announced the Merger of the two companies. This milestone transformation will create a combined global entity with more than 500 million users, with a broad and complementary product portfolio. It feels only natural that two companies that share a common vision should come together, to empower digital freedom for everyone.

Both Avast and NortonLifeLock received the relevant approvals from their respective shareholders for the Merger in the last quarter of 2021. Full details of the Merger were set out in the Scheme Document, which was published on 28 October 2021 and is available on our website at https://investors.avast.com/investors/Merger-with-nortonlifelock-inc/.

On 4 February 2022, NortonLifeLock and Avast announced a timetable for the Merger, with an effective date of 24 February 2022 subject to the sanction by the Court and the satisfaction (or, where applicable, the waiver) of certain regulatory conditions (as set out in the Scheme Document). On 18 February 2022, NortonLifeLock determined that it was appropriate to postpone the effective date of the Merger and announced that they expected (subject to the satisfaction or, if applicable, waiver by NortonLifeLock of each regulatory conditions that have not yet been satisfied or waived) the Merger to become effective on 4 April 2022.

Shareholder returns

2021 was a strong year for Avast. We have met the financial expectations set at the start of the year as a FTSE 100 listed company.

At 31 December 2021, Avast's net debt/LTM adjusted EBITDA was 0.8x.

The Board announced on 7 February 2022 that it had declared a conditional interim dividend of 11.2 cents per share. The payment of this dividend is subject to the terms of the Scheme and is therefore conditional on the Merger not having become effective before 1 March 2022. On 18 February 2022, NortonLifeLock announced an updated Merger timetable, which included an expected Scheme effective date of 4 April 2022. Following this announcement, the Board confirmed on 18 February 2022 that the conditional interim dividend would be paid on 3 March 2022 to shareholders on the register as of 18 February 2022, with an ex-dividend date of 24 February 2022.

0.8x

Avast's net debt/LTM adjusted EBITDA at 31 December 2021

Looking forward

Upon successful completion of the announced Merger, this will be my last report as the Chair of Avast's Board. I would like to extend my gratitude to the Board of Directors and the Avast team for their collaboration over the years, and to our shareholders for contributing to Avast's journey.

I am confident that Avast will continue to excel as an equal member of the combined Avast/NortonLifeLock organisation. By integrating our strength in privacy with NortonLifeLock's strength in identity, the new Company solution portfolio will go far beyond core cybersecurity. The mission of protecting the individual's online life will become a near-term reality.

Our commitment to corporate responsibility will continue – both companies have robust employee engagement programmes, with annual social impact initiatives that focus on the environment, society, and giving back to communities.

Our shared goal of empowering online citizens and enabling digital freedom for everyone is going to set the pace for future innovation and success.

John Schwarz
Chair of the Board

Markets & threat landscape

Predictions and tracking trends for 2022

Avast's threat intelligence team continually tracks cybercriminal trends and malware development. In 2022, it expects ransomware to continue to be a major issue, along with cryptocurrency scams, heists, and cryptomining malware due to the all-time high of Bitcoin in 2021, and expects that companies with working-from-home policies will continue to be targeted.

Ransomware in particular has been very damaging in 2021. We tracked attacks on critical infrastructure, such as aviation, and can expect to see more of this. Major organisations affected included FinCEN, the US's Financial Enforcement Network, which reported a 30% uplift in the total value of suspicious activity related to ransomware in the first half of 2021 over the full year of 2020.

30%

uplift in the total value of suspicious activity related to ransomware in the first half of 2021 over the full year of 2020

We are also predicting that audio deepfakes will be used in spear-phishing attacks on businesses. Criminals will use deepfake audio to imitate an Executive or other employee, to convince someone to grant them access to sensitive data or to a company's network.

> "We anticipate a resurgence of ransomware targeting consumers, with cybercriminals adopting some of the techniques used to attack businesses

Jakub Kroustek
Malware Research Director

Markets & threat landscape continued

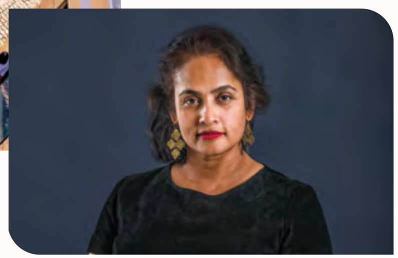
The ongoing fight against tech abuse

In recent years, we have seen the increasing use of technology such as stalkerware and spyware by perpetrators to stalk, harass, abuse, and control their victims.

Dubbed by the United Nations as the 'shadow pandemic', stalkerware is unethical software that allows people to track someone's location without the victim's knowledge or consent. Tech abuse is experienced as part of a pattern of controlling behaviour by the abuser and is often accompanied by direct domestic abuse such as physical violence and sexual and emotional abuse. Since lockdown measures were first introduced in the UK, Avast research has found a 93% increase in the use of spyware and stalkerware apps. Through partnerships with Refuge in the UK, and as a member of the Coalition Against Stalkerware, we are dedicated to tackling these oppressive and harmful technologies.

93%

increase in the use of spyware and stalkerware apps



> Stalkerware is a growing category of domestic malware with disturbing and dangerous implications. It steals the physical and online freedom of the victim

Jaya Baloo
Chief Information Security Officer

Markets & threat landscape continued

Living life online in a prolonged pandemic

The pandemic and subsequent lockdowns changed how global citizens interact with their online lives.

With the restrictions put in place to keep our communities safe, people of all ages had to adapt to using the internet for access to health services, connecting with family, and entertainment. Six in 10 online users around the world say the pandemic caused the internet to take on greater importance in their lives. 33% of respondents overall expected to continue to do more activities online because those activities are easier. 31% of people aged 65 and over agreed with this, whereas only 17% of 18 to 24-year-olds did. It could be inferred that the younger age group may already conduct more activities online than older people.

33%

of respondents overall expect to continue to do more activities online

Markets & threat landscape continued

Cryptocurrency hype generates new scam opportunities for cybercriminals

12,000

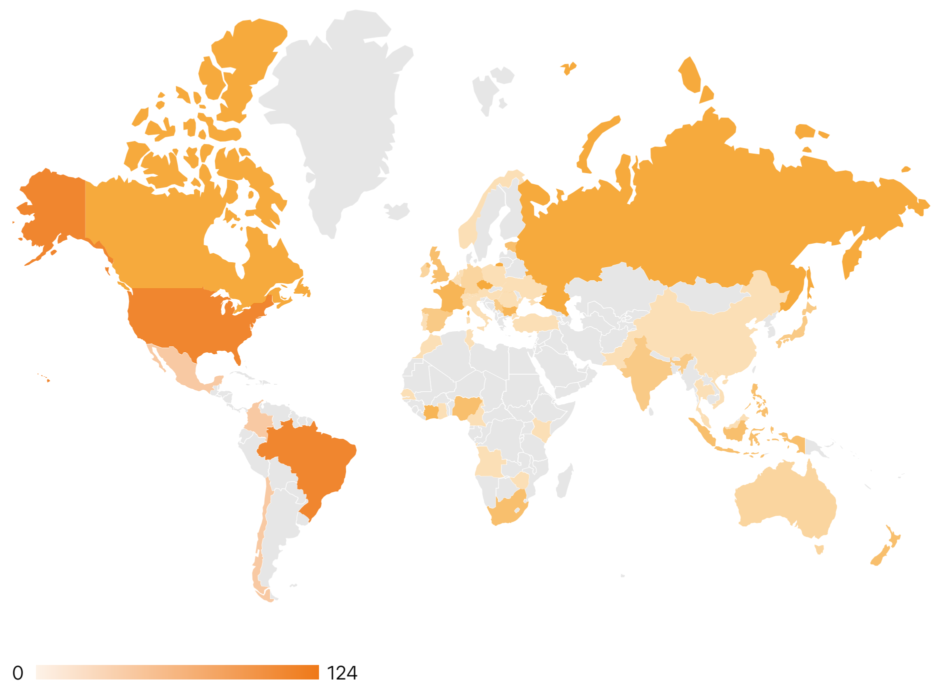
malicious emails distributing BluStealer in 2021

Avast's Threat Labs researchers intercepted and protected users against a rise in crypto-related phishing sites in 2021, with the majority posing as legitimate custodial wallets.

The rise of these sites is higher in countries where cryptocurrency adoption is most prevalent. The United States, Brazil, and Nigeria are the biggest targets for these crypto-scams, with notable levels of scams also in the UK, France, Russia, and India.

We also identified a malicious spam (malspam) campaign created to spread BluStealer, a type of malware designed to steal cryptocoins such as Bitcoin, Ethereum, Monero, and Litecoin from popular wallets including ArmoryDB, Bytecoin, Jaxx Liberty, Exodus, Electrum, Atomic, Guarda, and Coinomi. Avast tracked and blocked around 12,000 malicious emails distributing BluStealer in 2021, with the countries most impacted by the spread of the malspam campaign including the United States, United Kingdom, Turkey, Argentina, Italy, Greece, Spain, Czech Republic, and Romania.

Users visiting crypto-related phishing sites around the world



Avast detections January – June 2021, selection of 37 samples.

Company strategy

The pandemic significantly shifted how people use the internet

6 out of 10

people acknowledged the increased importance of the internet during the pandemic

On a global scale, people continued to rely on the digital world in 2021, and we observed through research and customer interaction how the 'new normal' became the everyday standard, as industries adapted and improved digital service offerings.

Global attitudes towards the internet evolved, including technical literacy and confidence, and internet safety concerns developed as every generation increased their time online.

Company strategy continued

The pandemic's impact on internet use

36%

chose not to register for certain online accounts requiring personal details, 20% decided against online banking, and 30% refrained from using public Wi-Fi

65%

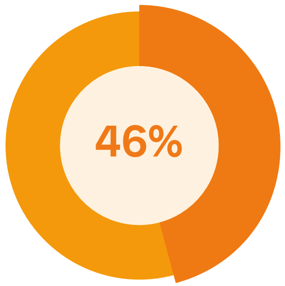
of people worldwide had security and privacy concerns, preventing them from doing something online; women and those aged 18–24 (68%) were the most concerned demographics

63%

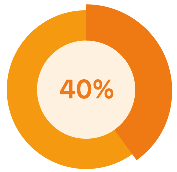
of people over the age of 65 said they did not do something online because of their online security and privacy concerns; two-thirds of all respondents also have decided not to do something due to security or privacy concerns

83%

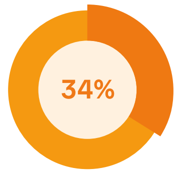
say the protection of their data is very important to them; however, fewer than half (43%) say they have strong trust in data protection laws



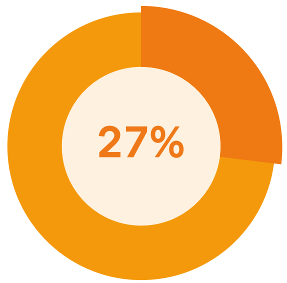
of those aged 65 and over agreed that the increase in the importance of the internet in their lives varied from 'a little' to 'much, more important' than pre-pandemic



used the internet to keep in touch with loved ones, with 22% saying they used video calling for the very first time in their lives



say the internet has made the pandemic more bearable, by enabling social contact, new experiences, and access to important services



of internet users worldwide found the internet empowered them to experience and learn new things

Source – Avast Digital Citizenship report:
https://press.avast.com/post-pandemic-online-behavior?_ga=2.265043275.539709135.1631768063-609584625.1631768063.

Company strategy continued

Building for a digital future

At Avast, we've been working for over 30 years to keep people safe.

It used to be about protecting machines; today, it's about protecting people. People are growing increasingly worried and feeling more vulnerable, because the issues they face online have become so much larger, and so much more complicated.

Avast is stepping up to tackle this challenge. Last year, we announced a rebrand which included our rigorous commitment to pursuing an expanded, deeper purpose – that of protecting the digital freedoms of all online citizens. The digital divide has become particularly acute since the pandemic hit.

Access to safe internet usage is increasingly becoming a critical right for all. For this reason, we reaffirmed our commitment last year to providing comprehensive, effective protection for all our users worldwide, as we deepened our purpose and mission. This is reflected in our innovation strategy.

Our innovation strategy

1 Customer-first: simple, complete protection for all

As the digital world becomes increasingly complex, it is our responsibility to make it simpler for consumers to enjoy the internet safely and privately, no matter their level of technical knowledge. Avast's focus in 2021 was to reduce the complexity of product experience for users, while improving the feature set and functionality of our products. As a result, we combined the most important security, privacy, and performance features into our new hero platform, Avast One, making it easier for every user to get all the services they need, for a better digital experience.

2 SMB: small business digital transformation

The growth in employees working from home as a result of the pandemic is one of the main drivers for an increased level of concern. COVID-19 has completely reshaped the way companies and their employees work. With a large portion of the workforce now working remotely on a regular basis, the network perimeter has significantly widened. Avast's priority is helping secure that perimeter, now that it has become a top strategic priority for many small businesses.

3 Innovation: digital identity and authentication

We are focused on innovating in new categories. In our model, the individual retains all their data and chooses what data they consent to share in any transaction and who they share it with, removing the need for passwords, individual accounts, and other traditional tools, which are vulnerable to being hacked, phished, and intercepted. This protects their data from being monetised by third parties, compromised in a breach, or abused for analytics. Giving the user control over their personal data is a critical part of rebuilding trust in digital services.

Company strategy continued

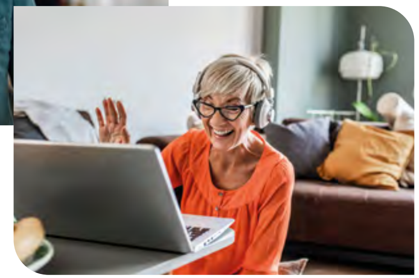
Our innovation strategy continued

4 Brand and purpose

The internet has become a place where our social and professional lives have continued seamlessly, while new opportunities and services have developed rapidly to support an increasingly digitally-enabled life. Avast recognises the ingenuity of the people creating and adopting new technology to keep services and businesses running, and of the support among families and communities to get new digital users online, independent and confident.

This collaborative effort by society has changed the role of the internet in our lives forever. Our response is to identify areas where our digital world is being threatened and step up to tackle these issues with security, privacy, and identity, to create a brighter, better, and safer online future for us all.

The power of the brand is such that it engages and generates loyalty within our user base while attracting new users to our products and services, because what we support and are passionate about resonates with them. Our new branding symbolises our renewed and expanded purpose – standing up for our belief in digital freedom and expanding our mission more widely to halt the increase of online harms. In 2022, we will continue to build out our digital freedom platform to raise brand awareness; we will also continue to engage existing and potential new customers, in order to grow our user base.



5 Finding efficiencies

Customers want simplicity. Cybersecurity has become increasingly complex as threats have escalated and become more sophisticated. Privacy is a growing issue, as stealth online surveillance is enabled by technology innovation – not always for the benefit of the customer. We have worked hard in the last year to simplify our internal structure, to ensure we are delivering consistently and robustly for all our users.

We continue to refine our teams and deliverables, while ensuring clear performance standards and measurements are in place internally. This allows us to use customer insights to deliver better services, increase organic installs, and drive sales goals. Our data governance process, which was implemented at the end of 2020, is now well-established and responsibly manages cyber compliance and regulatory risk within our organisation. In 2022, we continue to focus on ways to enhance and supplement our privacy-by-design structure, which includes establishing a rigorous data governance process across the organisation.

Investment case

Cyber risks have become more complex and far-reaching than ever before. Our strategy provides multiple avenues for long-term growth

In a world that has been transformed by the ongoing pandemic in the past two years, we are well positioned to capitalise on the global trends that affect both our industry and consumers.

Our growth potential is underpinned by **diversified direct and indirect revenue streams**, strong **cash generation**, and a **focus on innovation** that targets exciting new markets, such as privacy and identity, together with a **renewed purpose** and **brand identity**.

We have also successfully expanded our geographical footprint with customised products and an improved user experience, by designing our products and improving user experience based on each locale's preferences and specific needs.

In 2021, we launched our new brand identity and expanded purpose: **protecting digital freedom for all online citizens**. We made a commitment to protect digital rights, especially in the critical area of privacy.

Our experienced team of engineers, data scientists, and threat researchers work around the clock to assess, protect, and respond to cyberattacks and new threats. Our next-generation antivirus uses AI and employs machine-learning algorithms to continually improve performance.

Throughout the pandemic, Avast has evidenced business resilience and financial strength. Our subscription-based business model provides a high degree of cash and revenue visibility, while a cost-effective go-to-market approach results in superior profitability. Cash generation has been a driver for ongoing organic growth, complemented by disciplined M&A.

Business model

We have a clear and renewed purpose: protecting the digital freedom of all online citizens

Our markets

Headquartered in the Czech Republic, Avast has users in almost every country in the world. Our largest markets are the United States and Canada, Brazil, France, the United Kingdom, Russia, and Germany.

Avast offers products in two segments: consumer products, which generate direct and indirect revenue streams, and products for the corporate market.

Our business structure

Consumer Direct

Customers pay us directly for a product.

What we do

Our products secure users' devices, data, and networks. We offer security software under the Avast and AVG brands, in the form of both free and paid products. Privacy has become one of the biggest social challenges of our time, and Avast's growing privacy portfolio includes Avast SecureLine VPN, Avast AntiTrack, and Avast BreachGuard solutions, which prevent online information gathering and monitor for breaches. We also provide popular applications that enhance performance, such as CCleaner. This year, we introduced Avast One – an all-in-one flagship product combining robust threat detection with advanced privacy and performance features.

How we do it

Avast's antivirus solutions use AI and machine learning to conduct behavioural analysis and improve detection abilities. With both local and cloud-based deep-learning capabilities, Avast's security engine is powered by a continuous data loop of inputs from our users, who act as a geographically dispersed global threat detection system.

How we make money

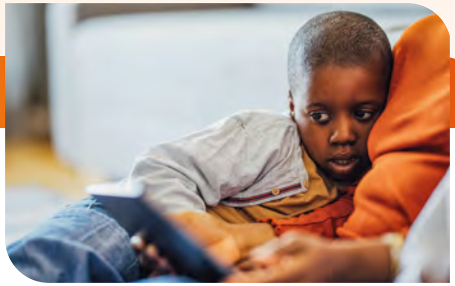
Avast monetises its user base by up-selling users of its free antivirus software to paid antivirus software with advanced features and cross-selling adjacent, non-antivirus paid products, such as privacy enhancement and PC optimisation tools.

Our strengths

Avast runs a highly efficient, low-cost distribution platform that directly engages hundreds of millions of users. Sales are primarily subscription-based, enhancing the predictability and visibility of revenue streams. Our focus on R&D means our malware detection capability is among best in class.

Business model continued

Consumer Indirect



Customers access our products indirectly, through advertising within mobile applications, third-party software distributed through partnerships, and Avast Secure Browser.

What we do

Avast leverages its user base to partner with third-party vendors. Products and services include secure web browsing, distribution of third-party software, an e-commerce tool, and mobile advertising. Avast also partners with organisations, Internet Service Providers (ISPs), and mobile carriers to offer IoT protection, on-device security, and parenting solutions.

In 2021, we also expanded into identity with our acquisition of Evernym, a recognised leader in this area.

How we do it

Avast Secure Browser helps users to stay safe online and achieve better control of their personal online footprint. Through our partnership with Google, we distribute the Chrome browser to our user base. Advertisers pay Avast for innovative ad formats served up to its mobile users.

How we make money

Avast Secure Browser typically earns a share of ad revenue based on user search. Google Chrome is distributed into Avast's user base in exchange for a fee. We co-brand or white label our security and privacy solutions for carriers and ISPs. In return for delivering traffic to e-commerce partners, Avast earns revenues reflecting value received from sales and user acquisition.

Our strengths

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

SMB

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

What we do

We offer endpoint and network security solutions to protect SMBs, from the single office to global companies, against the most advanced threats.

How we do it

We have moved towards a unified, cloud-based solution for our security services. This means we can meet increasingly complex security demands in a cost-effective way. Avast Business cybersecurity services are easily managed and delivered through the newly launched Avast Business Hub, an easy-to-use platform that allows users to manage all their Avast Business solutions in one place. We work with different types of partners, including licence resellers, distributors, and value-added resellers (VARs).

How we make money

We sell to businesses directly online, and via our channel partner networks. Business customers either pay us directly for a product, or buy from one of our partners. There is a growth opportunity inherent in the large-scale transition of network security from on-premise equipment to more convenient and flexible Software-as-a-Service (SaaS), cloud-based solutions.

Our strengths

Our antivirus endpoint platform is well-known and respected in the security industry. By introducing tailored applications and our unified endpoint and network security solution, we can offer enhanced security and target larger firms, increasing our total addressable market.

Business model continued

What sets us apart

1

People-centric security

Our commitment is to protect users' digital freedom, not just their devices. As people's digital footprints become more and more linked to their personal and professional lives, we aim to deliver an accessible, user-centric experience that secures comprehensively, no matter the type of connection or device. We are expanding beyond security and privacy, with the addition of identity products into our area of focus. We want to deliver the next generation of all-inclusive protection products and offer a truly safe digital environment to everyone.

2

Advanced next-generation security engine

Our next-generation security engine uses a combination of behavioural detection, cloud-based machine-learning capabilities, and signature-based detection to drive best-in-class protection. This allows us to scan for previously unknown viruses and malware, as well as new variants of known viruses and malware undetectable with normal definitions and virus signatures.

3

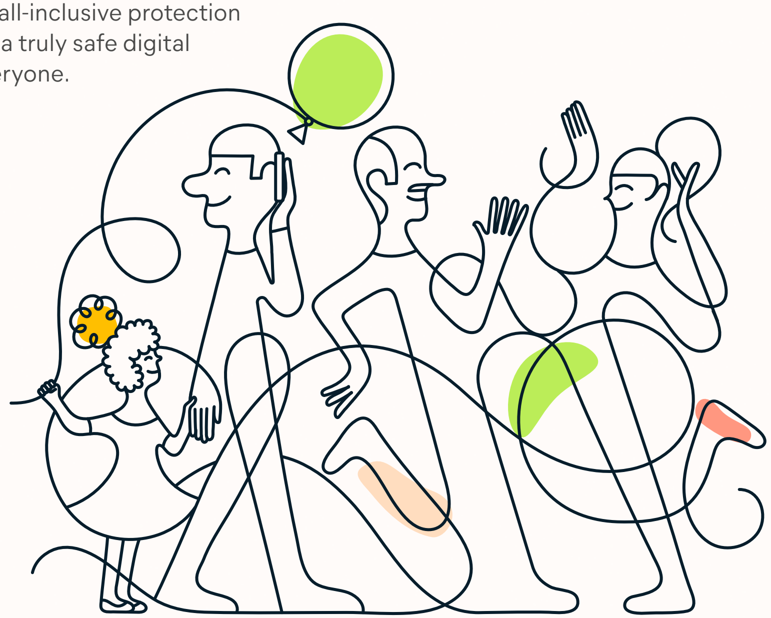
Sophisticated consumer monetisation platform

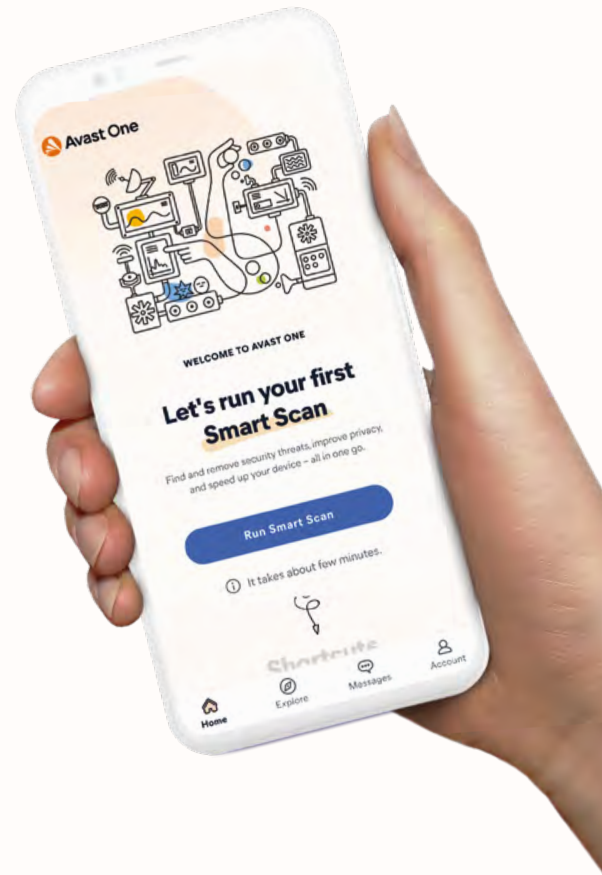
Avast's ability to increase its paying customer base and overall revenue per customer is underpinned by efficient marketing campaigns that are shaped through predictive modelling. Our platform targets users with contextual, relevant messages that offer quality products at just the right time.

4

Attractive financial profile

Our cost-effective, go-to-market approach and subscription-based business model provide a high degree of cash and revenue visibility. This allows us to invest in innovation and technology, and seize growth opportunities.





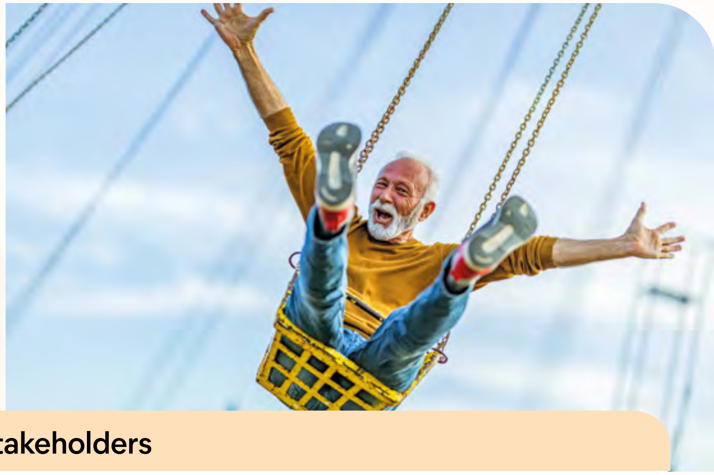
Business model continued

Our resources and relationships

Data security and privacy
Our focus is to further enhance our accountability, security, and ability to ensure that we process as little data as possible. We continually protect data, no matter what form it takes, what technology is used to process it, who handles it, and in what stage of its lifecycle it may be.

People and culture
Our most important investment is our people. We foster a culture of diversity, inclusion, and innovation. We believe in a high-performing environment that empowers employees and boosts performance and productivity. We attract the best and the brightest, with 43% of our employees in R&D.

Technology and innovation
Our security engine provides industry-leading detection rates and scanning speeds, and it contains components that run both locally on the device as well as in the Group's bespoke internet cloud. This results in constant updates of new detections and continuous protection against the latest threats.



Value created for our stakeholders

We understand the importance of what we're protecting. In 2021, we expanded our purpose and committed to protect the digital freedom of all online citizens.

Our customers
More than half of the world's population is online. We are committed to providing the best free protection products for all our users, in every aspect of their digital lives. Avast One, our newly launched all-in-one product, combines our security, privacy, and performance essentials into an easy-to-use platform that allows users to customise their online experience.

Our communities
One of our fundamental values is to give back to the community. Our brand-new Foundation focuses many of our social impact initiatives directly in alignment with the Company mission: protecting digital freedom.

See the Social responsibility and sustainability section, p70

Our people
As cybersecurity pioneers, we take great pride in our innovation. We recognise great performance in order to foster the kind of confidence and creativity that a business needs to grow and truly compete in its industry. We create a diverse and inclusive environment that allows our people to continuously learn and push their boundaries.

See the People and culture section, p61

Our shareholders
Avast generates shareholder value through a combination of consistent growth, high profitability, and strong cash flow.

See the CFO's report, p40

CEO's report

Protecting

personal privacy and digital freedom

The past three decades have seen technology develop on a truly revolutionary scale. Today, 4.8 billion people are online – that's almost 61% of the world's population – and it's estimated that there are 700,000 new users coming online each day.

Over 30 years of making the digital world safer for all online citizens

Every day at Avast, we focus on how we can innovate with technology to bring positive change to the digital world, and support vigilance in protecting personal privacy and digital freedom. By the end of 2021, we had made great progress on our stated goals for products and revenue.

'Our new brand identity symbolises our commitment to providing products that better serve our customers and all internet users, and reshaping the digital landscape to be a fairer, freer, more equitable place for all.'

Ondrej Vlcek
Chief Executive Officer

CEO's report continued

1

Our significant user base remains a competitive advantage

More than 16 million people are now paying for our products and services globally. Average revenue per direct desktop customer grew 8.4%, and the average number of products per direct desktop customer grew by 1.8%. Early uptake of our new Avast One product was encouraging and illustrates that people are looking for privacy in addition to security.

2

Launching a distinctive new brand and purpose

With our rebrand in September 2021, we sought to pull away from the standard positioning of the cybersecurity industry, to give ourselves the room to innovate beyond pure security and build on our privacy and identity platform. By setting ourselves a higher purpose which addresses wider issues with the digital world, where privacy and protection become fundamental to success, we have started to engage with regulators, policymakers, and wider technology providers to contribute to wider digital strategies.

3

Reimagining great customer experience

After deep research into customer behaviour and expectations, we applied insights to our product development cycle and launched Avast One, our first full platform-based offering for consumers. Taking this new approach allows us to simplify the complexity of multiple security offerings for our users, giving them a plug and play experience for the ultimate protection.

2021 milestones

CEO's report continued

New brand and purpose

Aged just 13, I remember watching the Soviet Union pull the last of its troops out of my home country, then known as Czechoslovakia. This experience brought home to me, vividly, the value of true freedom and the importance of fighting for it in all aspects of our lives.

The arrival of the internet, with its vision of a free, open, and democratic digital world without borders, immediately appealed to me. I saw the huge potential of that open and immediate access to information, commerce, and people worldwide, and how it could underpin the spread of democracy and social freedoms globally.

This technology has truly revolutionised the world in the past three decades, and no more so perhaps than in the past two years. At Avast, we've been working for more than 30 years to keep people safe, but cybercrime continues to evolve and become more sophisticated, hampering people's freedom to make the most of the online world. The pandemic has dramatically changed the world, making our lives more digital and changing our attitudes and behaviours around the internet.

In the past year, extensive research we conducted has informed us that more than 80% of people feel privacy is very important to them, while nearly two-thirds had held back from doing something online for fear of their privacy. With this more intensive technology usage, people are naturally becoming more aware that there is more than their security at risk online.

We used this data and many more such insights to better focus our protections around how people really use technology, and the needs they actually have, so they are better protected from security and privacy threats in this new environment. We also built this philosophy into our daily work and used it to inspire the foundations of our new, future-focused brand, which I am excited to watch flourish in tomorrow's new digital world.

In September, we announced our rigorous commitment to pursuing an expanded, deeper purpose – that of protecting the digital freedoms of all online citizens. Our brand has a fresh new look and tone, to align with our wider mission and to engage with more people on these important digital issues of our time in a relatable, human way. Online security and privacy are complex topics, and it's an important part of our role as a digital protection provider to ensure people get the information as well as the tools they need to feel comfortable and confident online.

Our customers want to reset their relationship with the internet so they have more control over their personal data and own identity. We are developing the tools to help them trust the digital world again, and to help make it a fairer, better place for all.

We are doing this in three main ways:

- A new, free digital protection product: Avast One. We recommitted to providing world-class digital protection for free with the launch of our first security and privacy platform. The all-in-one service combines threat detection, advanced privacy features, and performance-enhancing engine. It removes the complexity of staying safe online to help connected citizens become more digitally confident and engaged.
- Philanthropic funding through the Avast Foundation. We also committed 1% of annual profit to our charitable arm, the Avast Foundation, which is dedicated to enhancing digital freedom by working globally with NGOs, charities, educational institutions, and communities to tackle issues of digital exclusion, remove barriers to digital access, and champion digital citizenship.
- Engaging with industry, policy, and government to lobby for change to the digital world. We partner with organisations like the Coalition Against Stalkerware and No More Ransomware to help plan and deliver a better digital future for all, by tackling systemic issues. We advocate for digital freedom with these stakeholders, by serving as a resource and adviser on critical topics like online surveillance, privacy, AI, and encryption technologies to educate and ensure people-first policymaking.

> "Access to safe internet usage is increasingly becoming a critical digital right for all
>
> **Ondrej Vlcek**
> Chief Executive Officer

CEO's report continued

Innovating to meet and exceed customer needs

The pandemic also made it clear that the internet was no longer optional. But not only was it not optional, it was not the safest place for everyone. Our customers were increasingly telling us they wanted to protect their privacy, money, and identities – in addition to their devices – but they didn't want to have to be an expert to understand how to get it. So we created our new easy-to-use protection platform, Avast One, which combines security, privacy and identity protection, and performance.

With Avast One, we are reinventing the category of digital protection by providing an integrated privacy and security service that is available to everyone for free. For those who want even more comprehensive protection for more devices, we have premium protection options available. Avast One is available in three different versions: Essential, the most comprehensive free service available today; and premium services Avast One Individual and Avast One Family. All Avast One versions work across the devices in a household and in your pocket, and are available for Windows, macOS, Android, and iOS.

Avast One

We're delighted that it has already been awarded Editors' Choice by PCMag and TechRadar, and received high star ratings among other top US, UK, and German reviewer titles. Our users are already reporting positively on the experience of using Avast One, while the free version, with its 20GB monthly VPN allowance, is proving extremely popular. We are continuing to add further new privacy features to the whole platform in 2022, to ensure it remains a market leader and delivers great value.

Going beyond privacy to protect digital identity

Our identity vision is for a truly inclusive, global digital society. With the creation of a dedicated team last year, Avast invested in extending our robust privacy offerings to encompass holistic digital identity.

We will build a reusable digital identity system which will bridge from the existing digital world, where identities and data are stored in a centralised or federated model, to the new digital world, where people are in control of their data and set the rules of engagement for online providers. This approach removes the friction and frustration of online transactions both for the user and for the business, guarantees safety and privacy for users, and empowers people to engage more deeply in today's rapidly developing digital economy. It can also be tied to real-world identity to facilitate enrolment and authentication for services.

To accelerate our vision, we acquired Evernym in late 2021. Evernym is a recognised leader and innovator in this area and its technology and expertise complements our more than 30 years' experience in security and privacy as we focus on delivering our next-generation identity products. At the end of the day, we cannot truly have digital freedom if we cannot trust our digital environment, and rebuilding faith in the internet is a halo effect of ensuring technical rigour and integrity in our approach to digital privacy and identity.

CEO's report continued

Growth through M&A

In 2021, we made the significant announcement that Avast would merge with NortonLifeLock in 2022. This is not a decision we took lightly, having built Avast for more than three decades to become one of the world's largest consumer cybersecurity companies. We believe it's the right next step in our journey, giving us access to extensive R&D resources to augment our established technical expertise in cybersecurity, privacy, and AI.

Together, the organisations would create a new Company focused on accelerating the development of cybersafety technologies. We would be able to capitalise on the family of existing brands, technical skill sets and expertise, and combined innovation to deliver substantial benefits to consumers, shareholders, and other stakeholders. The business would have combined revenues of approximately $3.5 billion (based on the combined results for the year ended 2 April 2021 for NortonLifeLock and 31 December 2020 for Avast), an enlarged base of over 500 million users and approximately 40 million direct customers, and a common vision to empower digital freedom for everyone.

The Merger would combine Avast's strength in privacy with NortonLifeLock's strength in identity, to create a compelling and complementary product portfolio beyond core security. This would unlock opportunities to cross-sell a richer cybersafety offering to the combined Company's users, while continuing to maintain core cybersafety functionality to free users.

Mobilising our people

Recognising the crucial role our people play in our success, we continued to place significant emphasis on the importance of creating a Company culture which accelerates growth, while building an organisation where our people love to work. Our ways of working are underpinned by the 5 A's Principles.

5 A's Principles

1. Adult relationships based on mutual trust, transparency, and maturity
2. Accountability
3. Achievement-focus
4. Autonomy
5. Asynchronous working

Our future

As I look ahead at 2022 and our future alongside NortonLifeLock, I am proud of our history and all that we have achieved to date. I am excited by the potential of the new combined Company and pursuing our mission to enable digital freedom for everyone with greater resources and skills. Together, Avastians have achieved significant milestones for the Company and, more widely, for the industry. As we set out on our new trajectory, we remain committed to delivering the best online protections for all our users, today and in the future.

> "I want to say thank you to all Avast employees for their dedication and passion over the years. Avast would not be the same without the contributions of every single one of you

Ondrej Vlcek
Chief Executive Officer

Our technology

The start of a new adventure as the need for digital protection continues apace

"The internet is growing up, and as technology innovation accelerates, it's clear our job will never be done

Eduard Kucera and Pavel Baudis
Avast Founders

1988

When Avast was established at the Research Institute for Mathematical Machines in Prague 34 years ago, its founders did not foresee the journey they would take. From the Czech Republic to the world; from online security to digital privacy, performance, and identity; from subscription-only products to award-winning free protection for all; and from a small startup to a FTSE 100 company. Throughout, their leadership and passion have shaped the culture and ethos of Avast into the successful organisation it is today.

Milestones

- Established in Prague in 1988
- Launched Avast Free Antivirus in 2001
- Appointed global CEO Vince Steckler in 2009
- CVC Capital Partners became a strategic investor in 2014
- Acquired AVG Technologies in 2016
- Acquired CCleaner in 2017
- IPO in 2018 on the London Stock Exchange
- Appointed CEO Ondrej Vlcek in 2019
- Merger with NortonLifeLock in 2022

Today

In 2022, Avast will enter a new chapter in its history. As innovators, pioneers, and hopeful visionaries for a better, digital future, we aim to continually improve how we serve our customers and all internet users. In addition to developing progressive products that meet people's ever-changing needs, we are focused on contributing our expertise to shape the digital landscape to be a fairer, freer, more equitable place for all.

Our technology continued

Our cybersecurity technology is focused on innovating for a post-pandemic world

With the ever-changing threat landscape as internet use continues to be high despite many countries beginning to relax pandemic restrictions, and the increasing difficulty of defending half a billion users, our expert teams have developed new innovative ways to understand these challenges and protect our users.

Our 2022 technology aspirations and objectives

Security
We are continuing to build our threat defence capabilities through joining organisations to strengthen our threat intelligence such as the Cyber Threat Alliance, a non-profit organisation working together to share threat intelligence for a stronger global security ecosystem, and Microsoft Intelligent Security Association, to integrate their solutions to protect against the world's threats.

Privacy
Through a new partnership with Generali Global Assistance, we are continuing to strengthen our privacy defences, focusing on the increasing amount of scams that are targeting people of all ages but specifically older adults.

AI
We will continue to research in tandem with our academic partners on issues related to processing large-scale and dynamically created machine data.

Identity
Our identity vision is for a truly inclusive, global digital society. Our services will bridge from the existing digital world, where identities and data are stored in a centralised or federated model, to the new digital world, where people are in control of their data and set the rules of engagement for online providers. We think of this as decentralising identity, meaning individuals retain their personal information while being able to digitally interact with each other in a trustworthy manner.

“We are tracking increasingly complex threats that emerge to strengthen Avast's protection capabilities and reputation as a leader and collaborator

Michal Pechoucek
Chief Technology Officer

Our technology continued

Pioneering technology breakthroughs

Our global user base

provides immense quantities of real-time security data shared by hundreds of millions of devices across the globe, allowing us to detect and defend against varied and highly sophisticated cyberattacks.

A large operational cloud infrastructure

provides our world-class Threat Labs operation with the scale, speed, and accuracy to quickly discover, classify, and protect against any new threat.

A robust protection engine

with six layers of defence ensures that our users remain protected at all times.

AI and machine-learning technologies

operating at scale process the security data from our user base to eliminate known threats and identify unknown threats.

A dedicated team

of data scientists, threat researchers, and machine-learning experts focused on delivering market-leading security for homes and businesses.

Rising threats

Number of new malware samples processed in Avast's virus lab by year:

192m
2017

203m
2018 (+6% YoY)

379m
2019 (+86% YoY)

503m
2020 (+32% YoY)

578m
2021 (+15% YoY)

Sweet success

Avast has set up honeypots in over 75 countries worldwide

2,200+
honeypot instances

2m
unique attacker IP addresses each month on average

1.2bn+
attacks each month on average

Our technology continued

Powered by technical excellence to deliver technical breakthroughs

A global network

10,114 servers
serving as a global threat detection network

59.8 petabytes
of data transmitted monthly

734 Gbps
peak download speed

502,000
simultaneous VPN connections

3.94 trillion
URLs analysed per year

A look inside our security engine

Machine learning Cloud Machine learning and cloud

1 **Web Shield**
embedded in our security products, analyses URLs to protect against phishing, malware, and other web-based threats.

2 **Static Scanner**
uses algorithms and a host of other techniques to check all executable code to classify files as benign or malicious.

3 **Emulators**
replicate the real PC environment to test for any previously unknown zero-day malware or new variants of known exploits, and stop malicious execution.

4 **DeepScreen**
uses machine learning within a safe sandbox clone of the operating system to identify any similarities with known malware families.

5 **CyberCapture**
sends unusual and potentially harmful files to a cloud-based clean room for analysis with advanced algorithms. More than 10,000 such files are processed every day.

6 **Behaviour Shield**
identifies any unusual behaviour or suspicious activities on a device and prevents them doing any harm. This shield was instrumental in stopping WannaCry in 2017.

Our technology continued

Expanding digital freedom for security and privacy

In the past two years, we have seen how quickly our needs online have changed and how reliant we have become on the internet to socialise, to work, and to relax, yet the digital world as it currently operates is not one that works for everyone.

What started as a wide-open, democratic, and free vision for a digital world has become compromised by people's growing unease around security and privacy threats to their digital identity. While people are reluctant to limit their online activities, sharing data online, making transactions, and worrying about phishing emails are activities that make them feel vulnerable, but they struggle to know what to do about it.

We believe that everybody has a right to foundational security and privacy through their digital freedom. Seeing that the world was shifting rapidly from the days when we were only worried about our computers getting viruses, people were increasingly telling us they wanted to protect their privacy, money, and identities – in addition to their devices. People wanted all the protection and performance they needed, but they didn't want to have to be an expert to understand how to get it.

Listening to the needs of our users, we decided to create a platform-based product to fit the ever-changing needs of today's internet users. In September 2021, we introduced Avast One, an award-winning, integrated service that delivers personalised, comprehensive cross-platform protection to increase privacy, connect securely, speed up devices, and stay safe from viruses.

“People want to protect their complete online identity, to control what they choose to share and who has access to that personal information

Charles Walton
Senior Vice President and General Manager, Identity

Our technology continued

Understanding personal data privacy and AI

In November 2021, the role of AI in the future of consumer cybersecurity and online privacy protection was the focus of the third annual CyberSec&AI Connected conference, organised with our partners at Czech Technical University in Prague (CTU) and the Technical University of Darmstadt's Private AI Collaborative Research Institute.

Differential privacy was discussed by several speakers throughout the conference panel discussions. The topic was first brought up as a key pillar to responsible data use. The discussion then led to understanding how to implement it in practice, as computing challenges can make it difficult.

The main panel discussion centred around the role that AI will play in the future of personal data privacy. The panellists discussed how quantifying risk is more of an art than a science. The industry is in the early days of understanding privacy as a science, and the more scientific the approach and designs that can be accomplished, the better the industry will be at keeping privacy promises.

"Cyberattacks can be significantly amplified by AI, and therefore target people, their private data, and digital identities more widely

Vita Santrucek
Chief Product Officer

CFO's report

Maintained high levels of profitability

In line with our expectations, the Group has achieved good growth and maintained high levels of profitability.

Group overview

The Group has delivered a good set of results with strong revenue organic growth[1] and high levels of profitability and cash generation. The Group's billings of $948.4m were up 4.3% on an organic basis, and up 2.9% at actual rates. The Group's revenue of $941.1m was up 7.5% on an organic basis, an increase of 5.4% at actual rates. The Consumer and SMB segments contributed $889.5m and $51.6m respectively to Group's revenue.

"Avast delivered strong revenue organic growth and high levels of profitability

Stuart Simpson
Interim Chief Financial Officer

CFO's report continued

The Group's billings increased by $26.4m to $948.4m in the year ended 31 December 2021, driven by the core Consumer Direct business. This represented a 2.9% increase at actual rates and organic growth of 4.3%. Subscription billings represented 88.4% of the Group's total billings in FY 2021, excluding Family Safety (FY2020: 87.3%).

The Group's revenue increased by $48.2m to $941.1m in the year ended 31 December 2021, which represents a 5.4% increase at actual rates and organic growth of 7.5%. Revenue included $458.8m from the release of prior-period deferred revenue. The deferred revenue balance at the end of the period was $503.6m, comprising $468.6m that will be recognised within 12 months of the balance sheet date. This compares with $496.5m, of which $458.8m was to be recognised within 12 months, at the same time last year. The average subscription length in the year ended 31 December 2021 was 13 months, which represents a slight YoY decrease (FY2020: 14 months), reflecting the Group's transition from multi-year towards single-year subscriptions.

Adjusted EBITDA increased 4.5% to $517.6m, resulting in an adjusted EBITDA margin[2] of 55.0%. This is in line with full-year guidance of broadly flat margin YoY (FY2020: 55.5%).

The reported operating profit increased by $59.2m to $394.6m. The increase was driven by higher reported revenue of $48.2m, lower amortisation of acquisition intangibles of $43.1m, and lower exceptional items of $18.2m, partially offset by higher costs of share-based payments of $(24.4)m and increase in other costs of $(25.9)m, driven primarily by higher investment into sales and marketing.

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

$m	FY 2021	FY 2020	Change %	Change % (excluding FX)[3]
Billings	**948.4**	**922.0**	**2.9**	**1.0**
Consumer	896.3	873.6	2.6	0.8
Acquisitions	0.1	–	n/a	n/a
Direct (excl. Acquisitions)	818.4	759.3	7.8	5.8
Disposal Family Safety mobile business[4]	–	27.0	n/a	n/a
Discontinued Business[5]	2.2	4.2	(47.7)	(48.4)
Indirect (excl. Acquisition, Disposal, and Discontinued Business)	75.7	83.1	(8.9)	(9.6)
SMB	52.1	48.4	7.5	5.2
Billings excl. Acquisitions, Disposals, and Discontinued Business	**946.1**	**890.8**	**6.2**	**4.3**
Revenue	**941.1**	**892.9**	**5.4**	**3.9**
Consumer	889.5	844.8	5.3	3.8
Acquisitions	0.1	–	n/a	n/a
Direct (excl. acquisitions)	811.2	730.1	11.1	9.4
Disposal Family Safety mobile business	–	27.0	n/a	n/a
Discontinued Business	2.2	5.1	(56.9)	(57.4)
Indirect (excl. Acquisition, Disposal, and Discontinued Business)	76.0	82.6	(8.0)	(8.7)
SMB	51.6	48.0	7.4	6.0
Revenue excl. Acquisitions, Disposals, and Discontinued Business	**938.8**	**860.7**	**9.1**	**7.5**

$948.4m
2021 billings

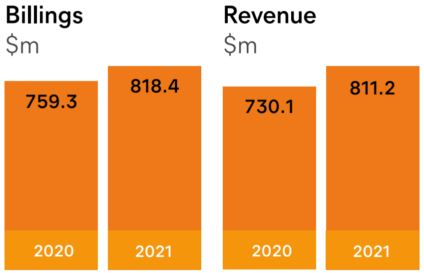
$941.1m
2021 revenue

$517.6m
adjusted EBITDA

CFO's report continued

Business unit performance

Consumer Direct



Growth

Actual rates

+7.8%

Organic

+5.8%

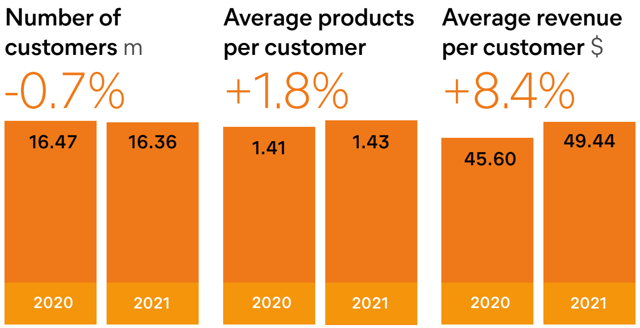
Growth

Actual rates

+11.1%

Organic

+9.4%



Trading performance

- The core Consumer Direct business, which comprises both desktop and mobile subscriptions, performed broadly in line with expectations. Billings of $818.4m were up 5.8% on an organic basis and up 7.8% at actual rates. The performance reflected a strong comparator period due to COVID-19 lockdown. Underpinned by the prior year's billings performance, revenue of $811.2m grew 9.4% on an organic basis, with actual rates up 11.1%.
- Consumer Direct operating KPIs tracked positively. Average Revenue Per Customer (ARPC)[8] increased 8.4% to $49.44. Average Products Per Customer (APPC)[7] increased 1.8% to 1.43. While customer numbers have increased in some geographies, the End of period customers[6] remained broadly flat versus prior year, at 16.36m. This reflects the emphasis on ARPC growth during the period and transition to the new model of customer proposition, providing all-in-one functionality under Avast One subscription. This limits the cross-sell opportunity and puts focus on customer retention.
- As the competitive market becomes more dynamic, renewed investment focus has been placed on marketing and other top-of-the-funnel initiatives to drive customer engagement, acquisition, and retention activities, which require higher levels of margin investment over the medium term.

Users and customer retention

- Operationally, our core business can be characterised by various metrics. The most important metrics that directly impact Revenue are Customer Count and ARPC. The general objective of the commercial team is to balance these two metrics as they see fit to deliver best possible results. In H2 2021, our main focus was on the ARPC metric, which grew 8.4%. This was partially driven by pricing optimisations, which temporarily negatively affected the Customer Count metric.
- In addition to that, in H2 2021 we released a new product called Avast One. This new product brought a slightly modified business model. In the original model, growth of the business was focused on our ability to do up-sells (both free-to-paid and paid-to-paid), as well as cross-sells. In the Avast One model, the cross-sell opportunity is limited, because the customer proposition consists in providing all-in-one functionality as part of the unified Avast One subscription. At the same time, more emphasis is put on retention, where the stronger value proposition of the integrated offering is expected to limit the number of customers who leave us. This is further underlined by the fact that Avast One brought significant improvements in customer satisfaction by reducing the number of up-sell messages (especially those in Avast Essential – the free tier). This put additional pressure on the Customer Count metric in Q4.
- It should also be noted that we don't consider paid customer churn as critical as perhaps some of the other subscription businesses do. This is because a large part of our churning paid customers don't actually leave the Avast family – they just default back to the basic free product. That is, they count as churners but are still staying with us as free users, which allows us to further communicate with them in the future and potentially win them back as paid customers again.
- Avast has continued to increase investment in improving retention, through building the customer intelligence capability to deliver greater value of retained customers. The team has expanded to cover the Customer Success function, which includes all customer contacts, in order to build stronger relationships with the customer base.

CFO's report continued

Product development

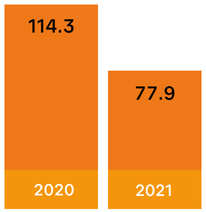
- Avast has continued to strengthen its privacy offering. In November, we launched a free privacy and security enhancing browser extension. Avast Online Security & Privacy combines effective online protection with our latest Privacy Advisor. Some of the features included are a step-by-step tutorial on how to adjust and improve the privacy settings on popular platforms such as Google, Facebook, and LinkedIn, an anti-tracking feature that prevents websites and advertisers from tracking user data and online behaviour, and a safe search feature that provides users with safer search engine results by highlighting those that are malicious or safe with a red or green status icon.
- The Privacy Threat Labs team has partnered with Diffbot, a developer of public APIs for extracting data from webpages. Through this collaboration, the team is looking to learn more about trends in digital privacy and analyse websites' privacy practices.
- Avast AntiTrack has undergone its first major product review, and received an excellent 4/5 star rating from PCMag.
- Avast Free Antivirus was a multiple award winner, including AV-TEST Home users protection Top Product and SE Labs Home anti-malware protection AAA rating.

Avast One

- In September, Avast launched its new innovative integrated solution Avast One, which combines the Company's award-winning antivirus technology with a firewall and software updater feature to protect people from using outdated software and supply chain attacks, extensive privacy protection in the form of a VPN for regular browsing use, and identity protection through our data breach monitoring service. In the first phase, the product was released in the United States, Canada, and the United Kingdom, as well as Australia.
- Although new to the market, Avast One is already gaining recognition with key product reviewers worldwide, having received the Editor's Choice award from TechRadar in the United Kingdom and PC Mag in the United States.
- With the free Avast One Essential offering, users get protection from cyberthreats such as ransomware, spyware, and phishing attacks; security from malicious incoming connections via its firewall; and a limited VPN. The paid-for Avast One Individual and Avast One Family products have additional features, including protection from Address Resolution Protocol (ARP) spoofing, Domain Name System (DNS) hijacking, and webcam spy attacks. It also offers data breach monitoring to allow people and their families to see if the passwords of their online accounts have been exposed and provides them with unlimited VPN services. Avast One users can also significantly improve their PC performance with a Disk Cleaner that allows them to find and clean redundant junk files to keep their device clean.
- Rollout has been supported by significant marketing investment, with spending continuing in FY 2022 to expand awareness around the Company's new leadership product, which is expected to materially contribute to billings only in 2022.

Consumer Indirect

Billings
$m

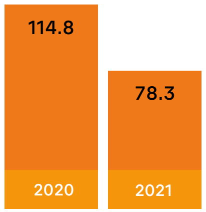


Growth

Actual rates
-31.9%

Organic
-9.6%

Revenue
$m



Growth

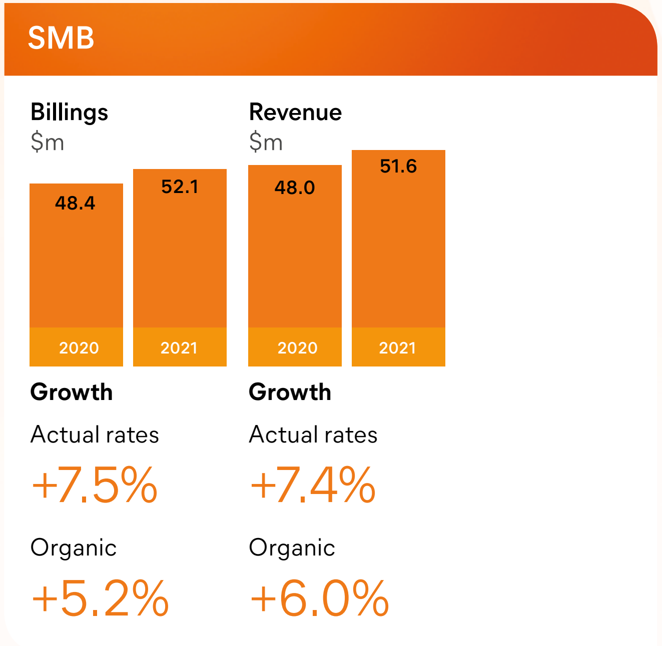
Actual rates
-31.8%

Organic
-8.7%

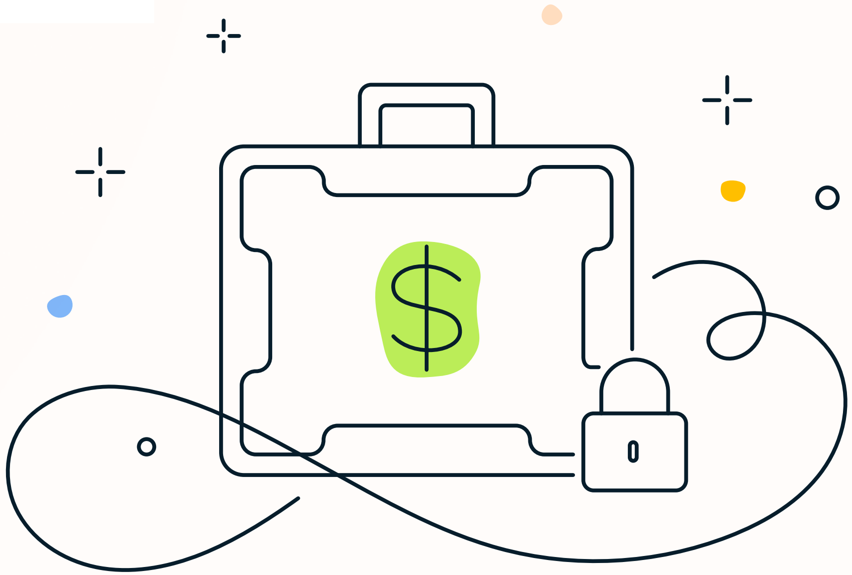
- In the Consumer Indirect unit, billings excluding Discontinued Business of $75.7m were down 9.6% on an organic basis and down 8.9% at actual rates. Revenue excluding Discontinued Business of $76.1m declined 8.7% on an organic basis, with actual rates down 8.0%. The rate of decline was higher than the guidance of mid-single-digit organic decline due to continued challenging trends in our remaining Partner business and lower number of new Chrome installations.

CFO's report continued

- Avast completed the disposal of the Family Safety mobile business on 16 April, recognising a gain of $47.0m. Total selling price was $85.8m and comprised primarily cash consideration, 1.5m shares of common stock of Smith Micro and earn-out (see Note 16). Billings and revenue until close of the transaction have been included in the calculation of organic growth, together with comparable periods in the baseline.
- Avast Secure Browser delivered strong double-digit growth in the quarter, adding more than 2m active users, driven by ongoing improvements to customer engagement and improved feature releases such as an embedded VPN and an add-on store to help users personalise their browsers.
- In October, heralding further diversification in subscription revenue from the Avast Secure Browser, Avast launched a premium version of its free, secure, and private browser. Avast Browser PRO, a Chromium-based browser for Windows PCs, includes an integrated VPN and advanced Adblock technology for people who need a lightweight but comprehensive suite of security, privacy, and performance services.
- Avast continued its effort to expand marketing support for Avast Secure Browser and raise its product brand awareness. As the market learns to better understand the endemic security and privacy benefits of the platform, the Company's content and performance marketing channels in the open market become more effective.
- In December 2021, Avast expanded into identity, with the acquisition of Evernym, a recognised leader in this area. Evernym's ground-breaking approach to digital identity provides consumers with autonomy over their online presence by keeping their personal information with them and out of centralised databases. Avast will be incorporating Evernym technology into its future services for consumer-managed credentials. As the ongoing billings of Evernym legacy business are fully business-to-business, it has been included in the Consumer Indirect subsegment.



- SMB (small and medium businesses) Billings of $52.1m were up 5.2% on an organic basis and up 7.5% at actual rates. Revenue of $51.6m was up 6.0% on an organic basis, with actual rates up 7.4%, in line with the guidance of mid single-digit organic revenue growth.
- Avast continued to enrich its SMB offering through product innovation, notably through the launch of the new Avast Business Hub, a state-of-the-art integrated security platform. In November, a new, free Network Discovery tool was launched that aims to help small and medium businesses, Managed Service Providers (MSPs) and Value-Added Resellers (VARs) gain full network visibility.
- In October, Avast Business Antivirus Pro Plus was certified for Advanced Threat Protection Test – Enterprise by AV-Comparatives, and in December it was named Top Product by AV-Test, earning top scores on protection, performance, and usability.



CFO's report continued

Costs

$m	FY 2021	FY 2020	Change	Change %
Cost of revenues	**(149.5)**	**(196.0)**	**46.5**	**23.7**
Share-based payments (incl. employer's costs)	2.4	0.8	1.6	Fav[9]
Amortisation of acquisition intangible assets	22.3	65.3	(43.0)	(65.9)
Depreciation and amortisation (excl. amortisation of acquisition intangible assets)	9.7	9.0	0.7	8.0
Exceptional items	0.0	3.4	(3.4)	(99.2)
Adjusted cost of revenues (excluding D&A)	**(115.1)**	**(117.5)**	**2.4**	**2.0**

Adjusting for disposal of the Family Safety mobile business and Jumpshot's costs in 2020 before wind-down, the increase in adjusted cost of revenues is $(4.9)m. The increase was driven by $(1.4)m higher sales commissions driven by revenue, investment into customer support of $(4.0)m, partially offset by FX impact and other savings of $0.5m. Adjusted Cost of Revenues represent the Group's cost of revenues adjusted for depreciation and amortisation charges, share-based payments charges, and exceptional items. Exceptional items in cost of revenues in 2020 related to Jumpshot wind-down costs.

The Group's reported Cost of revenues decreased by $46.5m to $(149.5m) primarily due to the lower amortisation of acquisition intangibles, as the significant acquisition intangibles from AVG acquisition are now becoming fully amortised. The amortisation of acquisition intangibles represents intangible assets acquired through business combinations.

$m	FY 2021	FY 2020	Change	Change %
Operating costs	**(397.0)**	**(361.5)**	**(35.5)**	**(9.8)**
Share-based payments (incl. employer's costs)	44.7	21.8	22.9	Fav
Depreciation and amortisation (excl. amortisation of acquisition intangible assets)	11.7	12.8	(1.1)	(8.2)
Amortisation of acquisition intangible assets	0.5	0.5	(0.0)	(6.3)
Exceptional items	31.7	46.5	(14.8)	(31.8)
Adjusted operating costs (excluding D&A)	**(308.4)**	**(279.8)**	**(28.6)**	**(10.2)**

The increase in Group's Adjusted Operating costs excluding the impact of the disposal of the Family Safety mobile business and Jumpshot's costs in 2020 before wind-down is $(47.8)m. This increase was driven primarily by investment into sales and marketing costs of $(42.5)m, related primarily to the launch of the Avast new brand identity and the new flagship product Avast One. Additional costs increase relates to investment into information security and research and development of $(5.9)m, partially offset by other savings, including FX impact of $0.6m. Adjusted Operating costs represent the Group's operating costs adjusted for depreciation and amortisation charges, share-based payments charges, and exceptional items.

The increase in the Group's reported Operating costs of $(35.5)m, from $(361.5)m to $(397.0)m, reflects the increase in Adjusted operating costs driven by marketing investment, as described above, of $(28.6)m and increase in share-based payments costs of $(22.9)m, resulting from Restricted Stock Units (RSUs) granted to all employees in the beginning of 2021 and the scheme modification arising from changes to the arrangements in connection with the proposed Merger with NortonLifeLock described in Note 2. This has been partly offset by lower exceptional items of $14.8m and lower depreciation and amortisation expense of $1.1m.

Exceptional items

Exceptional items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group. Exceptional items are identified by virtue of their size, nature, or incidence, so as to facilitate comparison with prior periods and to assess underlying trends in the financial performance of the Group and its reportable segments. In determining whether an event or transaction is exceptional, management considers quantitative as well as qualitative factors. Once an item is disclosed as exceptional, it will remain exceptional through completion of the event or programme. Examples of such items include but are not restricted to: legal and advisory costs related to the proposed Merger, acquisition, disposals (including gain on disposal), integration, costs incurred due to discontinuation of business, and COVID-19 donations.

CFO's report continued

During the year ended 31 December 2021, the Group incurred legal, professional, and impairment costs of $4.0m in relation to the disposal of Family Safety mobile business (see Note 16), legal and professional costs of $2.6m in relation to the acquisition of Evernym (see Note 15), exceptional impairment and onerous contract provision costs of $7.5m related to data servers necessary to remain in operating condition due to an ongoing regulatory investigation, and $9.2m of personnel, legal and consultancy costs related to the proposed Merger with NortonLifeLock Inc. Personnel costs related to the proposed Merger of $2.6m comprise primarily retention bonuses, which are accrued over the retention period. The remaining $8.4m of exceptional items relates to costs of restructuring programme and the change in provisions related to regulatory investigation and contract indemnity claims relating to Jumpshot (see Note 25). The restructuring programme focused on transformation of operations, primarily in the commercial area, will be completed in 2022.

Out of a total $31.7m of exceptional items included in operating profit, $3.2m was included in the cash flow from investing activities and $5.5m of impairment charges were non-cash items. Out of the remaining $23.0m exceptional items that entered operating cash flows, $14.9m were not paid before year end and included in liabilities.

On top of exceptional items in operating profit, the Group recognised an exceptional gain of $47.0m in relation to the disposal of the Family Safety mobile business, which was included in the cash flows from investing activities.

Exceptional items in FY 2020 consisted primarily of donations on R&D initiatives related to COVID-19 and personnel and non-personnel costs related to the Jumpshot wind-down (see Note 6 Exceptional items). Related cash flows have been included in the net cash flows from operating activities.

Finance income and expense

Adjusted finance expense on a net basis was $(23.5)m in FY 2021, $13.5m lower compared with $(37.0)m in FY 2020. The decrease in adjusted finance expense is related to lower loan interest costs of $8.4m resulting from the repayment of debt of $200m on top of mandatory repayments in 2020 and refinancing in H1 2021, one-off realised FX gain on repayment of prior loan of $5.6m, partially offset by other FX and other finance costs of $(0.5)m.

The Group's reported net finance costs decreased by $107.8m, resulting in income of $8.7m in FY 2021 caused by the decrease in adjusted finance costs described above and significant unrealised FX gains from the Euro denominated debt compared to losses generated in the prior year.

$m	FY 2021	FY 2020	Change	Change %
Finance income and expenses, net	**8.7**	**(99.1)**	**107.8**	**Fav**
Unrealised FX (gain)/loss on EUR tranche of bank loan	(32.2)	62.1	(94.3)	Unf
Adjusted finance income and expenses, net	**(23.5)**	**(37.0)**	**13.5**	**36.5**

Income tax

In the year ended 31 December 2021, the Group reported an income tax expense of $(101.9)m, compared with the income tax expense of $(66.7)m in the year ended 31 December 2020.

Income tax was impacted by the tax benefit from the FX movements on intercompany loans arising in the statutory accounts of the subsidiary concerned of $1.5m (tax expense of $4.4m in FY 2020).

The tax impact of IP transfer represents amortisation of the net tax impact of the transfer of AVG E-comm web shop to Avast Software B.V. ('Avast BV') on 1 May 2018 ('IP transfer'), when the former Dutch AVG business of Avast BV (including the web shop) was sold to Avast Software s.r.o. The total net impact of this transaction was $94.4m, which was treated as an exceptional item in 2018. The transferred IP is amortised for tax purposes over 15 years.

The tax impact of disposal of a business operations represents a tax expense related to disposal of the Family Safety mobile business of $(16.7)m.

The tax impact of other adjusted items represents the tax impact of amortisation of acquisition intangibles or exceptional items, which have been calculated applying the tax rate that the Group determined to be applicable to the relevant item, and other adjusted items.

Adjusted Income tax is $(83.3)m for FY 2021, resulting in an adjusted effective tax rate of 17.6% (FY 2020: 17.5%). The Adjusted effective tax rate is the Adjusted Income tax percentage of Adjusted Profit before tax of $472.7m (defined as Adjusted Net Income of $389.4m before the deduction of Adjusted Income tax of $(83.3)m).

CFO's report continued

$m	FY 2021	FY 2020	Change	Change %
Income tax	**(101.9)**	**(66.7)**	**(35.2)**	**(52.8)**
Tax impact of FX difference on intercompany loans	(1.5)	4.4	(5.9)	Unf
Tax impact of IP transfer	6.3	6.3	0.0	0.0
Tax impact of disposal of a business operations	16.7	–	16.7	Fav
Tax impact of donations	–	(4.7)	4.7	Fav
Tax impact on adjusted items	(2.9)	(15.7)	12.8	81.5
Adjusted income tax	**(83.3)**	**(76.4)**	**(6.9)**	**(9.1)**

Cash flow

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

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

$m	FY 2021	FY 2020	Change	Change %
Adjusted cash EBITDA	**526.1**	**522.7**	**3.4**	**0.7**
Net change in working capital (excl. change in deferred revenue and deferred COGS)	26.3	19.9	6.4	32.2
Capex	(13.3)	(15.1)	1.8	11.9
Cash tax	(61.8)	(52.0)	(9.8)	(18.8)
COVID-19 donations	–	(24.5)	24.5	Fav
Unlevered free cash flow	**477.4**	**451.1**	**26.3**	**5.8**
Cash interest	(18.7)	(27.5)	8.8	32.0
Lease repayments	(8.6)	(9.2)	0.6	6.5
Levered free cash flow	**450.1**	**414.3**	**35.8**	**8.6**
Cash conversion[10]	**91%**	**86%**		

Favourable change in working capital in FY 2021 reflects favourable timing of payments (spend heavily weighted towards Q4), including exceptional items included in liabilities at year end, which is expected to partially reverse in Q1 2022.

Capex investment represents only 1.4% of Revenue in FY 2021. That represents a decrease versus 2020 (FY 2020: 1.7%), driven by ongoing migration of the Group's systems and infrastructure from on-premises to the public cloud.

Cash interest paid included in the calculation of Unlevered Free Cash Flow of $(18.7)m includes $(4.3)m of interest netted by the bank at the loan refinancing in H1 2021, which is included in the row 'Proceeds from borrowings'. Lease repayments include both interest and principal.

The increase in the adjusted cash tax is driven by the Czech Republic true-up system, where a company is obliged to make quarterly income tax advances based on its last known tax liability. Upon filing a tax return, tax advances paid during the year for which the tax return is filed are offset against the final tax liability. In H1 2020, the Group received a significant refund related to previous periods. No such refund was received in 2021.

$m	FY 2021	FY 2020	Change	Change %
Net cash flows from operating activities	469.4	456.5	12.9	2.8
Net cash used in investing activities	(0.9)	(16.4)	15.5	94.5
Net cash flows from financing activities	**(204.6)**	**(484.2)**	**279.6**	**57.7**

CFO's report continued

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

$m	FY 2021	FY 2020	Change	Change %
Adjusted cash EBITDA	**526.1**	**522.7**	**3.4**	**0.7**
Net change in working capital (excl. change in deferred revenue and deferred COGS)	26.3	19.9	6.4	32.2
Cash tax	(61.8)	(52.0)	(9.8)	(18.8)
Movement of provisions and allowances	(1.1)	14.5	(15.6)	Unf
Exceptional items included in operating cash flows	(23.0)	(49.9)	26.9	53.9
Employer's costs on share-based payments	(1.1)	(0.8)	(0.3)	(37.5)
Realised FX gains/ (losses) and other non-cash items	4.0	2.0	2.0	Fav
Net cash flows from operating activities	**469.4**	**456.5**	**12.9**	**2.8**

The Group's net cash flow from operating activities increased by $12.9m, primarily due to lower exceptional costs included in operating cash flows of $26.9m, higher billings of $26.4m, positive impact of working capital movement (excl. change in deferrals) of $6.4m offset by higher cash tax of $(9.8)m, increase in Adjusted costs of $(26.2)m, and unfavourable impact of movement in provisions and other of $(10.8)m.

The Group's net cash outflow from investing activities of $(0.9)m included net proceeds from disposal of the Family Safety mobile business of $62.4m (additional 1.5m shares of common stock of Smith Micro were included in total consideration received; see Note 16), capex investment of $(13.3)m, settlement of contingent consideration related to Tenta acquisition of $(0.7)m, consideration paid for Evernym acquisition of $(49.4)m (see Note 15), and interest received of $0.2m. The Group's net cash outflow from investing activities in FY2020 of $(16.4)m comprised capex of $(15.1)m, settlement of contingent consideration related to Inloop and Tenta acquisitions of $(3.9)m, TrackOFF holdback consideration release of $(0.8)m, contingent consideration received for disposal of Managed Workplace of $3.0m, and interest received of $0.4m.

The Group's net cash outflow from financing activities includes $(115.4)m final dividend paid in respect of 2020, $(49.6)m interim dividend paid in respect of 2021, net proceeds from loan refinancing in H1 of $6.6m, mandatory loan repayment of $(31.3)m, transaction costs paid in relation to refinancing of $(2.7)m, interest paid of $(14.3)m, lease repayments of $(8.6)m, and proceeds from the exercise of options of $10.7m. Net proceeds from loan refinancing consist of repayment of old loan of $(827.6)m, new loan drawn of $843.6m, portion of transaction costs related to borrowings deducted by bank of $(5.0)m, and portion of cash interest deducted by bank of $(4.3)m. The Group's net cash outflow from financing activities in FY 2020 included $(105.4)m final dividend paid in respect of 2019, $(49.3)m interim dividend paid in respect of 2020, $(200)m voluntary repayment of borrowings, $(61.9)m mandatory repayment of borrowings, interest paid of $(27.5)m, lease repayments of $(9.3)m, proceeds from the exercise of options of $34.0m, and net proceeds from transactions with non-controlling interest $(64.8)m.

CFO's report continued

Financing

On 22 March 2021, the Group successfully completed a refinancing of its debt, decreasing the margin on both tranches by 25bps and extending the repayment period a further five years from the prior expiry date to March 2028. The new term loan was drawn with a USD and EUR tranche of $480m and €300m respectively (see Note 27 Term Loan). As of 31 December 2021, the total Gross debt[11] of the Group was $841.6m and the total Net debt was $412.5m. The decrease in gross debt since 31 December 2020 is attributable to the repayment of old loan of $(827.6)m, new loan drawn of $843.6m, quarterly repayment of borrowings of $(31.3)m, decrease in lease liabilities of $(11.9)m, and a positive unrealised FX gain of $(32.2)m on the EUR tranche of the loan.

$m	31 December 2021	31 December 2020	Margin
USD tranche principal	462.0	113.8	USD LIBOR plus 2.00%
EUR tranche principal	327.0	722.7	EURIBOR plus 2.00%
Revolver/ Overdraft	–	–	USD LIBOR plus 2.00%
Lease liabilities	52.6	64.5	
Gross debt	**841.6**	**901.0**	
Cash and cash equivalents	(429.0)	(175.4)	
Net debt	**412.5**	**725.6**	
Net debt/LTM Adjusted EBITDA	0.8x	1.5x	

Principal exchange rates applied

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

($:1.00)	FY 2021 average	FY 2020 average
AUD	0.7527	0.6876
BRL	0.1866	0.1975
CAD	0.7981	0.7444
CHF	1.0975	1.0624
CZK	0.0462	0.0431
EUR	1.1894	1.1384
GBP	1.3778	1.2860
ILS	0.3088	0.2905
NOK	0.1166	0.1063

Earnings per share

Basic Adjusted earnings per share amounts are calculated by dividing the Adjusted net income for the period by the weighted average number of shares of common stock outstanding during the year. The diluted Adjusted earnings per share amounts consider the weighted average number of shares of common stock outstanding during the year, adjusted for the effect of dilutive options. On a statutory basis, fully diluted EPS was $0.34 (see Note 14 for the statutory earnings per share) compared with $0.16 in FY2020. This increase in statutory diluted EPS was driven primarily by the positive impact of unrealised FX gains on the EUR tranche of the loan, a one-off gain from disposal of the Family Safety mobile business, and higher operating profit.

$m	FY 2021	FY 2020
Adjusted net income attributable to equity holders	**389.4**	**360.2**
Basic weighted average number of shares	1,031,854,145	1,022,001,218
Effects of dilution from share options and restricted share units	7,425,430	14,815,576
Dilutive weighted average number of shares	1,039,279,575	1,036,816,794
Basic adjusted earnings per share ($/share)	**0.38**	**0.35**
Diluted adjusted earnings per share ($/share)	**0.37**	**0.35**

CFO's report continued

Dividend

The Board announced on 7 February 2022 that it had declared a conditional interim dividend of 11.2 cents per share. The payment of this dividend is subject to the terms of the Scheme and is therefore conditional on the Merger not having become effective before 1 March 2022. On 18 February 2022, NortonLifeLock announced an updated Merger timetable, which included an expected Scheme effective date of 4 April 2022. Following this announcement, the Board confirmed on 18 February 2022 that the conditional interim dividend would be paid on 3 March 2022 to shareholders on the register as of 18 February 2022, with an ex-dividend date of 24 February 2022.

Presentation of results and definitions

This full-year report contains certain non-International Financial Reporting Standards (IFRS) financial measures to provide further understanding and a clearer picture of the financial performance of the Group. These alternative performance measures (APMs) are used for the assessment of the Group's performance, and this is in line with how management monitors and manages the business day-to-day. It is not intended that APMs are a substitute for, or superior to, reported measures. The APMs are not defined or recognised under IFRS including Billings, Organic Growth, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Net Income and Unlevered Free Cash Flow as defined and reconciled below.

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

Adjusted Billings and Adjusted Revenue were presented in the full-year report for the year ended 2020 due to differences between reported and adjusted metrics resulting from historical acquisitions, which were presented in comparatives. As there are no further adjustments applicable to revenue or billings in neither 2020 nor 2021, APMs were limited to Billings and Revenue to decrease complexity for users of these accounts.

Organic Growth APMs were introduced in FY 2019 to present the change in revenue and billings resulting from continuing Group operations. Organic growth rate excludes the impact of FX, acquisitions, business disposals, and Discontinued Business. It excludes current period billings and revenue of acquisitions until the first anniversary of their consolidation. In the case of disposals, billings and revenue until close of the transaction are included in the calculation of organic growth, together with comparable periods in the baseline. The definitions of non-GAAP measures in the year ended 31 December 2021 are consistent with those presented in the report for FY 2020 and there have been no changes to the bases of calculation.

CFO's report continued

CONSOLIDATED STATEMENT OF ADJUSTED PROFIT AND LOSS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December 2021	Year ended 31 December 2020
REVENUES	**941.1**	**892.9**
Cost of revenues	(115.1)	(117.5)
GROSS PROFIT	**826.0**	**775.4**
Gross profit margin	**87.8%**	**86.8%**
Sales and marketing	(164.2)	(122.5)
Research and development	(64.6)	(71.1)
General and administrative	(79.6)	(86.2)
Total operating costs	(308.4)	(279.8)
EBITDA	**517.6**	**495.5**
EBITDA margin	**55.0%**	**55.5%**
Depreciation & Amortisation[12]	(21.4)	(21.8)
EBIT	**496.2**	**473.7**
Finance income and expenses	(23.5)	(37.0)
PROFIT BEFORE TAX	**472.7**	**436.7**
Income tax	(83.3)	(76.4)
NET INCOME	**389.4**	**360.2**
Net Income margin	**41.4%**	**40.3%**
Earnings per share (in $ per share):		
Basic EPS	0.38	0.35
Diluted EPS	0.37	0.35

Billings

Billings represent the full value of products and services being delivered under subscription and other agreements and include sales to new end customers plus renewals and additional sales to existing end customers. Under the subscription model, end customers pay the Group for the entire amount of the subscription in cash upfront upon initial delivery of the applicable products. The invoicing timing may slightly vary through the year with immaterial impact, as part of our usual renewal offers testing. Although the cash is paid upfront, under IFRS, subscription revenue is deferred and recognised rateably over the life of the subscription agreement, whereas non-subscription revenue is typically recognised immediately.

$m	FY 2021	FY 2020	Change	Change %
Revenue	**941.1**	**892.9**	**48.2**	**5.4**
Net deferral of revenue	7.3	29.2	(21.8)	(74.8)
Billings	**948.4**	**922.0**	**26.4**	**2.9**

Adjusted EBITDA

Adjusted earnings before interest, taxation, depreciation, and amortisation ('Adjusted EBITDA') is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition intangible assets, share-based payments including related employer's costs, exceptional items, and amortisation of acquisition intangible assets.

CFO's report continued

Adjusted cash EBITDA

Cash earnings before interest, taxation, depreciation, and amortisation ('Adjusted Cash EBITDA') is defined as Adjusted EBITDA plus the net deferral of revenue and the net change in deferred cost of goods sold. The following is a reconciliation of the Group's reported Operating profit to Adjusted EBITDA and Adjusted Cash EBITDA:

$m	FY 2021	FY 2020	Change	Change %
Operating profit	**394.6**	**335.4**	**59.2**	**17.7**
Share-based payments (incl. employer's costs)	47.1	22.7	24.4	Fav
Exceptional items	31.7	49.9	(18.2)	(36.4)
Amortisation of acquisition intangible assets	22.7	65.8	(43.1)	(65.4)
Depreciation	19.0	19.7	(0.7)	(3.7)
Amortisation of non-acquisition intangible assets	2.5	2.1	0.4	17.4
Adjusted EBITDA	**517.6**	**495.5**	**22.1**	**4.5**
Net change in deferred revenues including FX re-translation/Other	7.3	29.2	(21.9)	(74.8)
Net change in deferred cost of goods sold	1.1	(1.9)	3.0	Fav
Adjusted cash EBITDA	**526.1**	**522.7**	**3.4**	**0.7**

Adjusted net income

Adjusted Net Income represents reported net income plus share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the tax impact from the unrealised exchange differences on intercompany loans, tax impact from disposal of business operation, and the tax impact of the foregoing adjusting items, IP transfer, and donations, less gain on disposal of business operation. The following is a reconciliation of the Group's reported Net income to Adjusted Net Income.

CFO's report continued

$m	FY 2021	FY 2020	Change	Change %
Net Income	**348.4**	**169.6**	**178.8**	**Fav**
Share-based payments	47.1	22.7	24.4	Fav
Exceptional items	31.7	49.9	(18.2)	(36.4)
Amortisation of acquisition intangible assets	22.7	65.8	(43.1)	(65.4)
Unrealised FX gain/(loss) on EUR tranche of bank loan	(32.2)	62.1	(94.3)	Unf
Tax impact from FX difference on intercompany loans	(1.5)	4.4	(5.9)	Unf
Tax impact of donations	–	(4.7)	4.7	Fav
Tax impact on adjusted items	(2.9)	(15.7)	12.8	81.5
Tax impact of IP transfer	6.3	6.3	–	0.0
Gain on disposal of business operation	(47.0)	–	(47.0)	Unf
Tax impact from disposal of business operation	16.7	–	16.7	Fav
Adjusted net income	**389.4**	**360.2**	**29.2**	**8.1**

Unlevered Free Cash Flow

Represents Adjusted Cash EBITDA less capex, cash flows, COVID-19 donations (in 2020) and taxation, plus cash flows in relation to changes in working capital (excluding change in deferred revenue and change in deferred cost of goods sold, as these are already included in Adjusted Cash EBITDA). Changes in working capital are as per the cash flow statement on an unadjusted historical basis and unadjusted for exceptional items. In 2020, $24.5m of COVID-19 donations were included in the calculation of Unlevered Free Cash Flow, as all other exceptional costs are excluded from Adjusted Cash EBITDA (as defined above) and thus from Unlevered Free Cash Flow.

Levered Free Cash Flow

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

Rounding

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

Notes:

1 Organic growth rate excludes the impact of FX, acquisitions, business disposals, and Discontinued Business. As such, organic revenue refers to revenue normalised as described here.

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

3 Growth rate excluding currency impact calculated by restating 2021 actual to 2020 FX rates (see 'Principal exchange rates applied'). Deferred revenue is translated to USD at the date of invoice and is therefore excluded when calculating the impact of FX on revenue.

4 On 16 April, 2021 the Group sold a portfolio of mobile parental controls services including location features, content filtering, and screen time management to Smith Micro Software Inc ('Family Safety mobile business'). In the year ended 31 December 2020 the asset generated less than $40m of revenue (USD million), with a materially lower margin profile than the Group. Billings and revenue until close of the transaction have been included in the calculation of organic growth, together with comparable periods in the baseline.

5 In January 2020 Avast decided to terminate the provision of anonymised data to its data analytics business, Jumpshot, having concluded that the business was not consistent long term with the Group's privacy priorities as a global cybersecurity company. As the company is also exiting its toolbar-related search distribution business (which had previously been an important contributor to AVG's revenues) and the browser clean-up business, the growth figures exclude all of these (referred to above and throughout the report as 'Discontinued Business'), which are negligible. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5, since it either has not been disposed of but rather it is being continuously scaled down or it is considered to be neither a separate major line of business nor geographical area of operations.

6 Users who have at least one valid paid Consumer Direct subscription (or licence) at the end of the period.

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

8 ARPC defined as the Consumer Direct revenue for the period of the last 12 months divided by the simple average number of Customers during the same period.

9 'Fav' in change % represents a favourable growth rate figure over 100 percent, 'Unf' represents an unfavourable decline greater than negative 100 percent.

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

11 Gross debt represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals) and lease liabilities. Net debt indicates gross debt netted by the company's cash and cash equivalents. Both gross debt and net debt exclude the amount of capitalised arrangement fees (which reflect the fact that the loan is measured at amortised cost using the effective interest method) on the balance sheet as of 31 December 2021 of $3.2m (31 December 2020: $2.6m and accrued interest of $(0.1)m).

12 Depreciation and amortisation included in Adjusted Net Income excludes amortisation of acquisition intangibles.

Principal risks and uncertainties

The Board recognises the importance of an effective risk management environment

Our approach to Risk Management

The Board sets the policy for managing risks in the business and in particular recognises the importance of robust systems, processes, and staff training to ensure an effective risk management environment.

The policy for managing risks is based on the appetite of the Board to take risks in pursuit of the business' strategy. The Board's risk appetite is articulated in the form of risk appetite statements which are in the process of being operationalised through the business.

Our Board and Audit and Risk Committee provide oversight of our principal risks and associated management responses to mitigate those risks, as described below on page 56. In addition, the newly formed Security and Privacy Committee has specifically been delegated responsibility for information security risk and will report its outcomes to the Audit and Risk Committee. The Audit and Risk Committee monitors the overall effectiveness of risk management and internal controls.

We scan the internal and external environment constantly, through the newly appointed Risk and Compliance Director, for emerging risks and these have been reflected in the update to this year's principal risks. The principal risks and uncertainties, including any emerging risks, have been identified by benchmarking ourselves against our competitors and other premium listed companies. We then reviewed the previously identified risks with the relevant executives, who assessed the impact and mitigation strategies. We will continue to review and update both the risks, the impacts, and our management responses to these. There are ongoing discussions around risk management at both the Audit and Risk Committee and the newly formed Security and Privacy Committee, who provide both challenge and oversight to the Executive team.

We have implemented a 3 Lines of Defence Model, where the responsibilities for risk management and risk mitigation are allocated as follows:

- 1st Line of Defence – the Business Line Management – primarily responsible for managing its own processes and identifying and controlling risks using control frameworks and implementing internal processes and appropriate controls.
- 2nd Line of Defence – the Compliance and Risk Management function – responsible for setting the enterprise frameworks and for independent reporting to the Audit and Risk and Security and Privacy committees. Also advises the 1st line.
- 3rd Line of Defence – Internal Audit – provides assurance about the design and effectiveness of the 1st and 2nd lines and reports to the Audit and Risk Committee. Also advises to improve processes.

Principal risks and uncertainties continued

Developments in risk management over the year

There have been a number of developments in risk management at Avast throughout 2021. In June 2021, Avast created a new role and appointed a Risk and Compliance Director, who has responsibility for developing a risk, compliance, and control framework suitable for a FTSE 100 company. Over the course of the year, the Head of Internal Audit function left the business, which provided the opportunity to reorganise the reporting lines, such that the Internal Audit function now reports to the Risk and Compliance Director, who, for the purposes of Internal Audit, has a dotted reporting line to the Chair of the Audit and Risk Committee.

As Avast matures from a newly listed Company to an established constituent of the FTSE 100, the Board is keen to ensure that the development of the risk management framework evolves to keep pace with the needs of a premium listed FTSE 100 company.

As the next step in maturing the risk management environment, this year the Board has placed a particular focus on the importance of identifying, assessing, managing, monitoring, and reporting risk within the business. In particular, the Company has developed and set in motion a roadmap of activity, approved by the Audit and Risk Committee, to bring the risk management, compliance, and control practices in line with the standards set out by the COSO framework (see page 101 for further details). This roadmap is progressing well, with it estimated that this work will take two to three years to fully complete. The Audit and Risk Committee considered and approved a similar roadmap of activity to develop the Internal Audit function. To support the delivery of both roadmaps, we have partnered with Deloitte LLP to leverage their expertise and resources.

The Board have carried out a robust assessment of the Company's emerging and principal risks. In considering the principal risks for the year ended 31 December 2021, the following changes have been made:

- The 'Global Pandemic' risk has been replaced with the 'Macroeconomic Environment' risk, given that the pandemic 'event' has occurred. This updated risk includes the ongoing recovery from the pandemic and the reset of the global economy to a 'new normal' and the inherent uncertainties that are within this. We also recognise that further pandemics remain a risk.
- The 'People' risk has been amended to include 'Culture', to reflect the risk of the wrong culture inhibiting our ability to retain and recruit the right talent.
- Our 'Offering' risk has also been amended to include 'customer needs', to reflect the need to really understand the trends in customer demand now and in the future, and the need for Avast to adapt its offering accordingly.
- We have split out the 'Privacy and Security' risk into two separate risks, 'Data and Privacy' and 'Cybersecurity/IT Systems and Infrastructure', to reflect the growing importance of managing these risks well to protect our customers and the reputation of the Company.
- Finally the 'Regulatory' risk has been updated to 'Legal and Regulatory Compliance', and included within this we recognise the growing risk of climate change and the regulations surrounding this.

Principal risks and uncertainties continued

Principal risks

The principal risks identified for the year ended 31 December 2021 are:

Description of risk	Movement	Potential impacts	Mitigation and strategy
The Macroeconomic Environment (including the pandemic) The COVID-19 pandemic continues to create uncertainty and sets a challenging economic environment within which the business operates. The imposition of controls set by governments limits the movement of people and slows down the economic growth in most countries. There is uncertainty about when we will return to a 'new normal', or even what a 'new normal' is, and the threat of a further disruption from global political, environmental, social, and health events exists.	=	▪ The uncertainty and lower level of economic activity may reduce consumer demand. ▪ In addition, employees may continue to be forced to work from home or adopt a hybrid working model, with the risk of reducing productivity and efficiency. ▪ The travel restrictions imposed by governments may also limit the ability of staff to travel internationally, or locally, and hence collaborate with each other and third parties.	▪ Business processes and working practices are changing to accommodate these new ways of working, and will be constantly reviewed as the situation evolves. ▪ Avast maintains a strong balance sheet and sufficient cash to meet its obligations, and is diversifying its business model. ▪ It has also invested in technologies and working practices to help its staff to continue to work effectively and as efficiently as possible. ▪ It will continue to adapt and respond as the new normal emerges.
Competitors The consumer security business continues to be complex and competitive. As new technologies emerge from existing and new competitors, these can quickly disrupt the market. These competitors may also limit or restrict access to existing product interfaces, and hence it may become harder to develop our products on their platforms.	+	▪ This increasingly competitive and complex landscape may impact the operational and financial performance of the business. ▪ It is harder to deliver our products to consumers if these competitors are more successful at developing and marketing their products.	▪ In response, we track the activity in the market and analyse this in order to adapt our strategy. ▪ To enable this strategy, we develop products internally, partner with third parties where it is commercially sensible to do so, and also acquire firms to bring their product in-house. ▪ We also continue to evolve the Avast brand and invest in marketing the new brand, to increase the level of recognition in the market. ▪ Our diversification strategy will also deliver new products which complement our existing products.

Principal risks and uncertainties continued

Description of risk	Movement	Potential impacts	Mitigation and strategy
Offering and Customers' Needs Failure to keep track of customers' demands and needs will result in products that are less appealing to users.	+	• The impact of failing to keep up to date will see a decline in the free user base and also a less attractive set of products that customers are prepared to pay for, that can generate revenue for the Company. • The widespread acceptance of products and services (such as Identity and Avast One) in the marketplace is necessary to remain competitive.	• We have carried out extensive market research in order to target our investment in product innovation and product management. This investment has not been affected by the pandemic. • The recent launch of Avast One is our key strategy to meet the needs of the global customer base. • We are also diversifying into the Identity market, and our recent acquisition of Evernym, alongside an organic growth strategy, reflects customers' growing need for products in this market. • We will continue to pursue organic and inorganic strategic opportunities to meet customers' needs, now and in the future.
People and Culture The success of the business depends on the talents and commitment of highly skilled individuals and teams, in a tight talent market where employees' attitudes are changing due to the pandemic and the demand for flexible/hybrid working. Competition for these individuals is high, and setting the right culture for these individuals to operate within is key. This risk is elevated as a result of the corporate activity underway, including the NortonLifeLock Merger.	+	• Failing to create and maintain the right culture may result in individuals leaving and/or making it difficult to attract talent from the market. • This risk is heightened with the announcement of the proposed Merger with NortonLifeLock.	• We continue to implement our People Strategy, with the aim of increasing engagement and measured through our engagement surveys. • We have also created a Diversity and Inclusion Committee, which helps to set and drive the strategy to create a diverse workforce and an inclusive environment within which people can be at their best. • In spite of the headwinds created by the pandemic and ongoing corporate activity, the Company is committed to, and continues to, deliver its Diversity and Inclusion programme. • We offer a diverse range of training at all levels of the organisation, to help colleagues continually improve and develop. • We also host regular 'All Hands' calls for the entire Company, which give the CEO and the Executive team the ability to communicate openly and candidly on a range of topics. • First Line managers are being trained and skills enhanced to help them manage in the 'new normal'.
Data and Privacy We store and use a lot of data, including customer data. The data must be managed and used in accordance with the relevant privacy rules and regulations.	=	• Failure to manage data in an appropriate manner increases the risk of reputational damage. • The failure to provide the products and services that our customers demand. • Litigation and enforcement action by regulators. • Increased management time in addressing any issues.	• We mitigate and manage this risk through a robust data management programme. • The implementation of privacy-by-design within our infrastructure and systems. • This is supported by employing privacy and data specialists within the Data Office and the wider business. • We are focused on the continual improvement of our internal controls relating to data and privacy. • Employees have been, and will continue to be, trained on data and privacy.

Principal risks and uncertainties continued

Description of risk	Movement	Potential impacts	Mitigation and strategy
Cybersecurity/IT Systems and Infrastructure. There is an inherent risk in the industry we operate within that our systems become compromised through a cyberattack or similar.	=	• Should our systems become compromised, this may result in the leakage of data and/or the interruption of services for customers. • The impact of any such attack would be on the reputation and brand of the Company, and also on management time and resources to resolve the issue.	• We strive for strong, effective, and comprehensive systems security and governance. • As a result, we continue to implement a host of new security processes and measures to protect the data we store, systems that store such data, and the updates we provide to provision our products and services. • We follow the security lifecycle of prevent-detect-respond-verify as a continuous improvement process at Avast. • We try to prevent security incidents by creating policies and a defensible architecture. • As we develop new systems and products, we design the required level of security into these, and we continue to migrate our systems and infrastructure from on-premises to the public cloud, to meet increasingly complex security demands in a cost-effective way. • Our 'red' team, as part of the Information Security function, is responsible for finding weaknesses within the Group's systems and technologies before bad actors can, and we continue to ensure sufficient resources and employees with appropriate experience are hired. • As part of our detection and response capability, our Security Operations Centre/Computer Emergency Response Team make sure that we have continuous 24x7, 365 days per year monitoring of our networks and systems.

Principal risks and uncertainties continued

Description of risk	Movement	Potential impacts	Mitigation and strategy
Legal and Regulatory Compliance. We operate a digital business globally, and the scale and complexity of new laws, including those regarding data protection, auto-renewal billing, and tax, are increasing as the digital economy becomes the backbone of global economic growth. As new laws and regulations are introduced and/or there are new interpretations of existing laws, these may impose restrictions on the business. We also recognise the growing threat of climate change and the role Avast has within this – the key risk is not complying with the emerging regulations and the reputational impact that would arise from this.	=	• There is a risk that we fail to comply due to the fast-changing nature of the global environment. • Failing to comply with regulatory requirements could result in increased litigation (including class actions), investigations, fines, and censure by governmental and regulatory bodies, resulting in negative financial consequences. • There is also the impact on management time and resources to resolve any issues.	• To manage this risk, we actively monitor global legal developments to identify and meet our regulatory obligations and respond to emerging requirements, and we participate in industry-wide lobbying. • The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements. • A Risk and Compliance Director was appointed midway through 2021 to modernise the risk, compliance, and audit capability.

Additional considerations/ emerging risks

The Board continues to monitor potential future risks that may increase in importance; in particular, there can be no assurance that third parties will not assert that our products and intellectual property infringe, or may infringe, their proprietary rights. Any such claims, regardless of merit, could result in litigation, which could result in substantial expenses, result in the Group having to pay substantial damages (directly or on an indemnity basis), divert the attention of management, cause significant delays, materially disrupt the conduct of our business, and have a material and adverse effect on our financial condition and results of operations.

Climate change

Environmental mismanagement could lead to failure across interdependent networks, disruption to power networks, flooding, and reputational damage, while improvements could provide opportunities for increased business efficiencies in the medium to long term. As part of our approach to ESG and Task Force on Climate-Related Financial Disclosures (TCFD), Avast is committed to managing its environmental impacts responsibly, and this is set out in our TCFD disclosure on page 71.

Brexit

Following the end of the transition period on 31 December 2020, the UK has exited the EU. The UK and the EU have agreed a number of new agreements governing their relationship, including a new trade deal to govern their trading relationship (The EU-UK Trade and Co-operation Agreement). The impact of Brexit and the new trade deal on all key aspects of the business, including on the corporate structure, sales, tax, IT infrastructure, and payment processing, has been considered. While there may be additional administrative burdens, the Board still considers that Brexit and the new trade deal will have a limited impact on the Company and its business.

Given the European Commission's decision to grant adequacy to the UK with respect to transfers of personal data between the UK and the EU, Brexit had no impact on transfers of personal data to our Group companies and partners located in the UK, and continues to have no impact.

The Board will continue to assess the impact of the post-Brexit EU-UK relationship on the different aspects of the business as the relationship evolves.

Viability statement

The Directors have considered that the recommended Merger with NortonLifeLock Inc. ('NortonLifeLock') represents the most significant event impacting the Company in the viability period. In forming their view on the viability of the Group, the Directors have considered two scenarios, being where the Merger does not proceed and the Group continues to operate as in prior years ('Standalone Scenario') and the scenario where the recommended Merger proceeds as expected ('Combined Company Scenario').

The Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impacts of the principal risks documented on pages 56 to 59 of the annual report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue to operate and to meet its liabilities as they fall due over the three years to 31 December 2024.

The Group's prospects are assessed primarily via its annual planning and budgeting processes, which produce a three-year strategic plan supported by a more detailed one-year budget. Planning processes include liquidity and covenant headroom profile analyses which consider sensitivity to business as usual risks impacting EBITDA. Progress against the strategic plan is reviewed regularly by the Board through presentations from senior management on the performance of their respective business units.

While the Directors have no reason to believe that the Group will not be viable over a longer period, the period of three years has been chosen, as it matches the term of the longest of the Group's sales commitments (typically one to three years in duration, with a weighted average contract life of around 13 months), thereby providing a degree of certainty over the forecasting assumptions used while also, in the view of Directors, providing an appropriately long-term outlook. The Directors considered whether three years remained appropriate in the Combined Company Scenario and concluded that it was appropriate, given there is an expectation that the Avast brand and business model continue through the viability period.

Standalone Scenario

In making this viability statement, Directors reviewed the assessment of principal risks facing the Group, including those that would threaten its business model, future performance, solvency, or liquidity. Although the output of the three-year planning process represents Directors' best estimate of the future prospects of the firm, the base financial plan has been assessed against a range of alternative scenarios representing plausible manifestations of the principal risks. The scenario with the most significant individual impact was a sustained 20% year-on-year decline in billings in the Customer Direct Desktop business. The stress testing, in which scenarios were applied both individually and in combination, did not result in either a liquidity issue or a covenant breach during the assessment period.

Directors also reviewed the results of reverse stress testing performed to provide an illustration of the material contraction in revenue of the largest business unit that would be required to breach the Group's covenants or exhaust all available cash within the assessment period. Only in an extreme scenario, in which Consumer Direct Desktop billings contracted by approximately 34% year-on-year (or approximately 70% over three years) with no meaningful mitigating actions and while still paying a dividend, was the covenant breached.

The process of identifying, assessing, and managing principal risks is set out in the Audit and Risk Committee report on pages 97 to 103. The Directors consider that this stress-testing based assessment of the Group's prospects is reasonable and the Group's business model has proven to be strong, robust, and defensive in both short and long term.

Combined Company Scenario

In addition to the above, the Directors considered the impact of the expected Merger with NortonLifeLock on the viability of Avast. The Boards of NortonLifeLock and Avast believe the recommended Merger has compelling strategic logic and represents an attractive opportunity to create a new, industry-leading consumer cybersafety business, leveraging the established brands, technical expertise, and innovation of both groups to deliver substantial benefits to consumers, shareholders, and other stakeholders.

In forming a view on the impact on Avast's viability, the Directors considered specific factors listed in their going concern conclusion on page 134. In addition to those, the Directors considered that the Combined Company will be in the control of a largely new Board, and therefore, as time extends beyond the going concern period, the current Board of Avast has more limited insight into the future direction of the Combined Company. Further, the Directors have not had sight of the Combined Company's long-term plan in forming their view of viability. The Directors did, however, consider that per NortonLifeLock regulatory filings, Consensus Financial Projections indicate that both the Company and NortonLifeLock will grow individually in the long term. Further, they considered in the viability period there will have been more time for the Merger synergies to be realised.

The Directors also considered that the majority of the Combined Company's debt is repayable in 2027 and subsequently. Further, the Directors considered the $1.5 billion Revolving Credit Facility available to the Combined Company also has a maturity of 2027.

Based on all of the above, the Directors consider the Company to be viable in the scenario where it proceeds as a Standalone Company or as a Combined Company with NortonLifeLock.

People and culture

2021 was a year of unprecedented change for Avast

The year began with a focus on engaging and mobilising our people to deliver the new vision and strategic plan, launched in Q4 2020.

As a consequence, the areas of focus as we entered 2021 included support for embedding new ways of working and stabilising teams following a period of significant transformation and restructuring in support of the new strategy. Over the course of the year, our focus turned towards other strategic activities, including the divestment of the Avast Family Safety business to SMSI, as well as ensuring we had the optimum talent acquisition approach to meet the growing need for talent to fuel business growth in a far more competitive, global labour market.

During the course of the year, we continued to navigate the challenges presented by the global pandemic. We provided ongoing wellbeing support for Avastians globally and during the course of the year launched a new Global Employee Health & Wellbeing Programme, providing a blended offer of services to help keep our teams productive and engaged. As local COVID-19 regulations eased, colleagues were safely welcomed back to our offices. The focus on developing capability in the business also continued, with the implementation of the new Avast Learning Hub and launch of the second cohort of our First Line Leader programme. The end of 2021 saw an uptick in preparations for the Merger with NortonLifeLock, with particular focus on internal communications and change-related development programmes to ensure colleagues were engaged, informed, and supported through the process. The consequence of the Merger on the activity of the People and Culture function was the reprioritisation of programmes of work, resulting in some activities, such as the relaunch of our values and the revised Reward and Performance Strategy, being placed on hold. However, other initiatives became more critical, such as the retention of key talent, helping colleagues to understand their RSU holdings, and ensuring people data, policies, and processes were robust to support integration preparations.

People and culture continued

2021 highlights

Company culture

Throughout 2021, we continued to place significant emphasis on articulating and strengthening our desired culture and ways of working. In addition to our values – Customer comes first, Think big, No BS, Give back – we focused on embedding the concept of Growth Mindset as the foundation on which our behaviours and approach to work are built. We also continued to work closely with the Change Engagement Group (CEG), which comprises a representative set of employees from around the business and is led by Ondrej Vlcek, Rebecca Grattan, Chief People and Culture Officer (CPCO), and the Designated Non-Executive Director for Employee Engagement, Pavel Baudis. The CEG met at least once a month to discuss topics such as the Your Voice survey results, employee wellbeing, and our approach to performance management, as well as being given the opportunity to share feedback or concerns on business change programmes such as the divestment of the Family Safety business and the Merger with NortonLifeLock.

In addition to the annual employee engagement survey, Your Voice (see page 65), when it is appropriate Avast also conducts ad-hoc pulse check surveys to monitor employee sentiment and obtain real-time feedback. Such pulse checks were undertaken prior to the reopening of our offices and also following the announcement of the Merger with NortonLifeLock. The highlights from these surveys, as well as updates on initiatives which support the development of our culture and ways of working in general, are reported to the Board on a quarterly basis through the People and Culture Board Report. Following the announcement of the Merger, such updates were provided on a daily basis, to ensure the Board were apprised of the employee response to these changes immediately.

37

hours of targeted leadership development activities, part of Avast's First Line Leader programme

The Future of Work initiative

Following its launch in late 2020, the Future of Work initiative was successfully embedded in 2021, enabling all our people to work in a more flexible way and receive the benefit of RSUs, which were granted in January 2021. This programme saw the successful rollout of the 'Whole Life Flexibility' framework, which empowers employees to choose where, when, and how they work. This meant the removal of strict requirements on specific work start and end times or daily number of working hours; employees are also able to take time off in the middle of the day, when and if needed. Unlimited personal time off (PTO) has also become a standard in all jurisdictions, allowing employees to take days off for their mental wellbeing, to spend with their families, or pursue personal goals, provided they are able to meet the obligations of their roles. The framework also provides a formal approach to the 'Work From Anywhere' concept, including supporting those who wish to work from abroad to do so in a compliant way and delivering contractual changes to a significant proportion of colleagues, who chose to work remotely rather than from the office on a permanent basis.

Customer focus

An innovative, digital Customer Academy was developed and launched, helping all colleagues to understand more about our customers and the impact they can make on improving their product and service experience with Avast.

Growth mindset

Our work on culture was aligned with the business strategy, specifically focusing on the development of the behaviours needed to support and accelerate future growth. A Leadership Summit took place on 10 February and introduced the concept of Growth Mindset to leaders and colleagues.

A wealth of development materials was launched to support behavioural change, with a specific focus on improving operating performance and developing others. Furthermore, Avast's First Line Leader programme, which incorporates 37 hours of targeted leadership development activities, was relaunched and aligned to Growth Mindset, to ensure our new people managers are able to role model this concept in how they lead their teams.

People and culture continued

2021 highlights

Your Voice engagement survey

Every December, Avast runs a company-wide Your Voice survey to measure employee engagement and reflect on the year that passed. The 2021 engagement score was 64.8%, based on the participation of 53% of our workforce. This compares with an engagement score of 65% and participation of 81% in 2020.

The 2021 results and participation were influenced by the global COVID-19 pandemic, as well as the announcement of the Merger with NortonLifeLock and the subsequent transaction closing period. The 2021 survey format and questions were modified to reflect on the changes and capture employees' concerns in the context of the transaction. Despite the uncertainty and the drop in participation rate, the engagement score remains the same as in the previous year, and Avast employees disclose a positive sentiment about the Company's future and vision. 77.4% are proud to work for the Company and 74.1% feel like they belong to Avast and are equally respected, regardless of their background. This is a testament to the high importance of diversity and inclusion (D&I), in the Company culture and the success of our D&I agenda.

Talent acquisition

By early 2021, it was already clear that the talent acquisition landscape had become far more competitive as a result of non-tech firms dipping into the technology sector to source digital skills, as more of their business moved online. This, coupled with investment in new headcount to support the business strategy, meant one of the biggest challenges we faced this year was the volume of hiring to be delivered. A new Talent Acquisition Strategy was implemented to allow for a faster response rate and greater flexibility in attracting the best talent globally. A recruitment process outsourcing arrangement was introduced in the first half of the year to supplement the internal resourcing team, and a refreshed set of preferred supplier partnerships was introduced to support Executive hiring for leadership positions across the globe.

Once new colleagues were hired, a revised onboarding and integration approach was launched to create a positive and welcoming experience, and enable new recruits to integrate and make an impact more quickly, particularly given the ongoing remote working situation.

Succession planning

While attracting new talent has been the priority, focus continued to be placed on identifying and developing high-potential employees, particularly those in roles where there is a highly competitive labour market or who provide succession to critical business roles. Following the successful implementation of a new approach to Executive succession planning and talent development in 2020, which included a new approach to high-potential identification and assessment, a further cohort of potential Executive Committee successors were identified and followed the previous year's successors with tailored development plans. Where appropriate, Board members have continued to act as mentors to these individuals, to support their career and personal progression. The Executive Committee succession plan was further improved as a consequence of new high-calibre and high-potential colleagues joining the business at a senior level.

Employee experience

The implementation of Workday HRIS, an integrated HR technology platform, enabled the continued digitalisation of the employee experience. The system is now our single source of truth for people data, while enabling employee and manager self-service in the delivery of day-to-day HR transactions, optimising our service delivery model. Workday has also been leveraged to drive more efficiency in reporting as well as in delivery in areas such as recruitment and reward, and has enabled the launch of the Avast Learning Hub, which has become a one-stop shop for all learning activity within the business.

To support our employees to balance their work and home lives, particularly against the backdrop of continued working from home arrangements, we introduced a new approach to wellbeing, including 'Zoom Free Fridays' and extended Easter and Christmas breaks.

One of the key priorities for the D&I team was to make Avastians accountable and engaged in co-creating inclusive culture. Multiple campaigns were launched across the year, including International Women's Day, and Pride Month, as well as the events hosted by our NGO partners.

People and culture continued

2021 highlights

Operating model

2021 saw the divestment of the Avast Family Safety business to Smith Micro Software, involving the transfer of 152 colleagues. A subset of the People and Culture team has continued to support the strategic operating model development for the Identity business, including due diligence for potential M&A targets and the successful acquisition of Evernym.

Global pandemic & hybrid working

Caring for our colleagues' mental health and wellbeing continued to be a significant priority for the business in 2021. We replaced the previous Employee Assistance Programme with new partnerships with MYNDUP and LifeWorks. These external providers offer a different set of more tailored services to Avastians, including access to confidential one-on-one video sessions with trained counsellors across the whole mental health and wellbeing spectrum.

At the same time, changes were made to our ways of working to help combat fatigue with remote working, including the introduction of concepts such as 'Mindful Mondays' and 'Zoom Free Fridays', as well as full Company shutdowns over the Easter and Christmas holidays, to help people fully switch off and take a break from work.

Following the peak of the pandemic, Avast safely reopened almost all of its offices, ensuring appropriate risk assessments were completed and control mechanisms remain in place to deal with the eventuality of a COVID-19 outbreak at work. Where the regulations permit, we have seen gradually higher levels of daily attendance in all locations.

The completion of a redesign of our Head Office in Prague, which saw investment in both the layout and interior of our office space across seven floors of our building to create more areas for collaboration and activity-based work, has enabled us to fully embrace hybrid working to help our people be at their most productive, whatever the task or location.

Employee volunteering and initiatives

Working with organisations such as Czechitas, Aj ty v IT, and Code First Girls, dozens of colleagues across the business have assisted in training women in a range of age groups who are inspired to pursue a career in IT, by mentoring them in a number of areas such as programming, testing, data analysis, and cybersecurity. Also, intending to spread awareness and enlightenment, we participated in a unique programme supporting individuals with autism spectrum disorder (ASD) seeking employment in the IT sector. We have trained volunteers from the Avast team to mentor individuals with ASD to help them improve their IT skills, raise their confidence levels, and provide structured social interaction. See the 'Diversity and inclusion' section for further details.

One on One

video sessions tailored to Avastians, with trained counsellors across the whole mental health and wellbeing spectrum

People and culture continued

2021 highlights

Diversity and inclusion

Driven by social responsibility and perceived economic value, Avast management is committed to increasing the representation and belonging of underrepresented talents in Avast at all levels and in cybersecurity in general. Therefore, we made D&I one of our key priorities for 2021 and beyond, to create a truly inclusive environment so that representation of women within Avast increases by 4 points. While focusing on attracting talented women, especially into tech roles and leadership positions, at the same time, we aimed at fostering an inclusive culture, and equal opportunities and processes.

Through international partnerships with non-profit organisations and communities, a people-processes redesign, awareness campaigns, inclusive leadership and allyship training, and unique programmes for parents, the representation of women among all employees in Avast grew by 2.2% just in 2021, up to 36.4% among women in the Executive Management team, and to 34.6% in senior management.

Governance

The D&I team and agenda are advised by the D&I Committee, which meets quarterly and is chaired by Interim Chief Financial Officer Stuart Simpson and attended by: Rebecca Grattan, CPCO, Jaya Baloo, CISO, Pavel Baudis, Non-Executive Director and Chair for Workforce Engagement, Maggie Chan Jones, Independent Non-Executive Director, Dita Formankova, Diversity and Inclusion and Communities Director, Chairs from the employee resource groups, and employee representatives from across the business.

Further, Avast has a dedicated D&I function focused on creating a solid foundation from which to launch strategic initiatives to foster an inclusive culture and improve the hiring and retention of diverse candidates in the long term, while focusing in the immediate term on increasing the number of women in leadership and technical positions. For each location with more than 100 employees, we have D&I Champions volunteer, coordinating local activities and partnerships and representing a voice of their community and trusted point of contact in their networks. Moreover, for each NGO we partner with, we have community leads, managing the volunteer mentors, speakers, and lecturers. To build a genuinely diverse and inclusive culture, we launched the Employee Resource Groups at Avast – The Rainbow Alliance, Women@Avast, and Asians at Avast – identity or experience-based forums with the power to voice individual concerns and to advocate for the group perspectives via the Executive sponsors. All groups were actively involved in the design and delivery of Avast's biggest D&I campaigns: International Women's Day, Pride Month, and Culture Awareness Day.

Data

We continued operating within our three strategic pillars we set in 2020, enabling us to focus on our priorities and deliver key initiatives with the highest and measurable impact. Signalling our commitment to gender diversity improvements, we set multiple targets, including the representation of women at Board level, in Executive positions, and overall.

Diversity strategic pillars

1. Diverse talent pool
2. Inclusive culture
3. Visible impact

People and culture continued

2021 highlights

On inclusion, we focused on employee engagement in D&I advocacy, internal awareness campaigns, training, and employee resource groups across leadership and the organisation, as well as the number of volunteers engaged in the mentoring, speaking, teaching, and external outreach opportunities related to closing gender tech skills gaps. Additionally, a specific index has been created within the Your Voice survey to measure the extent to which Avastians feel a sense of belonging within the organisation, with a resulting action plan. The belonging index increased by 4.1%, to 74.1%, just in 2021.

Employee category	Women	Men	% Women
Board	3	6	33.3%
Executive Management team*	4	7	36.4%
Senior management**	18	34	34.6%
All employees	540	1313	29.1%
Employees in technical roles	186	940	16.5%

Numbers as of 31 December 2021.

* Executive Management team includes CEO and his direct reports.
** Senior management includes direct reports to the Executive Management (excluding CEO and administrative support staff reporting to the Executive Management team).

Representation in our technology roles had exceeded by 1.5% the target of 15.0%, and in our Executive team 36.4% outstripped the target of 33.0%. Work continues in 2022 to rebalance the overall representation of females, currently running at 29.1% against a target of 30.9%.

Board and Executive team diversity

At the end of 2021, Avast's nine-member Board comprised of three women as Non-Executive Directors and six men: Chair of the Board, two Executive Directors, and three Non-Executive Directors. We aimed to reach 33% or higher representation on our Board and Executive Management team by the end of 2021, as Ondrej Vlcek joined the 30% Club in 2020, a global campaign of CEOs and chairpersons which aims to increase female representation at Board and Executive level to at least 30% through voluntary action. With Avast's Board composition at 33.3%, we hit that goal. Additionally, we met a target on ethnicity in the boardroom suggested by the Parker Review: Maggie Chan Jones, Non-Executive Director, Security and Privacy Committee Chair, identifies with an Asian-Chinese ethnic background.

At the beginning of 2021, the Executive Management team comprised 30% women (10 members in total), as opposed to 9% in spring 2020. Kelby Barton, General Counsel and Corporate Secretary, left Avast in April and was replaced in the role by Trudy Cooke, who joined Avast on 1 March. The gender balance improved to 40% until 1 July, when Charles Walton joined the Executive team to lead the emerging identity business. Further team changes did not affect the overall representation of women until the end of 2021, therefore we closed the year with 36.4% women in Executive leadership.

36.4%

of the Executive Management team are women

People and culture continued

Gender pay equity

We are committed to designing all people-related programmes with a diverse perspective at the core. Additionally, to ensure pay equity, gender-based analysis and adjustments of salaries at each staff level across the entire organisation were conducted as part of the annual salary review. We introduced a gender peer comparison ratio (difference in rewards between men and women peer groups of at least five peers working in the same location, the same job family, and the same grade) as well as the gender pay gap dashboard, informing each manager on existing pay equity issues in their teams. The actions to close the gaps were taken and reinforced by the Rewards Committee. While our overall organisational gender pay gap still exists in favour of male employees, this difference is driven exclusively by the greater number of men at senior and Executive levels, a situation that we are working to remedy by focusing on increasing women in leadership.

Diversity and inclusion programmes

We are building awareness and accountability internally and externally in a variety of ways, as well as driving impactful projects supporting women in technology, parents at Avast, the LGBTQ+ community, and individuals with ASD. The D&I agenda is visibly supported by Avast leadership both through engagement with our employees, partners, and press and events.

Supporting women in technology

Within our industry, gender diversity is sorely lacking, and we have a responsibility to improve the gender balance. We established strong partnerships with NGOs across Europe to improve our outreach to diverse communities and become more active in bringing women and girls into cybersecurity in general, thus investing in building a pipeline of female candidates. Internally, we continually strive to improve our interview and development processes to ensure that everyone has a fair and equal chance to live their dream career.

We continued our long-standing partnership with Czechitas to support digital academies and requalification courses for women in data analytics, web development, and testing (finished by International Software Testing Qualifications Board certification). In Slovakia, we have partnered with Aj Ty v IT to support their academies and a long-term course introducing women to IT security.

In the UK, we sponsored women into Code First Girls Massive Open Online Courses and nanodegree programmes. This organisation serves a community of more than 50,000 women, 55% of whom come from a Black or minority ethnic background. We also funded the diversitytalentpool.cz platform launched by non-profit association OPIM, which connects diverse candidates or those from minority or underrepresented backgrounds to companies that value diversity and create inclusivity. We strengthened our commitment to closing the gender gap in technology through sponsoring a number of diversity-focused events: Code Fest 2021, womENcourage 2021, Codebar festival, Czechitas Job Fair, and Meeting C++. On the occasion of the international 'Girls in ICT' celebration in April, for more than 50 girls aged 12–19 years we organised a Code Like a Hero Javascript workshop.

To drive a strong pipeline of diverse talent, visibility as well as social impact, we engaged 45 Avast mentors in partnership programmes. We sponsored launching seven reskilling academies for women into Python programming, data analysis, SQL, and testing, and through all initiatives impacted 615 female students, resulting in 10 graduates hired for internships or entry-level positions.

45

mentors engaged in partnership programmes

“I signed up to the Code First Girls Nanodegree in March 2021, having come from retail and eager to retrain into software development. I was absolutely thrilled when I was offered a position on the course sponsored by Avast! I had a wonderful mentor from the Company, who I spoke with every week and who helped me through the course. Once I'd passed the course, I was offered an internship on the CCleaner web team, where I've been working for nearly four months now, and am staying on as a junior developer – and I'm so grateful for the support I've been given by the Company, even before I worked here!

Heather Cartwright
CCleaner Web Junior Developer

People and culture continued

Advocacy and awareness campaigns

All around the globe, the month of March has always been a matter of remembering women's achievements but also about challenging inequalities. Reflecting the theme #ChooseToChallenge, more than 400 Avastians actively participated in the rich International Women's Month programme and voted in the International Women's Day award for an exceptional Avast female role model. On 8 March, we hosted a Charity day; based on Avastians' votes, we provided donations to three charities doing exceptional work towards women in society and raising awareness about the lack of women in STEM – Black Girls Code in the US, domestic and cyber violence against women – ROSA, and also single motherhood – Klub svobodných matek.

400+

Avastians actively participated in the rich International Women's Month programme

In September, we kicked off the long-term awareness and educational programme Bridging Cultural Differences, to highlight the importance of cultural diversity and the need for empathy and understanding in order to foster work relationships, build trust, respect, and productivity, and streamline communication. Through D&I self-paced online learning, live webinars, and facilitated open discussions, we are developing a multicultural competence, required for success in a global working environment. Throughout the online learning as well as a number of in-person sessions, we aimed to enable more inclusive leadership and managerial behaviours, to increase cultural competencies and awareness, equip Avastians with courage to become allies, to avoid biases in processes and behaviours, and understand D&I efforts and benefits globally.

Supporting the LGBTQ+ community

Fostering diversity and including marginalised groups goes beyond addressing issues of gender representation, and Avast is proud to support additional initiatives to increase our outreach to new communities and create an inclusive culture. We joined the Pride Business Forum in the Czech Republic and signed the Charta Diverzity in Slovakia this year, signalling our commitment to the LGBTQ+ community and inclusivity generally.

As knowing our people is one of the foundations of our D&I strategy, the D&I team began a series of focus groups for Avastians from different backgrounds. We collected qualitative data from the LGBTQ+ community revealing that the greatest opportunities for making Avast a more inclusive environment rest with leadership development and engagement to interrupt bias or harmful comments, and policies that are clearly supportive of gender non-binary and transgender people. The Rainbow Alliance, an employee resource group, was established, promoting equality inside and outside Avast, with emphasis against discrimination based on gender identity, expression, and orientation, so that everybody can feel safe and comfortable with who they are.

The community was involved in the Pride Month campaign, celebrating authenticity and allyship. We also sponsored local pride events and community talks in Prague and Belgrade, as well as becoming a signatory of Jsme Fér, an initiative for marriage equality.

“

To really protect everyone's digital life, we need to understand the needs of specific groups and minorities such as LGBTQ+ people. Both common citizens and activists are targeted around the world and rely on Avast to ward them against attacks against their safety and lifestyle. Keeping Avast diverse is imperative to be able to protect those who really need it

Fabrizio Bondi
AI Staff Scientist, Chair of the Rainbow Alliance ERG

People and culture continued

Autism@IT

With a goal to spread awareness and enlightenment, we took part in a unique programme supporting individuals with autism spectrum disorder (ASD) who are seeking employment in the IT sector. We have trained volunteers from the Avast team to mentor individuals with ASD to help them improve their IT skills, raise their confidence level, and provide structured social interaction. Mentors had a chance to try to collaborate with people on the spectrum and gained valuable skills and space for personal and leadership development.

Parents@Avast

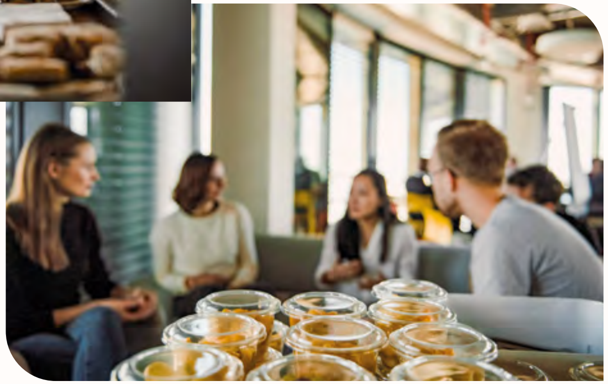
We support our employees in all stages of their lives and careers, including parents going on or returning from parental leave, so they continue growing their careers within Avast. We established a unified, transparent, automated, and friendly process for parents leaving for parental leave and their managers, secured parents with access to learning opportunities and Company updates while being on parental leave, and designed a straightforward re-onboarding process for parental leave returns and assistance with childcare in two main locations: Prague and Brno.

Apart from the unlimited PTO, flexible work arrangements, and Work from Anywhere contracts, we offer childcare, entertainment, and educational services (such as coding courses for kids) in our primary locations. We introduced virtual programmes for parents and children to reflect the pandemic restrictions applied in many countries resulting in closed kids' corners. Also, we introduced a new financial benefit for working parents on secondary contracts to maternity leaves in the Czech Republic, allowing them to balance childcare with their workload.

“

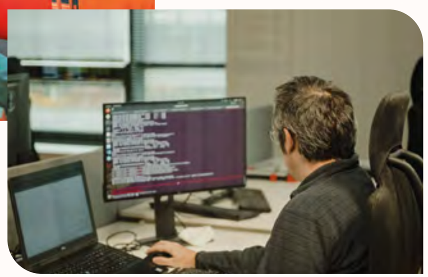
D&I is about creating a diverse environment and supporting people to be open-minded, tolerant, and empathetic. It is about creating opportunities, in my case opportunities for parents who want to stay connected with their work life, helping them to realise themselves and supporting them to be the version of themselves they want to be

Zuzana Janečková
Payroll Specialist, HR Business Partner



Social responsibility and sustainability

Since our inception, we have always looked to be a responsible business



In 2021, we initiated a programme to define our priorities when it comes to environmental, social, and governance aspects.

While still early in the process, as part of our overall ESG programme, we have developed report cards on ESG metrics and performance. Each card references frameworks of the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) and is publicly available for download on our website: https://investors.avast.com/esg/.

We also took part in the annual S&P Global Corporate Sustainability Assessment, widely recognised as the premier independent ESG evaluation on companies around the globe. Our total score was 45 points, which places us in the 93rd percentile in our industry sector, comprising 109 participating companies. By comparison, our 2020 score was 13 points, which placed us in the 39th percentile.

We rated higher than the sector average in 18 out of the 20 headline factors, including corporate governance, customer relationship management, information security, privacy protection, environmental reporting, human capital development, and talent attraction and retention. By comparison, in 2020 we rated higher than the sector average in only one factor.

Our scores for each factor (environmental, social, and governance) have increased significantly.

Our results show remarkable progress and improvement, and they emphasise our ongoing efforts to address the social, economic, and environmental factors impacting our business, our employees, our customers, and our communities.

	Company score	Percentile ranking	Year
Governance and economic dimension	16	11	2020
Environmental dimension	11	65	
Social dimension	8	54	
Total sustainability score	**13**	**39**	
Governance and economic dimension	53	94	2021
Environmental dimension	36	92	
Social dimension	36	88	
Total sustainability score	**45**	**93**	

Social responsibility and sustainability continued

Task Force on Climate-related Financial Disclosures

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.

This is our first TCFD disclosure, and we will continue to evolve our approach and reporting in future years.

Bearing in mind the ongoing Merger discussions between Avast and NortonLifeLock (described on page 7), it was decided not to conduct scenario impact assessments at this point but to ensure that the necessary governance is in place and that climate risk has been properly integrated. In this section, we have provided an overview of our progress and priorities against the requirements of Listing Rules 9.8.6R. The Company has assessed its compliance with the TCFD Recommendations and Recommended Disclosures and the table on the following page sets out the areas where it is not compliant, together with the reasons and any next steps.

Governance

Avast is committed to managing its environmental impacts in a responsible way. The Board assumes overall responsibility and accountability for the management of climate-related risks and opportunities.

The Audit and Risk Committee supports the Board by overseeing the Group's risk management framework, evaluating its principal and emerging risks, setting the risk appetite, and assisting the Executive Management team with developing and implementing the operational plans required to strategically manage those risks.

Strategy

Avast's principal product is software. The business does not contribute significantly to direct greenhouse gas (GHG) emissions. However, the business does recognise that the energy consumed in its supporting operations and value chain, including its servers and data centres, does impact on GHG emissions indirectly.

Through the Company's risk management framework, management has identified physical climate risks as those which arise from both gradual changes in climatic conditions and extreme weather events that can result in asset damage, resource depletion, and disruption. Transition risks have been identified as those that occur in the process of moving to a low-carbon economy. These include government policy changes and reputational impacts, as well as shifts in market preferences, norms, and technology.

Management recognises that major physical impacts from climate change could lead to failure across interdependent networks, disruption to power networks, flooding, and reputational damage. As a result, the Group has been migrating its systems and infrastructure from on-premises to the public cloud. As a consequence, the physical footprint of the business is becoming smaller and more geographically dispersed. Direct physical climate-related risks are limited, as the risk of data disruption is shared across the supply chain.

Avast's 10 data centres, with the exception of the two linked to the Prague and Brno facilities, are currently in the process of being fully migrated to a public cloud platform. Seven of these eight data centres being fully migrated already use renewable energy. It is planned that the workload from the remaining Prague and Brno data centres will be partially offloaded to a public cloud platform.

The transition of the global economy to reduce carbon emissions and evolving regulatory requirements at a national level are important considerations for the Group. Management also believes that addressing climate risks could provide opportunities for increased business efficiencies in the medium to long term. It is also a consideration in the competition to recruit and retain industry talent.

Risk management

The Audit and Risk Committee makes recommendations to the Board on the principal risks of relevance to the business. Climate-related issues are considered in terms of potential for contribution to these principal risks.

The issues considered include both the risk of physical disruption to the business from climate change, and the risks and opportunities as the global economy transitions to significantly lower carbon emissions. In the current period, the Audit and Risk Committee concluded that climate-related risks did not rise to the level of a principal risk, except as part of Legal and Regulatory Compliance.

Metrics and targets

Avast has measured its GHG emissions since 2018. These GHG emissions cover Scope 1 direct emissions from the usage of fuel and operation of its buildings, and indirect Scope 2 emissions from electricity consumption on site. Electricity consumption makes the highest overall contribution to GHG emissions.

Management intends to expand the measurement and reporting on environmental sustainability in support of continual improvement. Avast is moving to a carbon-neutral service for most of the data centres, using a cloud platform. Data consumption in applications is optimised to work in the cloud effectively, saving money, energy, and data-processing requirements. The Company also purchases green energy for the offices in Prague and Brno, Czech Republic.

Additional statement

Before the ongoing Merger negotiations with NortonLifeLock, it was our plan to conduct and assess a comprehensive climate-related scenario or scenarios and examine in detail the respective physical and transition risks and opportunities. These would then have been discussed and analysed to understand if any adjustments needed to be made from a financial or operational perspective. The outcomes and implications from this scenario or scenarios would have then been reported.

Social responsibility and sustainability continued

Disclosure	Commentary	Compliance
Describe the Board's oversight of climate-related risks and opportunities	The Board, supported by the Audit and Risk Committee, assumes overall responsibility and accountability for the management of climate-related risks and opportunities. The Audit and Risk Committee makes recommendations to the Board on the principal risks of relevance to the business; climate-related issues are considered in terms of potential for contribution to these principal risks. In August 2021, an overall assessment of Avast's approach and performance around ESG, including climate, was conducted by management, in conjunction with external consultants, and a report and recommendations were submitted to the Executive team for consideration. Consideration of climate risk and the need to consider, implement, and report on the TCFD methodology were part of these recommendations. In response, a TCFD working committee was established, which reports through to the Audit and Risk Committee.	Compliant
Describe the management's role in assessing and managing climate-related risks and opportunities	Management has undertaken a review of the Company's enterprise management risk approach, and climate-related issues have been integrated into the core risk management process.	Compliant
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Physical and transition risks are considered to be principally linked to the Company's use of data centres. The majority of these are in the process of being migrated to a cloud platform, which will reduce risks. Management is in the process of identifying climate-related opportunities for the business.	Partially compliant
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Climate-related risks have been integrated within the Company's principal risks under legal and regulatory compliance risks. As the TCFD working committee continues its work, in future periods these climate-related risks and opportunities will be integrated into the business, strategy, and financial planning.	Partially compliant
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Bearing in mind the ongoing Merger discussions between Avast and NortonLifeLock, it was decided not to conduct scenario impact assessments at this point but to ensure that the necessary governance is in place and that climate risk has been properly integrated.	Non-compliant
Describe the organisation's processes for identifying and assessing and managing climate-related risks	Avast has formed a TCFD working committee to identify, assess, and manage climate-related risks, which reports through to the Audit and Risk Committee. The Audit and Risk Committee oversees the risk management process and framework, with the Board considering climate-related risks and opportunities.	Partially compliant
Describe the organisation's processes for managing climate-related risks	Avast considers climate-related risks and opportunities through the Board, Audit and Risk Committee, and its risk management process and framework. These are described on pages 54 to 59.	Partially compliant
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	GHG emissions are disclosed in the annual report, including Scope 1 and 2, and are aligned to the Greenhouse Gas Protocol Corporate Standard. It is intended that further metrics for climate-related risks and opportunities will be identified after the Merger with NortonLifeLock is completed and integrated into the business and management processes.	Partially compliant
Describe Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	GHG emissions are disclosed in the annual report, including Scope 1 and 2, and are aligned to the Greenhouse Gas Protocol Corporate Standard. The Company is taking steps to better understand Scope 3 emissions.	Compliant
Describe the targets used by the organisation to manage climate-related risks and opportunities, and performance against targets	Bearing in mind the ongoing Merger discussions between Avast and NortonLifeLock, targets have not yet been set at this stage. It is intended that targets for climate-related risks and opportunities will be identified and set after the recommended Merger with NortonLifeLock is completed, and performance of these targets will be monitored.	Non-compliant

Social responsibility and sustainability continued

Greenhouse gas emissions calculation and methodology

Avast has a viable programme for collecting relevant data from suppliers, data centres, and landlords in order to calculate its carbon emissions.

Since first implementing our GHG emissions calculation activities, we have been able to capture a greater percentage of measured data each year, thereby reducing the need to estimate or extrapolate.

The emission factors (i.e. factors/coefficients that determine the emission intensity of particular activities) for the carbon footprint calculation are taken from several sources. Where available, national documents and tools are used to provide specific emission factors for the Czech Republic (mainly for energy-related aspects). For other activities and aspects, the emission factors are obtained from international documents (e.g. Intergovernmental Panel on Climate Change – IPCC – Guidelines for National Greenhouse Gas Inventories) and the UK Government GHG Conversion Factors for Company Reporting tool.

Even though the main headquarters of the Company are located in Prague, Avast operates across the world. The first caveat lies in calculation of a carbon footprint in these different countries. While in the case of the Czech Republic, specific emission factors were calculated based on the country energy mix, for the rest of the world, generic emission factors derived from the UK Government GHG Conversion Factors for Company Reporting tool (Department for Environment, Food and Rural Affairs – Defra factors 2021) were used instead. This inevitably introduces a certain inaccuracy into calculations, but on the other hand, consumption of electricity from these countries represents only about 10% of the total electricity consumption. In case of emissions from diesel combustion, Defra factors were used as well, in order to maintain consistency among the reports (in previous reports, Defra factors were used for calculating emissions of the diesel), even though coefficients from IPCC guidelines are often used in the Czech Republic. When it comes to electricity, for spaces that are leased, an estimate was calculated based on the area of each office (an average of kWh/m^2 was obtained from the offices, which was then extrapolated). These offices represent only 2% of all building operations (data centres excluded) and 0.7% of all operations (data centres included), therefore the simplification is less influential. When it comes to heating, the extrapolation represents about 30% of the total heated area.

The calculation of the 2021 carbon footprint was obtained using emission factors for the Czech Republic determined by the Decree No. 140/2021 Coll. on Energy Audit, supplemented with emission factors from other external sources (e.g. IPCC Guidelines for National Greenhouse Gas Inventories, Defra).

For the operations in the Czech Republic, the emission factor for electricity was derived from yearly electricity consumption (published by the Czech Energetic Regulatory Office) and CO_2 inventory for the Czech Republic.

Social responsibility and sustainability continued

2021 greenhouse gas calculation

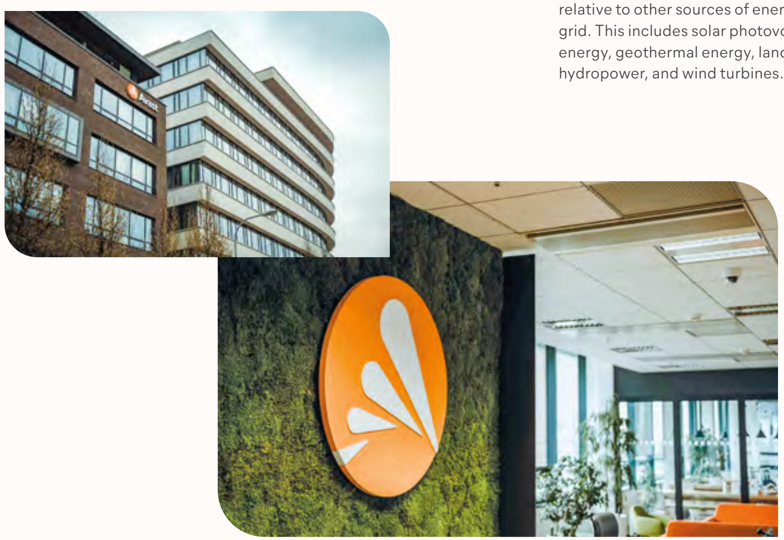
The majority of Avast's emissions come from the operation of office facilities and data centres. As the Company is looking at ways to improve energy efficiency and reduce overall carbon emissions, a number of measures are already in place. These include PET-free offices, which are also equipped with waste separation, recycling programmes, and light- and climate-control mechanisms to reduce energy consumption.

Starting in 2021, Avast purchased green energy[1] for its two largest offices, in Prague and Brno, Czech Republic; both are housed within BREEAM Excellent New Construction certified buildings, and have been used since 2016 and 2018, respectively. In Prague, Avast employees can find chargers for electric vehicles, with dedicated parking allotted to those who drive electric cars. Avast uses 10 primary data centres, of which seven operate on green energy only. Purchased hardware – both for employee use and within data centres – comes from reputable suppliers. Older hardware is either sold to employees, donated, or recycled with certified electronics suppliers.

1 According to GHG protocol (A Corporate Accounting and Reporting Standard, revised edition), green energy is a generic term for renewable energy sources and specific clean energy technologies that emit fewer GHG emissions relative to other sources of energy that supply the electric grid. This includes solar photovoltaic panels, solar thermal energy, geothermal energy, landfill gas, low-impact hydropower, and wind turbines.

Table 1: Carbon footprint summary

	2018		2019		2020		2021	
Scope	(t CO_2e)	(%)	(t CO_2e)	(%)	(t CO_2e)	(%)	(t CO_2e)	(%)
Scope 1 (usage of fuel and operation of buildings)	96.1	2.14	77.6	1.72	57.9	1.49	**43.5**	**1.20**
Scope 2 (emission from electricity)	4,395.8	97.86	4,443.6	98.28	3,886.1	98.51	**3,613.2**	**98.80**
Total	4,491.0		4,521.2		3,944.0		**3,656.7**	
Intensity ratio (tCO_2e/$m adjusted revenue)	5.42		5.18		4.42		**3.88**	



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primary data centres, of which seven operate on green energy only

Social responsibility and sustainability continued

UK vs offshore emissions

In addition to the general calculation of the overall carbon footprint, the carbon footprint of UK operations and other/offshore operations[1] was carried out. The results are provided in the following table.

Table 2: UK vs offshore carbon footprint

			2020			2021
Location	Scope 1 (t CO_2e)	Scope 2 (t CO_2e)	Overall (t CO_2e)	Scope 1 (t CO_2e)	Scope 2 (t CO_2e)	Overall (t CO_2e)
UK	19.5	36.7	56.2	39.3	21.4	60.7
Offshore	0.0	0.0	0.0	0.0	0.0	0.0
Other	38.4	3,849.4	3,887.8	4.2	3,591.8	3,596.0
Total	**57.9**	**3,886.1**	**3,944.0**	**43.5**	**3,613.2**	**3,656.7**

Table 3: UK vs offshore consumption in 2021 (kWh), excluding green energy

Location				Scope 2			Scope 1
UK vs offshore	EE (KWh)	Steam (KWh)	Heat (KWh)	Total (KWh)	Diesel (KWh)	Gas (KWh)	Total (KWh)
Offshore	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	6,279,749.6	0.0	1,013,838.4	7,293,588.0	16,482.3	0.0	16,482.3
UK	100,691.9	0.0	0.0	100,691.9	0.0	193,650.5	193,650.5
Grand Total	**6,380,441.5**	**0.0**	**1,013,838.4**	**7,394,279.9**	**16,482.3**	**193,650.5**	**210,132.8**

Table 4: UK vs offshore consumption in 2020 (kWh), excluding green energy

Location				Scope 2			Scope 1
UK vs offshore	EE (KWh)	Steam (KWh)	Heat (KWh)	Total (KWh)	Diesel (KWh)	Gas (KWh)	Total (KWh)
Offshore	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	7,255,239.2	436,388.9	802,872.0	8,494,500.1	21,497.9	180,611.5	202,109.4
UK	151,478.1	0.0	8,034.8	159,513.0	0.0	106,133.0	106,133.0
Grand Total	**7,406,717.3**	**436,388.9**	**810,906.8**	**8,654,013.0**	**21,497.9**	**286,744.5**	**308,242.4**

1 The Company offices (and data centres) are categorised based on their location. The categories used are UK, other, and offshore. The offices based in the UK are categorised as UK, while all other offices are categorised as other; no office is categorised as offshore at the moment.

Social responsibility and sustainability continued

Scope 1: Direct emissions (energy)

This scope, sometimes also referred to as direct emissions, covers production of GHG by sources owned or controlled by Avast (natural gas and fuel for vehicles).

The emission factors for both the natural gas and fuels (diesel) were used based on the UK Government GHG Conversion Factors for Company Reporting tool (Defra factors).

Table 5: Carbon footprint – Scope 1

		2020		2021	
Fuels	Emission factor (kg CO_2e/unit)	Consumption (unit)	Carbon footprint (t CO_2e)	Consumption (unit)	Carbon footprint (t CO_2e)
Natural gas	183/203.0[1]	286.74 MWh	52.7	193.7 MWh	39.3
Diesel	2.6	2,031.94 l	5.2	1,657.8 l	4.2
Total			**57.9**		**43.5**

1 The first number is the emission factor used in 2020, the second is the one used in 2021.

Scope 2: Indirect emissions (energy)

Scope 2 investigates emissions of GHG from the generation of purchased energy consumed by the Company. Most typically this is electricity, but sometimes also heat or steam used for heating operations.

For the operations in the Czech Republic, the emission factor for electricity was derived from yearly electricity consumption (published by the Czech Energetic Regulatory Office[1]) and CO_2 inventory for the Czech Republic.[2]

For the rest of the operations (outside the Czech Republic), the emission factors were used based on the UK Government GHG Conversion Factors for Company Reporting tool.

1 Accessible at https://www.eru.cz/en/zpravy-o-provozu-elektrizacni-soustavy.
2 Accessible at https://unfccc.int/documents/271576.

Table 6: Carbon footprint – Scope 2, excluding green energy

		2020		2021	
Energy	Emission factor kg CO_2e/MWh	Consumption MWh	Carbon footprint t CO_2e	Consumption MWh	Carbon footprint t CO_2e
Electricity CZ – buildings	540/562[1]	2,855.3	1,541.9	0	0
Electricity rest of the world – buildings	233/212[1]	858.5	200.1	579.5	123.1
Electricity CZ – data centres	540/562[1]	3,093.1	1,670.3	5,581.6	3,136.8
Electricity rest of the world – data centres	233/212[1]	599.9	139.8	219.4	46.6
Heat CZ	343/396[1]	696.8	239.0	589.0	233.4
Heat rest of the world	172	114.1	19.6	424.9	73.3
Steam	172	436.4	75.1	0	0
Total		**8,654**	**3,885.6**	**7,394.3**	**3,613.2**

1 The first number is the emission factor used in 2020, the second is the one used in 2021.

Social responsibility and sustainability continued

Ethical business

The Executive Management team is responsible for ensuring that all staff have access to and comply with the policies governing our business practices, community engagement, and charitable activities.

All Avastians are required to follow the principles outlined in the Avast Code of Conduct and associated policies in order to uphold our commitments to ethical business practices, human rights, and social responsibility. Avast also obtains assurance from its suppliers, contractors, and those doing business on its behalf that they comply with certain ethical, social, and legal standards.

Human rights

Avast deeply respects and upholds the principles of human rights as articulated in the United Nations, Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights, and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Transparency and anti-corruption

We do not tolerate corruption or bribery in our business operations and have policies in place to disclose and mitigate all potential conflicts of interest.

Our commitments to human rights, transparency, and anti-corruption are reflected in our business practices, charitable outreach, and community engagement, and documented in our Code of Conduct, annual Modern Slavery Transparency Statement, and related corporate policies, including: Supplier Guidelines; Sanctions, Anti-Money Laundering and Counter Terrorist Financing Policy; Anti-Corruption Policy; Related Party Transactions Policy; Conflict of Interest Policy; Whistleblowing Policy; Avast Grievance Procedure; Avast Recruitment Policy; and Modern Slavery Policy.

These policies are available for consultation to all employees via our intranet, and all employees must certify that they have read and understood these policies following mandatory training. Avast's comprehensive Supplier Guidelines are published on our website, and cover our expectations for our supply chain with respect to labour, working conditions, occupational health and safety, business conduct and ethics, environment, conflict minerals, management systems, and adherence to international standards of conduct. Prior to signing contracts with any service providers, Avast requires that suppliers acknowledge these guidelines and agree to adhere to them. Avast has also implemented processes for our existing suppliers to agree with these principles.

Avast employees and the public can report any perceived violations of these policies through the Avast whistleblowing hotline, which is operated by a third-party provider to ensure confidentiality. All reports are assessed and, where necessary, formal investigations are undertaken. Periodic summary updates are provided to the Audit Committee of the Avast Board.

Avast complies with all applicable export control laws, as outlined in our Sanctions, Anti-Money Laundering and Counter Terrorist Financing Policy. Adherence is maintained through various internal processes and controls, as well as those of our partners, suppliers, and resellers. User information is compared against lists of restricted parties published by relevant governmental agencies, including: the US Department of Commerce Denied Persons List; the US Department of Treasury's Specially Designated Nationals List; US Government export exclusion lists; Consolidated list of financial sanctions targets in the UK; and Consolidated list of persons, groups and entities subject to EU financial sanctions. Avast has implemented processes to prevent users based in sanctioned and embargoed territories from downloading, purchasing, operating, or updating our products and services.

All of Avast's policies are periodically reviewed and updated to ensure that they provide the appropriate framework for upholding our commitments to ethical business practices and that they accurately describe the business process which they govern.

Over the course of 2021, Avast engaged Deloitte LLP to undertake a review of its compliance framework. This review included a review of its key policies with the aim of implementing strengthened policies and procedures. The policies within the scope of the review were the following:

Code of Conduct	Modern Slavery
Conflicts of Interest	Avast Data Guide
Anti-corruption	Securities Dealing Code
Related Party Transactions	Speaking UP & Working Together
Sanctions & Anti-Money Laundering	Health & Safety Policy
Group-Wide Securities Dealing	Avast Global Travel and Expense Policy
Inside Information Disclosure	Enterprise Risk Management Policy
Whistleblowing	

The findings of the review were presented to the Audit and Risk Committee. Where revisions of policies were needed, or where there was a gap in policy coverage, the relevant business teams are in the process of taking steps to update or write policies as required. Avast has prioritised the update of its 'Speaking Up Policy' in light of the implementation of the new EU Whistleblower Directive.

In addition, Avast has commenced and rolled out a programme to integrate all policies within the workforce and has requested that employees accept Avast's current policies via Workday. In 2022, the Company will progress to include targeted training on certain policies and will have engaged with a third party to assist in the provision of such training.

Social responsibility and sustainability continued

Social impact and launching the new Avast Foundation's programmes

Long-standing commitment to philanthropy

Avast's commitment to giving back has long been expressed through its philanthropic endeavours. In 2020, Avast's leadership decided to bring its charitable work closer to the Company's core business and mission. The Avast Foundation was therefore established at the end of 2020, and began operations in 2021, with a donation from Avast of $3.18 million to support its mission to increase digital freedom and citizenship by eliminating barriers to digital access and inclusion worldwide.

A further $1.93 million was donated to Abakus, a private foundation established to continue supporting the impactful work of the previous corporate foundation, Nadacni Fond Avast, which had focused on palliative care, early childhood education, and supporting families of children with disabilities in the Czech Republic. Through 2024, Avast will remain the sole corporate partner to Abakus, providing a decreasing amount of funds each year to ensure programme continuity and ongoing benefit to communities and partners, while it plans to grow its future philanthropic areas in more brand and mission-aligned ways. The Foundation was therefore formally launched along with the new Avast brand in September 2021, as a key avenue through which we aim to demonstrate and enact our commitment to building a better and more inclusive digital future that works for everyone.

Avast Foundation: laying the groundwork for long-term impact

For the brand-new Avast Foundation, 2021 was pivotal in defining its scope and areas of focus, as well as its approach to 21st-century grantmaking. Taking a long-term view in its approach to societal change, the Foundation has contextualised its work within the framework of the United Nations Sustainable Development Goals (SDGs), and has identified four priority SDGs towards which its work aims.

These are:

- SDG 10, Reduce inequality within and among countries
- SDG 13, Take urgent action to combat climate change and its impacts
- SDG 16, Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- SDG 17, Strengthen the means of implementation and revitalise the global partnership for sustainable development

To progress towards these goals, the Foundation established three interrelated strands of work – Thought Leadership, Programmes and Initiatives, and Employee Engagement. Under the leadership of Global Executive Director Shane Ryan, who joined in February 2021, the Foundation has significantly progressed in all areas and laid the groundwork for credible, meaningful, and ethical long-term engagement with communities.

Thought Leadership

Thought Leadership will be an evolving space for the Foundation, and there are many complementarities between Avast's platform and the one the Foundation will seek to develop across areas of digital freedom, including privacy, digital rights, and digital equity. In 2021, the Foundation's Troll Free Future campaign and multi-year support for further research into trolling and online hate with the Oxford Internet Institute aims to enhance our collective understanding of how to increase internet civility and safety, especially for those most vulnerable and likely to be targeted online. This commitment to inclusivity and diversity is also demonstrated by the Foundation's support for the UK's National Diversity Awards.

Social responsibility and sustainability continued

Grantmaking for impact

The Foundation launched several programmatic initiatives in 2021, identifying via global assessment three broad thematic areas that will guide its work: Youth, Families and Marginalised Communities, and Activating Digital Citizenship. Work in the Youth theme has already begun, and a flagship programme, the Spark Fund, was established and launched with Global Fund for Children (GFC) in September 2021. This innovative, inclusive participatory fund provides youth-led and youth-focused groups with financial support and capacity development, enabling them to experiment, collaborate, and learn using digital technologies. The fund harnesses GFC's experience in working with youth and its expertise in capacity building for grassroots organisations. Its participatory nature enables youth in four regions – Central Europe, Africa, Asia, and Latin America – to make informed funding decisions and support organisations that they believe are most closely aligned with their priorities and needs. In its first funding round, 12 youth panellists in Central Europe chose 12 organisations to receive $10,000–$12,000 annual grants over two years, to support work in areas ranging from gender equity to climate resilience to digital education.

The Avast Foundation Youth Leadership Board was established in June 2021 in order to help the organisation's leadership to guide its youth agenda worldwide. These youth leaders have acted as advisers, ambassadors, and advocates for the Foundation's work throughout their global networks. They will continue to play an important role in shaping the platform and approach to working with and raising awareness among youth regarding issues of digital freedom and citizenship affecting them today.

Within the Czech Republic, the Foundation continued the Be Safe Online (BSO) digital safety education programme, which was started as a non-commercial project by Avast. By the end of 2021, more than 60,000 children across the Czech Republic and Slovakia had been educated through the programme's online platform. In cooperation with the Avast Public Relations team, the BSO team also launched a limited series podcast for parents, helping to spotlight the real ways in which families struggle with issues of digital safety and security – and offering advice and insights on how to navigate these challenges. Avast's CEO Ondrej Vlcek was featured among the guests, as were relevant educators, psychologists, and influencers.

In its Programmes and Initiatives, the Foundation has also committed to setting aside funding for responsive work, such as deploying support in the face of natural disasters, health emergencies, or other humanitarian crises. This capacity was tested in July 2021 following a devastating tornado affecting the Moravia region of the Czech Republic. Thanks to the engagement of Avast staff and Executive leadership, the wider Avast community collectively donated over $220,000 to impacted communities, based on a generous matching scheme created by the Foundation to encourage donations at a critical time.

Employee engagement

Avast's employees have always been generous with their time and resources, and ensuring a close connection between the newly established Foundation and Avast employees was a priority for both the Company and the Foundation. Working closely with Executive leadership, the Foundation has built a programme that will enable engagement with organisations and causes of employees' choosing, in a variety of ways. The comprehensive programme will launch in Q1 2022, with opportunities for both field and expert volunteering, year-round opportunities to engage in donations and fundraising, and curated thematic opportunities to engage in matched funding for a variety of causes.

The entire programme was designed with the input of Avast employees, based on the Foundation's commitment to inclusive co-design. Several Avast employees will volunteer their time as ambassadors to help drive awareness and participation in the Foundation's programmes, many of which are complementary to and align directly with our efforts in staff learning and D&I.

In keeping with the principle of employee involvement, the Foundation donated $300,000 towards non-profit organisations nominated by Avast employees and working in a variety of fields around the world. Seven of these organisations work directly in the areas of digital freedom, privacy, online safety, or digital education, and we are proud that our employees have brought to our collective attention such a wide variety of impressive causes and organisations.

The Avast Foundation's first annual report will be released in June 2022.

$300,000

towards non-profit organisations nominated by staff and working in a variety of fields around the world

Section 172 statement

Stakeholder engagement

Avast operates in a fast-moving and complex industry which involves engagement with a rich network of stakeholders based all around the world. The Board understands that its relationships with these stakeholders are dynamic, and that its stakeholders' interests may change over time. For this reason, the Board actively engages with its stakeholders to keep informed of their interests and expectations.

The Board is considerate of its stakeholders' interests when making decisions, including any potential long-term impact of those decisions. The Board's vision to create long-term value for its stakeholders is underpinned by Avast's strategy, described on pages 20 to 23, which it believes will drive growth and profitability as Avast adapts to emerging trends.

In this section, we describe how the Board engages with its key stakeholders, and some of the ways it has considered their interests when making its decisions.

Customers

Avast is a customer-centric business, which operates on the principle that the Customer Comes First. Customer loyalty is important to the business, and therefore the Board always considers the potential long-term impact its decisions may have on its customers.

Primary interests:

Customers want:

- To be secure in their digital lives, whatever they are doing online
- To know their data is being kept private
- To see transparency around how their data is collected and used

How we engage

The Board receives regular reports from management based on market trends and customer feedback. The Board encourages the business to maintain multiple channels and methods of communication with customers to promote a meaningful and open dialogue, including customer surveys, customer telephone support, social media, and Company-run forums.

The Board also tracks customer satisfaction through various metrics, including Avast's relationship net promoter score (NPS) and the average number of Avast products per customer. To incentivise meaningful engagement with customers, a portion of the Executive Directors' annual bonus is based on overall customer satisfaction.

The Board is responsible for approving material business transactions and key strategic changes, as part of which customers' interests are at the fore. The Board is mindful that counterparties to commercial and corporate transactions may pursue strategies and outcomes which may conflict with the interests of customers. The Board considers if, and how, these divergent interests can be reconciled.

Impact on Board decisions

The Board is attuned to the growing concern among customers for their privacy, both in terms of keeping their data safe online and the ways in which companies they trust with their data use it. The Board continued its focus in this area through the establishment of a Security and Privacy Committee of the Board to oversee the initiatives led by the Chief Privacy Officer and Chief Information Security Officer during the year to further embed a privacy-by-design culture within Avast and to promote a resilient and transparent data protection strategy across the business, its policies, products, and service. More detail on the Security and Privacy Committee can be found on page 102.

Customer experience has been a key driver of product development in 2021. Listening to the needs of our users, the Board approved Avast One, an award-winning, integrated service that delivers personalised, comprehensive cross-platform protection to increase privacy, connect securely, speed up devices, and stay safe from viruses. For more information see page 5.

Section 172 statement continued

Shareholders

The Board's primary objective in exercising its duties is to promote the success of the Group for the benefit of its shareholders. The Board seeks to treat all shareholders fairly, and this involves ensuring that decisions are made for the collective good rather than in the interest of a small number of large shareholders.

Primary interests

Shareholders want:

- Strong financial performance
- Effective execution of the Group's organic and inorganic growth strategy
- Implementation of meaningful environment, social and governance policies
- Efficient and appropriate allocation of the Group's capital

How we engage

As described in more detail on page 90, the Board spends a considerable amount of time engaging with shareholders to understand their interests, and any concerns they may have. As part of this effort, members of the Board attend meetings with shareholders and solicit feedback from major shareholders in advance of making decisions that will materially impact the Group.

Frequent updates are also provided to investors about the business through press releases, regulatory announcements, and periodic financial announcements.

Impact on Board decisions

The nature of the COVID-19 pandemic has brought logistical challenges for interacting with shareholders in person. In line with government advice, shareholders were not able to attend the Annual General Meeting (AGM) in person, but were encouraged to attend the meeting by webinar and submit questions to the Board in advance.

The CEO, CFO, and Senior Independent Director met institutional investment firms and proxy agencies to discuss and get their feedback on the proposed Merger with NortonLifeLock. At the general meeting on 18 November 2021, 94% of shareholders voted in favour of the recommended Merger with NortonLifeLock.

In April 2021, the Company sold the Family Safety mobile business to Smith Micro Software Inc. The Board determined that the disposal was in the best interests of its shareholders, and that the price paid for the business was fair and the resulting capital could be allocated more effectively.

Avastians

Avast's employees, 'Avastians', are its biggest asset. Maintaining a happy and engaged workforce is key to the Board's strategy to attract and retain top talent in the technology industry. The Board appreciates that any decisions it makes may impact on Avastians' performance, engagement, and work satisfaction.

Primary interests

Avastians want:

- A culture of autonomy and responsibility
- To work for a leader in the industry, with opportunities for personal growth and career development
- Competitive benefits and remuneration

How we engage

Avastians are passionate about protecting customers' digital lives, and truly value playing a part in the decisions made affecting the Group. The Board consults with Avastians through a variety of direct and indirect channels, described in more detail on page 62, including through its dedicated Employee Engagement Director, Pavel Baudis.

The Board has made monitoring and developing corporate culture a key initiative and, as described in further detail below, oversaw a significant transformation of the way Avastians carry out their work during the year.

Impact on Board decisions

The interests of Avastians were carefully considered in relation to the proposed Merger with NortonLifeLock, and the Board understood that employees would appreciate transparency in relation to the process. The CEO hosted regular 'All Hands' with Avastians to discuss the proposed transaction, which enabled the Board to consider employee feedback in the decision-making process. The Board was satisfied through this process that Avastians' interests were taken into consideration and adequately addressed.

The Board oversaw the implementation of the Future of Work initiative, enabling all our people to work in a more flexible way and to receive the benefits of RSUs, which were granted in January 2021, making them investors in Avast and further aligning their interests with those of the Group's shareholders.

Section 172 statement continued

Suppliers

The performance of Avast's suppliers is integral to Avast's success. From providers of software and hardware, to landlords and data centres, Avast's supply chain plays a critical role in its mission to protect the digital lives of its customers. Avast aims to build mutually beneficial, long-term relationships with its material suppliers.

Primary interests

Suppliers want:

- The Group to meet its payment obligations on time
- To build a long-term, mutually beneficial relationship
- To interact with professional and respectful counterparts at Avast

How we engage

The Executive Directors, together with members of the Executive Management team, engage collaboratively with material suppliers to discuss matters of mutual interest, including any risks which may need to be addressed.

The Board is given updates from management as appropriate, regarding the Group's relationships with its material suppliers, including with respect to any material risks, performance issues, or potential future changes.

As part of the Group's standard engagement process, suppliers are required to accept the Group's Supplier Guidelines, which act as an acknowledgement that they meet certain minimum ethical and legal standards approved by the Board, including in relation to modern slavery, anti-bribery and corruption, and anti-money laundering. More details in relation to these policies can be found on page 77.

Impact on Board decisions

Throughout 2021, the Board gave feedback to management on the quality of service being provided by suppliers in order to improve the service provision for shareholders.

Over the course of 2021, with the enforcement of Strong Customer Authentication (SCA) in Europe, the Board, through Executive Management, Avast engaged with the Group's payment processors to mitigate the impact to the Group's sales and to identify areas of optimisation. This engagement continues as SCA completes its rollout in the UK this year and to identify new actions which can be taken to ensure customers are able to purchase our products.

Communities

It is important to the Board, and all Avastians, that the Group gives back to the communities it operates in. The Board takes into consideration the impact that its decisions will have on the wider community, including through the example Avast sets as a global leader in the cybersecurity industry.

Primary interests

Communities care about:

- The Group's tax strategy
- The Group's carbon footprint
- The Group's efforts to promote worthy causes within the community

How we engage

During the year, the Board engaged with communities through the Avast Foundation and its employees. The Avast Foundation operates as Avast's 'boots on the ground', and allows the Group to most effectively deal with worthwhile causes in the community. Avast's employees are encouraged to nominate matters which matter to them, which the Group donates to through the Foundation.

In addition, the Board monitors initiatives addressing global issues impacting the world to understand how Avast can help through its position as a cybersecurity leader.

The Board seeks to transparently disclose the Group's carbon emissions and the ways it achieves status as a carbon-neutral business. More concerning Avast's carbon emissions can be found on page 73.

Impact on Board decisions

The Board approved the establishment of the new Avast Foundation as a non-profit entity incorporated in the Netherlands in December 2020, which followed a programme of work to examine the ways in which Avast's social purpose could be more aligned to its core purpose and more reflective of the Company's global footprint and scope. The new Avast Foundation started operations in 2021. Avast has also confirmed its intention to a 1% model of charitable giving, whereby 1% of profit (EBITDA), product, and employee time will be donated annually to social impact initiatives.

The Board approved the funding of $5.0 million to the Avast Foundation for the year ended 31 December 2021.

The Board approved a transparent and fair tax policy that avoids using contrived tax structures that are intended for tax avoidance, lack commercial substance, and do not meet the spirit of local or international law.

More details relating to Avast's corporate social responsibilities are set out on page 77.

Section 172 statement continued

Here is an example of how the Board took into consideration its stakeholders' interests when making its principal decisions.

COVID-19 response

In 2021, the COVID-19 pandemic continued to present a momentous challenge for Avast and its stakeholders during the year and required a fundamental shift in the way Avast's employees and customers operated on a day-to-day basis.

Employees: The Board continued to oversee employees' transition to working from home, which involved providing employees with suitable home office equipment, health and safety assessments, and appropriate support. Later in the year, the focus was on ensuring offices were COVID-19 secure. Employees were periodically asked to participate in surveys about how they were coping with the changes and how the Group could further support them from both a professional and personal perspective. The Board was apprised of the results of the surveys, and through this process understood the desire of many employees to have greater flexibility with respect to their work life. As a result, the Board approved a new employee proposition which includes the option to work from the office or from anywhere, and so not return to the office full-time post-COVID-19.

Suppliers: The Board, through the Executive Management team, engaged with our external customer service suppliers in different countries to ensure continuity of a good level of service. They rapidly adapted their systems, procedures, and workforce to adapt to new work from home demands while maintaining information security and acceptable service levels.

Community: Avast has continued to participate in numerous initiatives in an effort to support the global response to the pandemic, including running a successful educational campaign about COVID-19 vaccination scams.

Non-financial information statement

Non-financial information statement

This section of the strategic report constitutes the Company's non-financial information statement.

Reporting requirements	Policies and statements which govern our approach	Details of policies, statements, due diligence, and outcomes
Environmental matters	Environmental disclosures	Environment, social, and governance, page 70 Environmental disclosures, page 73 Task Force on Climate-related Financial Disclosure (TCFD), page 71
Employees	Whole-life flexibility Work from anywhere Hybrid working Growth mindset Employee experience Diversity policy	People and culture, page 62 People and culture, page 62 People and culture, page 64 People and culture, page 62 People and culture, page 63 People and culture, page 65
Social matters	Social responsibility and sustainability	Ethical business, page 77
Respect for human rights	Whistleblowing policy Avast grievance procedure Avast recruitment policy Modern slavery policy	Transparency and anti-corruption, page 77
Anti-corruption and bribery	Suppliers' guidelines Sanctions, anti-money laundering, and counter terrorist Financing policy Anti-corruption policy Related party transactions policy Conflict of interest policy	Transparency and anti-corruption, page 77
Business model	How our business is presented	Business model, page 25

Non-financial KPIs

Avast measures four non-financial areas of its business:

1 Employee engagement

We track employee engagement year over year using Avast's Your Voice survey. This provides insights into areas for improvement that will help to raise employees' sense of connection and commitment to the organisation.

2 Brand awareness

We conduct annual brand awareness surveys using quantitative interviews with a panel of respondents in key regions, including the United States and the United Kingdom, measuring promoted and unpromoted awareness.

3 Customer satisfaction

We measure customer satisfaction via NPS measures for Avast Antivirus, AVG antivirus, Avast Business, and customer service.

4 Customer churn

We calculate this by measuring the number of customers at the last year end and measuring how many from those customers are customers by the current year end.

Strategic report approval

The strategic report on pages 1 to 84 was approved by the Board on 24 February 2022 and signed on its behalf by:

Ondrej Vlcek
Chief Executive Officer

Governance

Board of Directors

ARC Audit and Risk Committee
NC Nomination Committee
RC Remuneration Committee
SPC Security and Privacy Committee
Committee Chair

1 John Schwarz
Chair of the Board NC RC

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

2 Ondrej Vlcek
Chief Executive Officer

Ondrej Vlcek was appointed Chief Executive Officer of Avast in July 2019. Together with his senior management team, he executes on Avast's vision to deliver people-centric security and spearheads the Company's product innovation programme for emerging consumer technology categories, including the Digital Identity and Internet of Things security. Previously, Mr Vlcek was President of Avast Consumer, the largest business within the Company, in which role he led Avast's transformation from a traditional PC antivirus vendor to the leading provider of a full portfolio of protection, privacy, and performance products for consumers. Mr Vlcek was also a key member of the executive team that took the Company public on the London Stock Exchange in May 2018. Formerly, he held the combined position of Executive Vice-President & General Manager, Consumer, and Chief Technology Officer. Mr Vlcek, together with his wife, is the Founder of the Vlcek Family Foundation focused on paediatric palliative care. Mr Vlcek holds an MS in Mathematics from the Czech Technical University in Prague.

3 Stuart Simpson
Interim Chief Financial Officer

Stuart Simpson was appointed Interim Chief Financial Officer in September 2021. Prior to Avast, Mr Simpson joined the Royal Mail Group in 2009 where he held multiple leadership positions. He was appointed Chief Finance Officer in July 2017, Chief Finance and Chief Operating Officer in 2018 and Interim Chief Executive Officer in May 2020. Prior to Royal Mail, Mr Simpson worked in the automotive industry for 15 years, where he held senior roles in both finance and strategy, primarily based outside of the UK. Mr Simpson holds a degree in Accounting and Financial Analysis from Newcastle University and is a qualified chartered accountant.

4 Warren Finegold
Senior Independent Non-Executive Director NC SPC ARC

Warren Finegold joined the Board of Directors in February 2015. He was a member of the Vodafone Group Executive Committee where he served as Group Strategy and Business Development Director. Previously, he was a Managing Director of UBS Investment Bank, where he also formerly held several senior positions, most recently as Head of the Technology Team in Europe. Mr Finegold has also served as an independent non-executive Director of UBM plc and Inmarsat PLC and is currently Chairman of Ceres Power Holdings plc. He holds an MA in Philosophy, Politics and Economics from Oxford University and a Master's degree in Business Administration from the London Business School.

Board of Directors continued

5 Maggie Chan Jones
Independent Non-Executive Director SPC NC ARC

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

6 Tamara Minick-Scokalo
Independent Non-Executive Director ARC RC

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

7 Belinda Richards
Independent Non-Executive Director ARC SPC RC

Belinda Richards joined the Board of Directors in June 2018. Ms Richards' background includes a 30-year career in finance, strategy, and mergers and acquisitions (M&A). Most recently, Ms Richards served as a Senior Corporate Finance Partner at Deloitte LLP where she held the position of Global Head of Deloitte's Merger Integration and Separation Advisory Services business and was a Vice Chairman of the firm. Currently, Ms Richards sits on the Boards of Phoenix Group Holdings Plc, The Monks Investment Trust Plc, Schroder Japan Growth Fund Plc, and is the Senior Independent Director and Chair of the Nomination and Governance Committee for Olam Food Ingredients Limited. She is a former member of FRC's Advisory Group of Audit Committee Chairmen and is the Audit Chair of Youth Sport Trust. She has a first class honours degree from the University of Kent at Canterbury and a PhD from University College, London.

8 Pavel Baudis
Non-Executive Director

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

9 Eduard Kucera
Non-Executive Director

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

Other Directors who served during FY 2021

At the conclusion of the Annual General Meeting (AGM) on 6 May 2021, Ulf Claesson and Erwin Gunst retired from the Board.

Philip Marshall stepped down from the Board and as Chief Financial Officer on 21 September 2021.

The biographies for Ulf Claesson, Erwin Gunst and Philip Marshall can be found in our FY 2020 Annual Report.

Corporate governance statement

Corporate governance statement

"As a company which serves hundreds of millions of people around the globe, we view governance and social responsibility as key pillars in developing a successful and sustainable business

John Schwarz
Chair

UK Corporate Governance Code compliance

The Company is subject to the UK Corporate Governance Code 2018 (the 'Code') which is available at www.frc.org.uk. The Board is aware of the Code's emphasis on businesses engaging effectively with their workforce, building strong stakeholder relationships, and establishing a culture that is aligned with the Company's purpose, values, and strategy. We outline how we have applied these principles and complied with the provisions of the Code below and throughout this report.

In light of the approval by the Company's shareholders of the offer by Nitro Bidco Limited, a wholly owned subsidiary of NortonLifeLock, for the entire issued and to be issued ordinary share capital of the Company (as outlined further on page 7 above), the Board has put on hold certain actions which are required by the Code. Should the Merger with NortonLifeLock not complete as anticipated, then the Company intends to proceed with each of these actions in 2022.

The Code requires that the Chair should not remain in post beyond nine years from the date of their first appointment to the Board (Provision 19). As of December 2021, the Company's Chair, Mr Schwarz, has served on the Board for more than nine years, having been a member of the Board since 2011 and Chair since 2014. Last year the Board considered Mr Schwarz's continuation as Chair desirable for a limited period of time, to provide stability and continuity following Board and executive changes, including the retirement of Ulf Claesson and Erwin Gunst as Non-Executive Directors. At the time, significant shareholders and proxy agencies were given the opportunity to speak with the Board's Senior Independent Director regarding their views on the matter. While an executive search firm was engaged to support the search for a new Chair, in 2021 the process was put on hold pending the outcome of the Merger.

The Code requires that there is a formal and rigorous annual evaluation of the performance of the Board, its Committees, the Chair and individual Directors (Provision 21). Avast usually performs this exercise annually, but this has been put on hold for 2021 pending the outcome of the Merger. Should the Merger not complete as anticipated then it is intended that an internal evaluation of the Board will proceed during 2022.

The Code also requires companies to develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares (Provision 36). The Company does not currently have in place post-employment guidelines. The Company intended to incorporate such guidelines into its new Remuneration Policy scheduled to be approved by shareholders in 2022, but the publication of the Remuneration Policy has been put on hold pending the outcome of the Merger.

With these exceptions, the Company complied with all of the provisions of the Code for the period under review.

1 Board leadership and Company purpose

An effective Board

The Board has collective responsibility to its shareholders and oversees the operational management of the Group. In addition, it is responsible for the long-term sustainable success of the Company, generating value for shareholders, and contributing to wider society. The key activities undertaken by the Board during 2021 included the following:

- Discussed, reviewed, and approved the terms of the Merger between the Company and Nitro Bidco Limited
- Oversaw the launch of Avast One
- Reviewed and monitored the Group's long-term business strategy and objectives
- Considered and approved strategic acquisitions
- Considered and reviewed transformation changes needed to deliver the business strategy and objectives

Corporate governance statement continued

- Considered and reviewed the Board's composition, diversity, and succession plans
- Oversaw and supported Avast's succession planning for the Executive Management team
- Reviewed the Company's people strategy and provided feedback to management
- Received updates on brand strategy, transformation, and progress
- Considered updates provided in respect of investors and ESG
- Oversaw the development of the Group's ESG programme
- Reviewed and approved developments in Board governance, including policies, practices, and procedures
- Established a Security and Privacy Committee
- Considered independent non-executive director recruitment and chair succession matters
- Continued to review and monitor the Company's response to COVID-19, including the impact on employees, changes to work practices, and culture
- Oversaw the creation of the new Avast Foundation and its governance framework
- Reviewed and approved the Company's financial reports, including the payment of interim and final dividends
- Received reports for the Board's Committees

The CFO's report on pages 40 to 53 sets out how we have generated value for our shareholders. The importance to the Board of contributing to the wider society is outlined on pages 82 to 83.

Values, strategy, and alignment with culture

The Board sets the Company's purpose, values, and strategy and ensures that these are aligned with the Company's culture.

Company performance and risk management

The Board also ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and measures performance against them. This was shown by the steps taken by the Board to ensure business continuity in light of the continuing COVID-19 pandemic, as detailed further on page 83.

As part of the Group's controls environment, there is a clear schedule of matters reserved for the Board, which include:

- The Group's strategy and organisation development
- The Group's corporate structure and capitalisation
- Approval of financial reports
- Risk management
- Approval of expenditure and material transactions including M&A
- The Merger with NortonLifeLock
- Board composition and succession
- Oversight of governance, including approval of the Group's applicable corporate policies
- Approval of equity awards to employees and the Executive Management team

The Board sets the risk appetite and evaluates principal risks for the Company. Since the IPO, the Board has continued to revise its principal and emerging risks to reflect the changes affecting the business and the markets in which it operates. This has resulted in a reassessment and continued development of the principal and emerging risks as detailed on page 54.

The Board, through its Audit Committee, monitors the Company's risk management and internal control systems.

The Company has procedures in place to review and manage any potential or actual conflicts of interests arising from Directors' current or proposed external roles. Internal controls are in place which require Directors to report any potential or actual conflict of interest to the Company for review. A register of actual and potential conflicts of interest is maintained by the General Counsel and Company Secretary and reviewed periodically. If a Director becomes aware that they, or any of their associated parties, have an interest in an existing or proposed transaction with the Company, they are required to notify the Board immediately. Note 34 to the financial statements describes the related party transactions between certain Directors and the Group which have been considered and, as appropriate, approved by the Board or, if the transaction was entered into prior to the IPO, the Board of Avast Holding BV. The Board considers these procedures to be working effectively.

Corporate governance statement continued

Stakeholder engagement and participation

In order for the Company to meet its responsibilities to shareholders and stakeholders, the Board is required to ensure effective engagement with, and encourage participation from, these parties.

The Board maintains a dialogue with shareholders to help enable a mutual understanding. The Board's primary contact with shareholders is through the Executive Directors, but the Chair and the Non-Executive Directors also engage with and are available to major shareholders periodically and in advance of the Annual General Meeting (AGM) to understand their views on the Group. Members of the Investor Relations (IR) function attend Board meetings when appropriate, and feedback is shared with the Board to help inform the Group's strategy and governance framework.

The Group has a comprehensive IR programme through which the CEO, CFO, and the IR function engage regularly with the Company's shareholders and potential investors to discuss strategic and other issues. This includes presentations on the Group's results and participation at various conferences hosted by corporate brokers to ensure that a wide variety of shareholders, including those from different geographies, have access to management. Similar to last year, while it has not been possible to hold physical conferences due to COVID-19 restrictions, the Company has made a strong effort to ensure that these continue in a virtual environment.

There has been increased shareholder engagement over the past year by the CEO, CFO, the IR function and the Company's corporate brokers as the Company engaged with shareholders and investors to understand their views of the Merger and address any questions they may have. The Company also appointed Georgeson, a global provider of strategic shareholder engagement, proxy solicitation and governance consulting services, who assisted with shareholder engagement in relation to the Merger. Georgeson has no other connections to Avast.

Current and historical financial information, including trading statements, news releases, financial results presentations, and a wealth of other information regarding Avast can be found on the Investors section of the website at https://investors.avast.com. Information in relation to the Merger can be found on the website at https://investors.avast.com/investors/Merger-with-nortonlifelock-inc/. The Group makes use of webcast technology for results presentations and Avast offers all of its shareholders the opportunity to register to receive shareholder communications, such as the annual report, notice of meeting, and related forms of proxy, electronically.

Workforce policies and practices

Policies in relation to the workforce are approved by the Board. As part of its review, it ensures that such policies and practices are consistent with the Company's values and support the Company's long-term sustainable success. There are various initiatives designed to engender workforce engagement. The Change Engagement Group enables two-way communication between the workforce and the Board, providing an additional channel for matters to be escalated to the Board. In addition, Mr Baudis and Ms Chan Jones sit as members on the Diversity and Inclusion (D&I) Committee, which aims to create a culture that attracts, grows, and empowers diverse talent. Mr Baudis, the designated Non-Executive Director for workforce engagement, engages with employees globally to address their concerns through attendance at the Change Engagement Group and as a result of his membership of the D&I Committee. Further information about the Change Engagement Group, D&I Committee, workforce engagement, policies, and practices can be found on pages 61 to 69.

Corporate governance statement continued

2 Division of responsibilities

The role of the Chair

The Chair, supported by the General Counsel and Company Secretary and the Senior Independent Director, leads the Board's functions and ensures its effectiveness. The Chair was independent when he became a Director of Avast Holding BV in 2011 and also of Avast plc in 2018. Notwithstanding the fact that, as of December 2021, more than nine years has elapsed since the Chair was appointed to the Board, the Chair was deemed to be independent this year on the basis that no other circumstances existed that would call into question his independence and that his judgement, experience, and challenging approach ensured that he made a significant contribution to the work of the Board and its Committees and that his independence was maintained.

The roles of the Chair and the CEO are separate and the division of responsibility between these roles has been agreed by the Chair, the CEO, and the Board. The Chair is responsible for the overall effectiveness of the Board and ensuring that it meets its duties. The CEO is responsible for the Group's day-to-day operations, the management of the Executive Management team, and for establishing the strategic leadership of the Group.

Role of the Senior Independent Director

The Senior Independent Director has responsibilities to shareholders, the Chair, and the other Directors. The Senior Independent Director is to be available to shareholders if they have concerns which contact through the normal channels of the Chair, CEO, or Executive Directors has failed to resolve. The Senior Independent Director, together with the Chair, has a responsibility to ensure effective communication by the Group with its shareholders, which includes the discussion of governance, remuneration and strategy with major shareholders. In addition, the Senior Independent Director chairs the Nomination Committee, provides a sounding board for the Chair, ordinarily meets other Non-Executive Directors at least once a year to appraise the Chair's performance, and provides feedback to the Board on the views of the Independent Non-Executive Directors on certain matters.

Role of Non-Executive Directors

The Non-Executive Directors are responsible for scrutinising management's performance. They constructively challenge and assist in the development of strategy, as well as ensure that the Group's financial reporting and its systems of risk management are robust, and that the Group is meeting its strategic objectives. The Chair meets with the Non-Executive Directors before or after certain Board meetings where appropriate without the Executive Directors present.

The Chair and CEO meet regularly to discuss operational, reputational, and organisational issues.

Composition of the Board

In respect of the period between 1 January 2021 and the date of this report, the following persons were Directors of the Company:

Name	Title	Appointment date
John Schwarz	Independent Chair	9 May 2018
Ondrej Vlcek	Chief Executive Officer	9 May 2018
Philip Marshall	Chief Financial Officer*	9 May 2018
Stuart Simpson	Interim Chief Financial Officer	21 September 2021
Warren Finegold	Senior Independent Non-Executive Director	9 May 2018
Pavel Baudis	Non-Executive Director	9 May 2018
Maggie Chan Jones	Independent Non-Executive Director	13 March 2019
Ulf Claesson	Independent Non-Executive Director**	9 May 2018
Erwin Gunst	Independent Non-Executive Director**	9 May 2018
Eduard Kucera	Non-Executive Director	9 May 2018
Tamara Minick-Scokalo	Independent Non-Executive Director	13 March 2019
Belinda Richards	Independent Non-Executive Director	8 June 2018

* Resigned on 21 September 2021.
** Resigned on 6 May 2021.

Biographies of the Directors can be found on pages 86 to 87.

Members of the Executive Management team regularly attend Avast plc Board meetings and support the Board's engagement on the Group's strategy, financial results, and business reviews.

Corporate governance statement continued

Board process and the role of the Company Secretary

The Board directs and oversees the implementation of the Group's strategy and objectives by way of a robust corporate governance framework. The Board discharges some of its responsibilities directly whereas some responsibilities are delegated to its Committees as described further below.

Committees		
Audit and Risk	Belinda Richards (Chair), Warren Finegold, Maggie Chan Jones, and Tamara Minick-Scokalo	The Audit and Risk Committee assists the Board with the discharge of its responsibilities in relation to the Group's financial reporting, controls, and risk management systems. The Committee reviews the Group's annual and half-year financial statements, accounting policies, and significant reporting judgements; oversees the Group's risk management framework, and evaluates the Group's key business risks on an annual basis; develops and implements the Group's policy on non-audit services; and reviews the effectiveness of the Group's internal controls, including cybersecurity controls and readiness, whistleblowing processes, and fraud systems. The terms of reference setting out the roles and responsibilities of the Audit and Risk Committee can be found at https://investors.avast.com/media/1399/audit-and-risk-committee-terms-of-reference.pdf
Nomination	Warren Finegold (Chair), John Schwarz, and Maggie Chan Jones	The Nomination Committee assists the Board in reviewing the structure, size, performance, and composition (including the skills, knowledge, experience, and diversity) of the Board. It is also responsible for reviewing succession plans for the Directors, including the Chair and CEO, and other senior executives, as well as reviewing the results of the Board performance evaluation process. The terms of reference setting out the roles and responsibilities of the Nomination Committee can be found at https://investors.avast.com/media/1397/nomination-committee-terms-of-reference.pdf
Remuneration	Tamara Minick-Scokalo (Chair), Belinda Richards, and John Schwarz	The Remuneration Committee recommends the Group's policy on executive remuneration; recommends the levels of remuneration for Executive Directors, the Chair, and other senior executives; grants awards under the Group's incentive plans; and prepares an annual remuneration report for approval by the shareholders at the AGM. The terms of reference setting out the roles and responsibilities of the Remuneration Committee can be found at https://investors.avast.com/media/1270/remuneration-committee-terms-of-reference.pdf
Security and Privacy	Maggie Chan Jones (Chair), Belinda Richards, and Warren Finegold	The Security and Privacy Committee oversees the information security strategy, data security, data governance, and privacy governance of the Group, recognising the interests of all stakeholders. The terms of reference setting out the roles and responsibilities of the Security and Privacy Committee can be found at https://investors.avast.com/media/1436/avast-plc-security-privacy-committee-terms-of-reference.pdf

Please refer to pages 97 to 103 for further details in relation to the Audit and Risk Committee, pages 104 to 108 for further details in relation to the Nomination Committee, pages 109 to 130 for further details in relation to the Remuneration Committee, and page 102 for further information in relation to the Security and Privacy Committee.

The Group also has a Disclosure Committee, which is responsible for managing the disclosure of information by the Group in compliance with its obligations under the UK Market Abuse Regulation, the Financial Conduct Authority's Listing Rules, and the Disclosure Guidance and Transparency Rules. The Disclosure Committee comprises the CEO, CFO, General Counsel and Company Secretary, and Director of Investor Relations (when applicable). The Disclosure Committee met and considered matters when appropriate during 2021.

Corporate governance statement continued

The Executive Management team comprises the CEO, CFO, and eight other individuals who are responsible for the key operational planning and management of the Company. A full list of the Executive Management team as well as their biographies can be found on the Company's website at https://investors.avast.com.

In 2021, the Board held 25 meetings. The Audit and Risk Committee and Nomination Committee each held four meetings, the Remuneration Committee held six meetings, and the Security and Privacy Committee held two meetings. Meetings are generally held in London, but due to the restrictions imposed in response to the COVID-19 pandemic, all meetings were held virtually. See page 88 for the key activities undertaken by the Board during 2021. The Board delegates the ordinary day-to-day operational responsibility to the Executive Management team.

The Chair and Non-Executive Directors regularly hold sessions without the attendance of the Executive Directors or other members of the Executive Management team. Additionally, the Chair ensures that the Directors take independent professional advice where they judge it necessary in order to discharge their responsibilities. The General Counsel and Company Secretary is also available to provide advice for every Director.

The Board is supported by the General Counsel and Company Secretary, who ensures that the Board has the policies, processes, information, time, and resources it needs in order to function effectively and efficiently.

Board and Committee attendance table: 2021

	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee	Security and Privacy Committee[1]
Total number of meetings[2]	25	4	4	6	2
Members	**Attended**	**Attended**	**Attended**	**Attended**	**Attended**
John Schwarz	25/25		4/4	6/6	
Warren Finegold[3]	25/25	2/2	4/4	3/3	2/2
Ondrej Vlcek	25/25				
Stuart Simpson[4]	3/3				
Maggie Chan Jones[5]	25/25	2/2	4/4	3/3	2/2
Belinda Richards[6]	23/25	4/4		3/3	2/2
Tamara Minick-Scokalo	24/25	4/4		6/6	
Eduard Kucera	25/25				
Pavel Baudis	25/25				
Former Directors who served for part of the year					
Philip Marshall[7]	21/22				
Ulf Claesson[8]	8/9	2/2		3/3	
Erwin Gunst[9]	8/9	2/2	2/2		

1 The Security and Privacy Committee was established in July 2021.
2 Includes scheduled and ad hoc meetings. Outside of the scheduled meetings of the Board and the Committees, numerous ad hoc meetings took place to consider more urgent matters including, 16 Board meetings and two Remuneration Committee meetings.
3 Warren Finegold resigned as a member of the Remuneration Committee and was appointed as a member of the Audit and Risk Committee on 6 May 2021.
4 Stuart Simpson was appointed Interim Chief Financial Officer and Executive Director of Avast plc on 21 September 2021.
5 Maggie Chan Jones resigned as member of the Remuneration Committee and was appointed as a member of the Audit and Risk Committee on 6 May 2021.
6 Belinda Richards was appointed as a member of the Remuneration Committee on 6 May 2021.
7 Philip Marshall retired as Chief Financial Officer and Executive Director of Avast plc on 21 September 2021.
8 Ulf Claesson retired as Director of Avast plc at the conclusion of the AGM on 6 May 2021.
9 Erwin Gunst retired as Director of Avast plc at the conclusion of the AGM on 6 May 2021.

Corporate governance statement continued

3 Composition, succession, and evaluation

Appointments to the Board

The Nomination Committee assists the Board in reviewing the structure, size, performance, and composition of the Board. It ensures a formal, rigorous, and transparent procedure for the appointment of new Directors. It is also responsible for reviewing succession plans for the Directors, including the Chair and CEO, and the Executive Management team.

A detailed overview of the activities of the Nomination Committee in succession planning can be found in the Nomination Committee report on page 105.

Evaluation

Annual Board evaluation

The Board ordinarily undertakes an evaluation of its performance and effectiveness annually, in accordance with best practice and the requirements of the Code. Towards the end of 2020, Avast engaged Lintstock, an independent external advisory firm, to assist with the FY 2020 Board evaluation; therefore, the Board is not due to have an externally facilitated evaluation until 2023. In light of the proposed Merger, the Board has decided that it is appropriate to put on hold its annual internal evaluation. Should the Merger not complete as anticipated, then the Company intends to proceed with an internal evaluation in 2022.

External Board evaluation

Towards the end of 2020, the Board engaged Lintstock to externally facilitate an interview-driven review of the performance of the Board and each of its Committees. Lintstock has no other connection to Avast.

The conclusions and recommendations were presented to the Board in early March 2021 and an action plan was developed and worked on throughout the year.

Corporate governance statement continued

Annual Board evaluation findings	Board actions for 2021	What we have done in 2021
Board composition • Appropriateness of the current Board composition • Chair succession	Focus will be given to agreeing how the composition of the Board should evolve going forward, including the skills set that should be targeted in the next Non-Executive Director to be appointed. The Board will consider the merits of undertaking a skills mapping exercise to help clarify priorities for future recruitment processes. The Chair's succession will be a key focus over the coming 12 to 18 months.	Russell Reynolds undertook a Board skills assessment as part of Non-Executive Director recruitment process. The size and composition of the Board was reviewed as part of that exercise. Egon Zehnder was also appointed to support the search for a new Chair but that process, along with Non-Executive Director recruitment, was put on hold pending the outcome of the Merger.
Board dynamics • Increase in Board involvement in key initiatives • Develop closer relationships with the Executive Management team	The Board will continue to support the CEO and engage with the Executive Management team to agree key business priorities and develop processes to track operational execution of strategy. The Board will work with the Executive Management team to further understand the Company's market and competitive positioning.	A new General Counsel and Company Secretary was appointed who developed the link between the Board and the Executive Management team as well as the governance framework supporting the Board and its Committees. A mentoring programme was implemented such that certain Board members were allocated as mentors for members of the Executive Management team.
Strategic oversight • Ensure that the key business priorities are agreed and tracked on a consistent basis to improve the Board's visibility of operational execution • Develop a more systematic approach to understanding the Company's market and competitive positioning	The Board will continue to support the CEO and engage with the Executive Management team to agree key business priorities and develop processes to track operational execution of strategy. The Board will work with the Executive Management team to further understand the Company's market and competitive positioning.	A matters arising schedule was operationalised across the Board and all Committees to ensure that matters raised by the Board and the Committees were being tracked and actioned. Presentations to the Board from the IR function and the Corporate Development function placed an emphasis on the Company's market and competitive positioning.
Management and focus of meetings • Have fewer topics on each Board meeting agenda, devote more time to discussing critical issues and ensure Board papers are more concise and focused on key issues	The Board will work to develop a timetable to increase the annual number of Board meetings and ensure that the allocation of time within them is optimised. The Board will also develop appropriate reporting of key business priorities and ensure Board materials are aligned with the Board's needs.	An increased number of Board meetings were scheduled over the course of the year and ad hoc meetings were held when needed. An 18-month forward-looking Board and Committee agenda was developed, which ensures that key business topics and priorities are dealt with in a planned manner over the course of the year. In addition, a new format of Board Paper was introduced which enables material to be presented to the Board in a consistent manner by different presenters, and clearly summarises the matter, the decision needed by the Board, and any next steps.
Risk management and internal control • Key risks should receive greater attention at the Board periodically	The Board will continue to prioritise the identification and assessment of risks facing the Group to ensure that all relevant risks are managed effectively in order to meet the Group's strategic objectives and devote increased time in the Board calendar to consider key risks, in particular security risk.	A new Risk and Compliance Director role was created to lead on the identification, assessment, and management of risks facing the Group with a dotted line report to the Audit and Risk Committee and Security and Privacy Committee. The Board also constituted a separate Security and Privacy Committee with the delegated responsibility of overseeing information security strategy, data security, data governance and privacy governance of the Company and its subsidiaries. The Risk and Compliance Director has presented at both the Audit and Risk Committee and the Security and Privacy Committee.
Succession planning and human resource management • Strengthen the level of senior operational leadership	The Board will continue to develop succession plans for the Executive Management team and oversight of talent and management and development processes.	In May 2021, the Nomination Committee was presented with an update on the succession status and planning for the Executive Management team and provided with succession plans for each function. In addition, the Committee was notified of the proposed approach for the development of successor candidates to the Executive Management team and the wider senior leader cohort.

Corporate governance statement continued

4 Audit, risk and internal control

The Audit and Risk Committee assists the Board in reviewing the Group's annual and half-year financial statements and internal and external audits and controls. It is also responsible for overseeing the risk management framework, the scope of the annual audit and non-audit work undertaken by external auditors, the effectiveness of the internal controls in place within the Group, ESG matters and cybersecurity. For further detail, please refer to the Audit and Risk Committee report on pages 97 to 103. In response to the focus Avast places on robust cybersecurity, a new committee was established in 2021, the Security and Privacy Committee, to oversee information security strategy, data security, data governance, and privacy governance. This has the effect of reducing the workload of the Audit and Risk Committee with regards to cybersecurity, and allows for increased time to be allocated to security and privacy matters.

The Board is responsible for the presentation of a fair, balanced, and understandable assessment of the Company's position and prospects. This is a key consideration when preparing all financial information issued. The coordination and review of the annual report is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its Committees. The Board is satisfied that the current policies and procedures in place ensure the independence and effectiveness of the internal and external audit functions. The Audit and Risk Committee is responsible for reviewing key judgements within the Group's financial statements and narrative reporting, with the aim of maintaining the integrity of the Group's financial reporting. The Board is responsible for carrying out a robust assessment of the Company's emerging and principal risks.

The Board, through the Audit and Risk Committee, has monitored the Company's risk management and internal control systems and, at least annually, carries out a review of their effectiveness and reports on that review in the annual report.

5 Remuneration

The Remuneration Committee recommends the Group's policy on executive remuneration, recommends the levels of remuneration for Executive Directors, the Chair, and other senior executives, grants awards under the Group's incentive plans, and prepares an annual remuneration report for approval by the shareholders at the AGM.

The Directors' remuneration report, on pages 109 to 130, sets out the work of the Remuneration Committee, its activities during the year, and further details on how the Remuneration Policy is implemented.

The Company has a formal and transparent procedure for developing the Remuneration Policy, and no Director is involved in deciding their own remuneration. The Remuneration Committee is supported by remuneration consultant Deloitte LLP. For further detail, please refer to the Remuneration Committee overview on pages 129-130.

The Remuneration Committee is comprised of three Non-Executive Directors to ensure independent judgement with regard to remuneration outcomes. The Remuneration Committee considers remuneration on an annual basis and determines outcomes by assessing executive performance against performance criteria, details of which can be found in the Directors' remuneration report on pages 112 to 115. This states how our Remuneration Policy has been applied and sets out details of any adjustments made or discretions exercised.

Annual General Meeting

If the Merger with NortonLifeLock is delayed or does not proceed, the Company intends to hold an AGM on or around 30 June 2022. Further details of the 2022 AGM will be provided in due course (if scheduled).

The Corporate Governance statement includes the Audit and Risk Committee report, the Nomination Committee report, and certain aspects of the Directors' remuneration report, and incorporates the Takeover Directive disclosures in the Directors' report. Stakeholder engagement disclosures can be found in the Strategic report. This Corporate Governance statement was approved by the Board on 24 February 2022 and signed by order of the Board.

By order of the Board

Trudy Cooke
General Counsel and Company Secretary

24 February 2022

Audit and Risk Committee report

Introduction

Dear Shareholder

I am pleased to present to you the Audit and Risk Committee report for the financial year ended 31 December 2021. In this report, we provide you with an overview of the activities undertaken or overseen by the Committee during the year, in addition to details regarding the audit and risk management policies approved by the Committee for implementation throughout the Group.

In 2021, the Committee continued to fulfil its important oversight role, monitoring the integrity of the Group's financial reporting and reviewing the Group's annual and half-year financial statements, accounting policies, and significant reporting judgements.

The Committee continued to focus on its responsibility for monitoring and oversight of the Group's internal controls risk management framework. The Committee recognises that good risk management is dynamic and requires ongoing development, so mid-way through the year it approved the appointment of a new Risk and Compliance Director. He was tasked to evaluate and develop the existing risk, compliance, and control framework in order to build a more mature three lines of defence model. More detail on this is set out on the principal risks and uncertainties section on page 54. The Committee was also briefed on the impending transition from the Financial Reporting Council (FRC) to the Audit, Reporting and Governance Authority (ARGA) and considered how these proposals should be considered as part of the evolution of the Company's risk management framework.

Another key responsibility during the year included oversight and monitoring of the Internal Audit function. More information of the Committee's role here is described on page 55.

Finally, the Committee reviewed the effectiveness of the external audit process and monitored the independence and objectivity of the external auditor. The auditor continued to provide robust challenges both to management and to the Committee and met privately with the Committee several times during the year.

The composition of the Committee was strengthened during the year by the appointment of Maggie Chan Jones and Warren Finegold. Stuart Simpson joined as Interim Chief Financial Officer during the year and has kept the Committee updated on the initiatives he has led on, which include a focus on maturing the controls culture and capability of the Finance function.

Belinda Richards
Chair of the Audit and Risk Committee

Audit and Risk Committee report continued

Committee composition and attendance

The Committee comprises four Independent Non-Executive Directors in compliance with the Code. Also, for the purposes of the Code, the Board has determined that the Committee's Chair, Ms Richards, has recent and relevant financial experience, being a former corporate finance partner at Deloitte LLP.

Full biographies of the Committee's members can be found on pages 86 to 87, which details the qualifications of the Committee's members.

From time to time, the Committee may invite others to join their meetings, where it considers their expertise and knowledge to be relevant and necessary to the subject matter under consideration. The Committee meetings are routinely attended by the CEO, CFO, Vice President of Finance, the Risk and Compliance Director, Director of Internal Audit, Chief Security Information Officer, and General Counsel and Company Secretary.

The Committee held four meetings in 2021 and the Committee members' attendance is set out in the table below.

Committee member	Date of appointment	No. of meetings attended (No. of meetings convened while a member)
Belinda Richards (Chair)	7 June 2018	4(4)
Tamara Minick-Scokalo	22 May 2019	4(4)
Maggie Chan Jones	6 May 2021	2(2)
Warren Finegold	6 May 2021	2(2)

Principal activities

The Committee sets an annual forward agenda based on the scope of its responsibilities under its terms of reference available on the website here: https://investors.avast.com/media/1399/audit-and-risk-committee-terms-of-reference.pdf. In addition, the Committee considers any other relevant ad hoc matters which require its review.

During 2021, the Committee afforded particular focus to the following matters:

- Assessing and overseeing the Group's risk management framework
- Evaluating and updating the Company's key business risks
- Reviewing the local risk registers and considering the appropriateness of the current review process
- Assessing the internal controls and risk management of the Group, including overseeing the exercise to build a mature three lines of defence model
- Assessing the Company's principal and emerging risks
- Reviewing the operation of the Group's Whistleblowing Policy and overseeing the response to matters raised
- Reviewing the 2020 audit report and 2021 audit plan, together with the Group's external auditor
- Reviewing the 2020 full-year and 2021 half-year financial results of the Group, focusing on the integrity of the financial reporting process, compliance with relevant legal and financial reporting standards and application of accounting policies and judgements
- Evaluating the external auditor's independence and objectivity, and the effectiveness of the audit process
- Reviewing the internal audit plans for the years ending 31 December 2020 and 31 December 2021
- Reviewing and approving the Group's external audit and tax advisory fees for 2020 and 2021
- Implementing and overseeing developments in the data governance environment and ESG
- Reviewing significant accounting judgements
- Reviewing the Company's dividend policy and proposed dividend distribution
- Assessing the going concern, and viability of the Group and the preparation of the viability statement which is set out on page 60

Significant matters impacting the financial statements

The Committee considered the following matters in relation to the financial statements, in each case reviewing management's decisions and discussing the approach with both management and the external auditors before concluding.

Revenue recognition

The Group transitioned to the IFRS 15 revenue recognition standard from 1 January 2018 and has continued to consistently apply its revenue recognition policy during 2021. No new significant accounting judgements relating to revenue recognition were made in 2021. The Committee continued to oversee the application of the existing revenue recognition policies, as described in Note 2. Consistent with 2020, the external auditors focused in 2021 on the fraud risks associated with recognition of licence revenue and the risk of management override on all revenue streams.

Income and deferred taxes

The Group operates in multiple tax jurisdictions and entered into multiple significant transactions pre and post IPO.

The Group reported deferred tax assets of $141.7 million as at 31 December 2021 (Note 13), primarily as a result of transfers of intellectual property (IP) within the Group in 2018 and unused tax losses in the US.

Audit and Risk Committee report continued

The deferred tax recognised as a result of the intragroup IP transfer will be recovered as a tax deduction from Avast's Czech entity, Avast Software s.r.o., over a period of 15 years. The carrying value of the deferred tax asset in relation to the IP transfer as at 31 December 2021 is $106.7 million, as described in Note 13.

Avast Software s.r.o. has reported substantial taxable income in the Czech Republic in both the preceding and current financial years. From the forecasted results, it is likely that future taxable profits will allow benefits of the recognised deferred tax asset to be fully utilised in the future.

The Group recognised a deferred tax asset of $36.9 million as at 31 December 2021, arising from unused tax losses in the US, mainly as a result of deductions from stock option exercises. In accordance with US tax laws, deferred tax assets fully recognised as tax losses and generated after January 2018 can be carried forward indefinitely. As such, the Group assesses that future taxable profits will be sufficient to recover the full amount of allowable tax deductions.

The Committee reviewed the appropriateness of significant decisions made by the Group regarding the recognition and measurement of the deferred tax asset. In considering the recovery period, the Committee reviewed the current profitability of the Group's US entities together with future projections, noting that losses have a lifetime use in the US. The Committee also considered any potential impact of the proposed Merger with NortonLifeLock. The Committee concluded that the accounting for the US deferred tax asset was appropriate.

Disposal of Family Safety mobile business (Location Labs LLC)

In April 2021, the Group sold a portfolio of mobile parental controls services to Smith Micro Software Inc. ('Smith Micro'). The transaction consisted of the sale of 100% of the shares in Location Labs LLC, sale of IP owned by Avast Software s.r.o. and sale of other assets of Avast Software Inc, Avast Slovakia, s.r.o., and Privax d.o.o.

In order to account for the disposal, judgement was required in calculating the goodwill allocated to the disposed business and therefore the gain/loss on disposal. The Committee reviewed management's methodology and calculation for determining the amount of goodwill de-recognised and concluded it was appropriate.

Refer to Note 16 for further information.

Acquisition of Evernym Inc

In December 2021, Avast Software Inc acquired Evernym for a consideration of $49.7 million, paid in cash.

In accounting for a business combination, the Group is required to assess the fair value of assets and liabilities acquired, and, if the consideration is in excess of the fair value, to recognise goodwill. Judgement is exercised in both valuation and classification.

The Committee reviewed management's methodology and provisional calculation and was satisfied that the acquisition was accounted for appropriately.

Refer to Note 15 for further information.

Term loan

In March 2021, the Group undertook a refinancing, entering into a new term loan and revolving credit facilities.

The Committee reviewed the treatment of the refinancing with management and the external auditor, concluding that the new facility was appropriately considered as a new loan and not the renegotiation of an existing loan. The previous loan was therefore de-recognised.

Refer to Note 27 for further information.

Provisions

The Committee receives regular updates from management as to the status of contractual claims and regulatory matters. Having discussed with management the facts and circumstances surrounding various claims and contingencies, the Committee is satisfied with the provisions recorded in the financial statements.

Refer to Note 25 for further information.

Task Force on Climate-related Financial Disclosures (TCFD)

The Audit and Risk Committee makes recommendations to the Board on the principal risks of relevance to the business; climate-related issues are considered in terms of potential for contribution to these principal risks. Management has formed a TCFD working committee which reports through to the Audit and Risk Committee.

Please refer to the TCFD disclosure for further information.

Audit and Risk Committee report continued

Going concern

The Committee oversaw the process used by the Board to assess the going concern and viability of the Group and the preparation of the viability statement which is set out on page 60. As part of this process, the Committee reviewed the detailed going concern review and analysis which was undertaken by management. The Committee also considered and monitored the procedures and actions in place to alert the Board to any changes which might impact the working capital of the Group. Following this review, the Committee recommended to the Board that the Company continues to adopt the going concern basis in preparing the annual financial statements.

Impairment of goodwill and intangibles

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. Management has provided the Committee with the results of the annual goodwill and intangible assets impairment analysis for 2021. The analysis indicates that the assets were not impaired and no reasonable change in input factors has resulted in an impairment.

Having provided appropriate challenge to management and the external auditors, the Committee has concluded that the result of the analysis is appropriate and there is no impairment of either goodwill or intangible assets as of 31 December 2021.

Fair, balanced and understandable

To support the Board's confirmation that the annual report and accounts, taken as a whole, are considered to be fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model, and strategy, the Committee oversaw the process by which the annual report and accounts were prepared.

The Committee received a summary of the approach taken by management in the preparation of the annual report and accounts, and considered in particular the accuracy, integrity, and consistency of the messages conveyed in the annual report; the appropriateness of the level of detail in the narrative reporting; and that a balance had been sought between describing potential challenges and opportunities.

The Committee therefore recommended to the Board (which the Board subsequently approved) that, taken as a whole, the 2021 annual report and accounts is fair, balanced, and understandable, and provides the necessary information for shareholders to assess the Company's position, performance, business model, and strategy.

Financial reporting – internal controls and risk management

Internal controls relating to financial reporting form an integral part of the Group's corporate governance and enterprise risk management policy. The Group's internal controls over financial reporting are in line with the COSO framework for internal controls. The internal controls processes of the Group are based on the following five key principles: control environment, risk assessment, control activities, information and communication, and monitoring, each of which is explained in more detail below. It is a process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. The Group's risk management and internal controls framework, which accords with FRC guidance on risk management, internal control and related financial and business reporting, has been in place for the year ended 31 December 2021 up until the date of approval of the annual report and accounts and is regularly reviewed by the Committee and by the Board.

The Group's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with the relevant applicable laws and procedures and pursuant to the requirements of the Code.

The key elements of the control environment, in addition to the risk management processes outlined on pages 54 to 55 of this report, are:

- A clear schedule of matters which require approval at Board level
- A policy in relation to delegation of authority and the limitations which apply
- Comprehensive annual budgets prepared for the Group and individual business units
- Ongoing monitoring of the performance of the Group and individual business units, against budgets with reports given to the Board on a regular basis
- Internal Audit assessments, both with respect to financial matters and business matters, discussed with management and the Committee, together with corrective actions agreed and monitored
- A centralised financial reporting system and close process, with controls and reconciliation procedures designed to facilitate the production of the consolidated accounts
- Assessment of accounting standard changes with both the external auditor and the Committee
- Documented policies made widely available to employees in relation to anti-bribery and corruption, anti-money laundering, export controls, and whistleblowing
- An ongoing review of the principal risks that face the Group, in addition to the assessment undertaken by the Committee in preparing the viability statement
- Regular reports in relation to finance, tax, and treasury given to the Committee
- Meetings of the Disclosure Committee, when appropriate, which is responsible for managing the disclosure of information by the Group in compliance with its obligations under the Market Abuse Regulations, the Financial Conduct Authority's Listing Rules, and the Disclosure Guidance and Transparency Rules

Audit and Risk Committee report continued

COSO framework

Control environment

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

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

Risk assessment

The Group takes a risk-based approach towards internal controls. During the year, the Committee, on behalf of the Board, carried out an assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency, and liquidity. As a result of this assessment and reflecting the growing regulatory environment and competitor developments, the principal risks were modified. A description of the principal risks and how these were reviewed to assess the Group's viability can be found on pages 56 to 59.

Control activities

Control activities are designed to prevent or detect material misstatements in the financial statements and reporting.

To manage these risks, the Group has established control activities. Key processes in relation to control activities, including related risks and key controls, have been implemented and documented in the Group's internal control framework.

During 2021, the Committee oversaw an external review of the Group's control activities, and management is taking forward certain recommendations coming out of the external review.

Information and communication

Internal policies and directions, including requirements relating to the implementation of internal controls as well as accounting and reporting, are communicated to all relevant employees through internal communication channels, such as the intranet, training sessions, and email. During the year, the Company appointed a new vendor to deliver mandatory training to improve the process of monitoring the compliance of legally required training and ultimately increase awareness of the Company's internal policies.

Monitoring

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

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

Assessment of effectiveness of internal control and risk management

The Committee is committed to ongoing assessment of the internal control and risk management framework and has overseen the implementation of a number of initiatives in 2021, led by the Risk and Compliance Director and supported by Deloitte LLP, to develop the maturity level of controls assessed against the COSO framework, as outlined above.

During the year, the Committee, on behalf of the Board, reviewed the effectiveness of the internal control and risk management systems of the Group, and reported its conclusions to the Board. In fulfilling this responsibility, the Committee considered a number of factors, including:

- Management's self-certification of the Group's internal controls and risk management systems, including against the 2013 COSO framework, as monitored by the Committee
- Approved internal audit plan for the year ended 31 December 2021 relating to financial, control, business, and operational audits
- Work carried out by the internal and external audit functions during the year ended 31 December 2021, including an internal assessment of the functional personnel and the annual internal audit work plan
- Reports it received from, and meetings it held with, the Group's external auditors
- Updates from the Internal Audit Director on areas where it had carried out key control reviews, including the Group's data governance, software asset management, and customer personally identifiable information protection
- Business updates provided by management in relation to work carried out by external advisers with respect to security and regulatory matters

Audit and Risk Committee report continued

- The development of a new Risk Management Policy and Risk Appetite Statement as part of the two- to three-year roadmap to develop a more mature three lines of defence model
- Measures the Group has in place to mitigate the principal risks it faces (more details of which can be found on pages 56 to 59)

The Committee received regular reports from the Risk and Compliance Director and Internal Audit Director on details of any key failings/weaknesses identified and to ensure that outstanding areas of improvement were both identified and remediated. Reports to the Committee referred to the need to sustain the embedding of controls where remediation progress has been made in 2021 and the need to continue to make further improvement in other areas, such as ongoing data governance, software asset management, procurement, KPI data quality, and some specific financial controls. Notwithstanding these areas of ongoing improvements, overall the Committee is satisfied that there are no significant weaknesses in the risk management systems and that overall the Group's key internal controls are largely effective.

Security and Privacy Committee

In recognition of the increasing Group focus on the digital, data, and cyber control environment, and to oversee the initiatives being led by the Chief Information Security Officer and Chief Privacy Officer, the Board established the Security and Privacy Committee in the second half of 2021. The Security and Privacy Committee has been delegated responsibility for overseeing information security strategy, data security, data governance and privacy governance, and reports its outcomes to the Audit and Risk Committee. For more information see the principal risks and uncertainties section on page 54.

The Security and Privacy Committee comprises three independent Non-Executive Directors: Maggie Chan Jones (Chair), Warren Finegold, and Belinda Richards.

The Security and Privacy Committee met twice in 2021 to consider the Avast Security and Privacy Strategy and Internal Audits on data governance and other security and privacy matters.

Whistleblowing Policy

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

Internal Audit

The primary purpose of the Group's Internal Audit function is to enhance and protect organisational value by providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations, control, and governance processes. In order to ensure independence, the Internal Audit function has a reporting line to the Committee.

The Committee reviewed and approved the 2021 internal audit plan, which was created using a risk-based approach, and monitored progress against the plan. In 2021, Internal Audit focused on validating the effectiveness of the internal control framework, monitoring activities within the Group, including the account reconciliation process, treasury, purchase-to-pay, and data governance. In Q4 2021, the Committee approved the 2022 internal audit plan, which set out an intention to focus on assuring the IT, digital and cyber control environment. The pace of delivery of the 2022 internal audit plan and the development of the internal control framework has been slower than the Committee would ideally have liked, due to the natural impact that the Merger has had on resources and management time.

The Committee received quarterly control reports from the Internal Audit function and challenged management on the actions being taken to improve the effectiveness of the internal control and risk management framework of the organisation. The quarterly Internal Audit reports contained metrics including: the status of Internal Audit opinions that are rated as partially effective or ineffective; key issues identified; and the status of management actions to resolve issues identified.

The Committee assessed the effectiveness of Internal Audit and satisfied itself that the quality, experience, and expertise of the function is appropriate for the business. In July 2021, the Committee approved the appointment of a new Interim Head of Internal Audit. In performing this assessment, the Committee reviewed the annual internal audit plan and considered the performance against that plan along with any variations to it, met with the Head of Internal Audit to review the audit results and management responses regularly, and held meetings with the Head of Internal Audit, including in the absence of Executive Management. The Head of Internal Audit has a direct line of communication with and support of the Committee.

Audit and Risk Committee report continued

External auditor

The Committee makes recommendations to the Board on the appointment, remuneration, and removal of the Group's external auditor. The current lead external audit partner is Marcus Butler and 2021 was the fourth year of his term, having held the role since 2018.

In accordance with the mandatory re-tendering rules implemented by the UK Competition and Markets Authority, at least once every 10 years the audit services contract will be put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms.

The Committee oversees and supervises any competitive tender process undertaken by the Group for the provision of external audit services. The last tender of audit services was undertaken in 2016, with the next tender due in 2026.

Ernst & Young LLP was reappointed as external auditor of the Company on 6 May 2021 for the year ended 31 December 2021, following its reappointment at the Company's 2021 Annual General Meeting (AGM). Prior to the IPO, Ernst & Young s.r.o. has acted as external auditor to the underlying group since the year ended 31 December 2007.

The Company was in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 during the year.

The Committee safeguards the independence and objectivity of the external auditor in a number of ways, including through an annual review of the auditor's independence and by monitoring that no conflicting non-audit services are provided.

Non-audit services

In order to ensure the ongoing independence of the external auditor, the Group maintains a Non-Audit Services Policy which defines the rules under which the Group can use the external auditor for non-audit services. The Group's procedures for procuring non-audit services from external sources specifically prohibit Ernst & Young LLP from undertaking certain types of services. The external auditors may perform certain non-audit services for the Group which are not prohibited. Any such non-audit services require pre-approval by the Audit and Risk Committee, must be in the best interests of the Company, and are only permitted to the extent allowed by relevant laws and regulations. The Policy complies with the FRC's guidelines on the 2018 UK Corporate Governance Code and Ethical Standards.

Details of the fees paid to Ernst & Young LLP for the year ended 31 December 2021 can be found in Note 7 on page 174.

The ratio of fees for audit:non-audit services provided during 2021 was 20:1. During the financial year, with the exception of the half-year review, no non-audit services were provided by the external auditor on behalf of the Group. The Committee confirms that non-audit work performance by Ernst & Young LLP during the year was authorised in accordance with the Group's policy.

Effectiveness of external auditors

The Committee reviewed the effectiveness of the external auditor for the financial year ended 31 December 2021.

The Committee considered a number of factors when undertaking this assessment, including:

- The professional scepticism, independence, and objectivity of the external auditor
- The quality of the external auditor's communication and interaction
- The external auditor's qualifications, expertise, and resources, and the effectiveness of the audit process
- Its meetings and discussions with the external auditor, including in relation to the auditor's findings and reports on the annual audit and interim review, and the quality of the auditor's work in relation to financial judgements made
- The tenure of the external auditor, and whether it would be appropriate to put the audit services contract out to tender
- The transparency reports of the external auditor for 2021

Upon completion of its review of the effectiveness of the external auditor, the Committee recommended to the Board that a resolution to reappoint Ernst & Young LLP be proposed at the next AGM.

Performance evaluation

In 2021 the Committee made good progress implementing the recommendations of the FY 2020 external Board evaluation, which included overseeing the work of the newly appointed Risk and Compliance Director and the implementation of the 3 Lines of Defence Model. More detail is set out on page 54.

By order of the Board

Belinda Richards

Belinda Richards
Chair of the Audit and Risk Committee

24 February 2022

Nomination Committee report

Introduction

Dear Shareholder

I am pleased to introduce our Nomination Committee report for the financial year ended 31 December 2021. In this report, we provide you with an overview of the Committee's responsibilities and performance during the year.

The Committee is responsible for assisting the Board in evaluating the structure, size, performance, and composition of the Board and its Committees. More broadly, the Committee is responsible for reviewing succession plans at Board, Executive Management, and senior management level and assuring that a pipeline of suitably qualified and capable successor candidates is in place for both emergency and longer-term succession. The Committee is focused on ensuring that the Board comprises individuals with the requisite independence, knowledge, skills, diversity, and experience to discharge its responsibilities effectively. As part of this, the Committee's decisions relating to the appointment of Directors follows a formal appointment process.

There have been a number of changes to the Board over the course of 2021. At the Annual General Meeting (AGM) in May 2021, Ulf Claesson and Erwin Gunst retired from the Board having been Directors since 2012. In September 2021, Philip Marshall stepped down from the Board and the role of CFO and was succeeded by Stuart Simpson.

The Committee also oversaw a number of new hires to the Executive Management team, details of which are further described in the report below.

Looking ahead, the Board is committed to having a diverse and inclusive leadership team and the Committee will continue to appoint on merit while maintaining its focus on succession planning, talent management, and increasing diversity on the Board.

Warren Finegold
Chair of the Nomination Committee

Principal activities

The Committee sets an annual forward agenda based on the scope of its responsibilities under its terms of reference available on the Company's website at https://investors.avast.com/media/1269/terms-of-reference-nomination-committee-07062019.pdf. In addition, the Committee considers any other relevant ad hoc matters which require its review. During the year, the Committee paid particular attention to the following matters:

- Succession plans for the Board and members of the Executive Management team
- Recruitment of a new Chair of the Board
- Recruitment of a new Non-Executive Director to the Board
- Monitoring compliance with corporate culture
- External Annual Board evaluation
- Director independence

> "Our mission is to recruit, develop, and retain a world-class leadership team at Board, Executive Management, and senior management level
>
> **Warren Finegold**
> Chair of the Nomination Committee

Nomination Committee report continued

Committee membership

The Committee held four meetings in 2021 and the Committee members' attendance is set out in the table below.

Committee member	Date of appointment	1 March	5 May	9 August	1 December	No. of meetings attended (No. of meetings convened while a member)
Warren Finegold (Chair)	10 May 2018	x	x	x	x	4(4)
John Schwarz	10 May 2018	x	x	x	x	4(4)
Maggie Chan Jones	22 May 2019	x	x	x	x	4(4)
Erwin Gunst*	10 May 2018	x	x			2(2)

* Retired on 6 May 2021.

Committee composition

The Committee is chaired by Warren Finegold, the Senior Independent Non-Executive Director of the Company, and comprises two other Non-Executive Directors. Full biographies of the Committee's members can be found on pages 86 to 87.

The Group's General Counsel and Company Secretary is secretary to the Committee. From time to time, the Committee may invite others to join meetings, where it considers their expertise and knowledge to be relevant and necessary to the subject matter under consideration. During the year, this included the CEO, CFO, and the Chief People and Culture Officer.

The Company complies with the requirements of the Code that a majority of the Nomination Committee be Non-Executive Directors.

Succession planning

Succession planning is carried out with a view to strengthening the Company's organisational capabilities and ensuring our Board and Executive Management team possess the requisite skills, experience, and diversity. As part of our succession planning, the Company reviews the risk rating of the senior executives on an annual basis and discusses the succession plans for each of them. The successors are given a readiness status and their development is discussed. The Company seeks to promote from within the Group, where possible, and recruit externally if required, in order to ensure that the best candidates are obtained. Successor candidates' capabilities were calibrated in 2021 using 360-degree feedback, psychometric testing, and in-depth interviewing with an executive search consultant.

This has allowed us to determine the readiness of candidates in terms of succession. Development plans are being supported for all successor candidates to ensure that they are as prepared as possible for potential succession, and external market mapping has been commissioned for roles where there is no obvious internal successor. Throughout the year, the composition of the Executive Management team underwent a number of changes, as further set out below.

Appointment of senior executives

The Company welcomed a number of senior executives in various roles throughout 2021, and the beginning of 2022.

In March 2021, we welcomed Trudy Cooke, who joined as Group General Counsel and Company Secretary. Trudy Cooke is responsible for leading the legal and company secretarial functions within the Group. Trudy Cooke brings extensive international public and private legal, M&A and management experience. She was recently Group General Counsel at a UK listed satellite telecommunications company and prior to that worked first as a corporate lawyer and then more recently as the Chief Operating Officer and member of the Executive Board at a leading international private equity investment firm in London.

In June 2021, Paul Carter joined as Vice President and Global Head of Corporate Development, reporting to the Chief Financial Officer. Paul brings over two decades of experience building and leading corporate development teams at FTSE 100 and Fortune 500 companies in the financial services, data, technology, and business services sectors. His key focus will be to develop and execute Avast's long-term identity strategy.

In July 2021, Charles Walton joined the business as Senior Vice President and General Manager of the emergent identity business. He comes to Avast most recently having led the development of the identity strategy for a leading global payments company. He has extensive expertise in the field and has had a career in corporate life and as a startup entrepreneur.

Nomination Committee report continued

In August 2021, Daria Loi joined the Company as Vice President of Innovation, reporting to the Chief Technology Officer. Daria Loi has extensive experience spanning over two decades in UX research and design, product design and strategy, and innovation processes. Before joining Avast, Daria Loi worked at a global computer component manufacturer, where she led UX innovation and drove product vision agenda into the company's client computing, AI, and smart spaces programmes for over 12 years. She also worked as Head of Product Design for Emerging Technologies and Head of Design & People Experiences at a global software company for almost two years. She is a well-known keynote speaker and was recognised as one of Italy's 50 most inspiring women in tech.

In August, Eric Matteson joined the Company as Vice President of Engineering, reporting to the Chief Product Officer. Eric is an extremely accomplished technical leader with substantial international experience; he joined us from a highly successful gaming company and had previously worked in senior engineering and technology roles for a leading internet retail company and computer company.

In September 2021, Stuart Simpson took up the post of Interim CFO. He comes to Avast most recently following a successful period as Group Chief Financial Officer and latterly Interim Chief Executive Officer of a leading postal services company. He previously held a range of Chief Financial Officer roles both in the UK and internationally in logistics and manufacturing.

In addition, in June 2021 Sam Honey moved from a consultancy to a permanent contract with the Company as Vice President of Customer Retention and Loyalty, reporting to the Chief Commercial Officer.

Rebecca Grattan took on the role of Chief People and Transformation Officer from October 2021 in order to lead the integration with NortonLifeLock.

Finally, we saw the departure of Philip Marshall, who stepped down from the Board and the role of CFO in September 2021, and Julio Bezerra who left the Company in December 2021.

Nomination Committee report

Independent Directors

The Code recommends that at least half of the board of directors of a UK listed company, excluding the Chair, comprises non-executive directors determined by the board to be independent in character and judgement, and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement. Four out of eight Directors (excluding the Chair) are independent. Further details on the classification of Directors are included in the Corporate Governance statement on page 88.

Board appointments

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Nomination Committee. We aim to appoint people who will help us address the operational and strategic challenges and opportunities facing the Company now, and in the future, and ensure that our Board is diverse in terms of gender, nationality, social background, and cognitive style. Pursuant to the requirements of the Code, prior to being appointed to the Board, the commitments of Non-Executive Directors are assessed. Upon appointment, Directors are required to allocate sufficient time to the Company in order to discharge their responsibilities effectively and meet the expectations of their role. Internal controls are in place which require Directors to notify the Board before accepting any additional commitments which may affect this.

As part of our ongoing succession planning for executive roles, Rebecca Grattan working with the Nomination Committee engaged Heidrick & Struggles to undertake a market mapping exercise for executive roles where the incumbent was designated a potential flight risk. The CFO role was included in this exercise.

When it became clear that Philip Marshall would be stepping down and the Merger was moving to signing, Heidrick & Struggles revisited their market map and extended it in order to consider candidates with immediate availability and those who would be considered an interim option. Stuart Simpson was selected as Interim CFO as a result of this exercise. Heidrick & Struggles have no other connection with the Company.

John Schwarz's tenure as Chair

As of December 2021, the Company's Chair, Mr Schwarz, has served on the Board for more than nine years.

The Code provides that the chair of a FTSE 350 company should not remain in the post beyond nine years from the date of their first appointment to the board. However, the Code allows for a limited extension beyond this period where the Chair has been a Non-Executive Director for a significant amount of time prior to becoming Chair, and their continued appointment supports the company's succession plan and Diversity Policy.

Nomination Committee report continued

Last year, the Board considered Mr Schwarz's continuation as Chair desirable for a limited period of time, to provide stability and continuity following Board and executive changes, including the retirement of Mr Claesson and Mr Gunst as Non-Executive Directors. At the time, significant shareholders and proxy agencies were given the opportunity to speak with the Board's Senior Independent Director regarding their views on the matter. In 2021, the executive search firm Egon Zehnder was appointed to support in the search for a new Chair. The process was put on hold pending the outcome of the Merger and will be restarted should the Merger not complete as anticipated.

Changes to the Board

There have been a number of changes to the Board over the course of 2021. At the AGM in May 2021, Ulf Claesson and Erwin Gunst retired from the Board having been Directors since 2012. In September, Philip Marshall stepped down from the Board and the role of CFO, and was succeeded by Stuart Simpson.

It is intended that, on completion of the Merger, all of the Directors, except Pavel Baudis and Ondrej Vlcek, will resign from the Board.

Changes to the Committees

There were a number of changes to the composition of the Remuneration Committee, Nomination Committee, and Audit and Risk Committee, following the retirement of Ulf Claesson and Erwin Gunst at the AGM in May 2021. Warren Finegold stepped down from the Remuneration Committee and was appointed as a member of the Audit and Risk Committee; Maggie Chan Jones stepped down from the Remuneration Committee and was appointed as a member of the Audit and Risk Committee; and Belinda Richards was appointed as a member of the Remuneration Committee.

Tamara Minick-Scokalo was appointed Chair of the Remuneration Committee following the retirement of Ulf Claesson. Her extensive international experience in fast-moving consumer goods and change management means she is well placed to assist the Committee in advising the Board on remuneration matters and ensuring that the Remuneration Policy is aligned with the business strategy and objectives, risk appetite, values, and long-term interests of all stakeholders.

In July 2021, the Board established a new Security and Privacy Committee, which oversees the information security strategy, data security, data governance, and privacy governance of the Group, recognising the interests of all stakeholders. The Security and Privacy Committee is chaired by Maggie Chan Jones and includes Warren Finegold and Belinda Richards.

Evaluation of the Board's structure, size, performance, and composition

The Board ordinarily undertakes an evaluation of its performance and effectiveness annually, in accordance with best practice and the requirements of the Code. Towards the end of 2020, Avast engaged Lintstock, an independent external advisory firm, to assist with the FY 2020 Board evaluation; therefore, the Board is not due to have an externally facilitated evaluation until 2023. In light of the proposed Merger, the Board has decided that it is appropriate to put on hold its annual internal evaluation. Should the Merger not complete as anticipated, then the Company intends to proceed with an internal evaluation in 2022.

While the performance of the Committee was rated highly overall, it was noted that greater reporting to the wider Board would be beneficial, in particular in relation to deciding how the make-up of the Board should evolve going forward and in determining the desired attributes to be sought in Non-Executive Director recruitment, and that increased attention needed to be given to succession planning going forward. The Nomination Committee addressed these points throughout 2021. In early 2021, Russell Reynolds undertook a Board skills assessment as part of the Non-Executive Director recruitment process. Russell Reynolds has no other connections with Avast. The size and composition of the Board was reviewed as part of that exercise, with the views of all Directors being taken into account. Egon Zehnder was also appointed to support the search for a new Chair, but that process, along with Non-Executive Director recruitment, was put on hold pending the outcome of the Merger. In addition to supporting the search for a new Chair, Egon Zehnder also provided recruitment services and leadership consultancy services.

In May 2021, the Nomination Committee was presented with an update on the succession status and planning for the Executive Management team and provided with succession plans for each function. In addition, it was notified of the proposed approach for the development of successor candidates to the Executive Management team and the wider senior leader cohort.

Nomination Committee report continued

Diversity Policy

The Board is committed to increasing diversity among gender, race, culture, education, skills, and experience. The Board currently comprises members from six different nationalities, with experience across a diverse range of disciplines and industries. The Board seeks leaders who embrace the Group's culture and values, and believes that, in order to provide effective strategic leadership, the Board must comprise individuals with a broad and diverse range of perspectives, along with the requisite skills, knowledge, and experience. The Board, and specifically the Committee, requires that all lists of candidates proposed for new Board positions include a diverse set of candidates, and work with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search on both gender and diversity best practice. As of the date of this report, the proportion of women on the Board is 33.33%.

The Board is aware that this target has been met as a result of a reduction in the size of the Board and remains mindful of the recommendations set out in the Hampton-Alexander Review and its minimum 33% target for female representation on the Board. The Board's strategy for achieving diversity is embedded in our succession planning and Director recruitment process, where we aim to bring a diverse and complementary range of backgrounds, skills, knowledge, and experience to the Board.

In 2021, the representation of women on the Executive Management team and their direct reports was increased from 27% to 36%. The Board is committed to increasing the representation of women in the Executive Management team and improving diversity. Further information about the Group's Diversity Policy is set out on page 65. I am pleased to report that female representation in our Executive Management team of 36.4% exceeded the target of 33.0%. Work continues in 2022 to rebalance the overall representation of females within the Company, currently running at 29.1% against a target of 30.9%.

The Board has met the target set by Sir John Parker and the Parker Review Committee in 2017 that there is at least one director from an ethnic minority background on the Board of FTSE 100 companies by 2021.

Company culture

Throughout 2021, Avastians have continued to demonstrate their resilience in the face of change and uncertainty. The CEO's culture initiative, undertaken to clarify and codify our values and ways of working, has continued to evolve in 2021 as the Company navigated the challenging and constantly developing conditions of the global pandemic. Ongoing engagement with employees, and an understanding that the post-COVID reality requires radically different ways of working, prompted us to launch Avast's new Whole Life Flexibility concept in 2020 and implement it throughout 2021. This set of principles empowers employees to integrate their work and life priorities as they see fit, through policies such as unlimited paid time off, flexible working hours and locations, and providing office spaces that support collaboration, creativity, and connection. These policies and the cultural principles underpinning them are outlined in the CEO's strategic report.

The vision and strategy seeks to create a customer-focused, fast-moving company culture that enables ownership and accountability. Avast is of the view that the right culture is a competitive advantage and a key component of growth, and that culture contributes to a company's level of integrity, reputation, profitability, and shareholder value. Further details about the importance of culture are set out on page 62. Throughout the year, the Board reviewed a number of important cultural initiatives, and monitors compliance with the Company's culture in a number of ways. Avast Change Engagement Group (CEG) (see page 62 for further details), which enables two-way communication and serves as a forum where colleagues can talk with members of the Executive Management team and the Board, continued to provide a voice for employees and was instrumental in providing a forum to discuss the Merger and the potential impact on employees. The CEG is led by Ondrej Vlcek, Rebecca Grattan, Chief People and Culture Officer (CPCO) and the Designated Non-Executive Director for Employee Engagement, Pavel Baudis. Additionally, the Nomination Committee is attended by Rebecca Grattan, the Chief People and Culture Officer, who provides feedback to the Committee and the Board.

By order of the Board

Warren Finegold
Chair of the Nomination Committee

24 February 2022

Directors' remuneration report

Structure

"

2021 was a strong year of high calibre talent attraction and retention at Avast, despite being a period of great change and some uncertainty. This is a testament to our remuneration approach supporting a strong talent agenda

Tamara Minick-Scokalo
Chair of the Remuneration Committee

Remuneration Committee Chair's letter

Dear shareholder

I am pleased to present to you our Directors' Remuneration Report for the year ended 31 December 2021.

Having succeeded Ulf Claesson on 6 May 2021, this is my first report as Chair of the Remuneration Committee, following my appointment to the Board in March 2019.

Review of Remuneration Policy and key changes for 2022

The 2019 Directors' Remuneration Policy was supported by 94.7% of our shareholders at our first Annual General Meeting (AGM) on 23 May 2019 and is due for renewal at the AGM in 2022.

Given the Merger of Avast with NortonLifeLock Inc. which was announced in 2021 and is expected to complete in the first half of 2022, this report does not include a new Directors' Remuneration Policy for shareholder approval in 2022 since it is expected that Avast will delist prior to the next AGM. The Committee considers the existing remuneration framework remained fit for purpose and supportive of Avast's strategy to deliver value for shareholders up until completion of the Merger.

In the event that the Merger does not complete as expected, the Committee will ensure that a Remuneration Policy vote is held within the timelines set out under the remuneration reporting regulations. In such circumstances, our approach will be to roll over the existing policy with minimal changes and put this to a new binding shareholder vote at the 2022 AGM. We would then undertake a more comprehensive review, including a shareholder consultation, in advance of the 2023 AGM. If at that point we conclude that more substantial changes are required, we may put forward a new policy to our shareholders in 2023, rather than at the end of the next three-year cycle.

Board changes

During the year, it was announced that Philip Marshall stepped down from the Board with effect from 21 September 2021. While he will remain with the business to assist in an orderly handover and as an adviser until 31 March 2022, he was succeeded by Stuart Simpson who was appointed to the Board as Interim Chief Financial Officer on 21 September 2021. Stuart's remuneration arrangements are set out in the below section entitled 'Remuneration arrangements for the new Interim CFO' and also on page 128.

Philip Marshall's remuneration arrangements on departure were in line with the 2019 Directors' Remuneration Policy and full details, including where Remuneration Committee discretion was applied, are set out on page 124.

Implementation of remuneration arrangements for the CEO in 2022

The Committee will administer executive remuneration in accordance with the existing Remuneration Policy until completion of the NortonLifeLock Merger. In the event that the Merger does not complete as expected, the existing Remuneration Policy will continue in effect until the 2022 AGM, as discussed above.

The CEO is the only Director to participate in the annual bonus and long-term incentive plan (LTIP). His maximum opportunity under the annual bonus and the LTIP continues to be 200% and 500% of base salary respectively. As in previous years, he intends to waive his annual bonus for 2022.

Directors' remuneration report continued

The Committee reviewed the measures under the annual bonus that will apply for the period up to completion of the Merger to ensure they continued to be aligned with our strategy, and determined that performance KPIs should continue to be based on organic billings, adjusted EBITDA, relationship Net Promoter Score and the achievement of strategic measures, consistent with the approach taken in 2021. If the Merger does not complete, the Committee will administer the annual bonus in accordance with the existing Remuneration Policy and disclose details of how the policy was implemented in the 2022 Directors' Remuneration Report.

Depending on the Merger completion date, the Committee may make a 2022 LTIP award to Ondrej Vlcek, in line with the terms of the Remuneration Policy. In this event, details of the awards including the performance targets would be disclosed to shareholders via the Company's website.

As set out in previous remuneration reports, following his appointment as CEO on 1 July 2019, Ondrej Vlcek elected to waive his salary (not including his Board fee) and annual bonus. Mr Vlcek continued to receive his Board Directors' fee ($100,000 per annum) which he donated to charity. Mr Vlcek received a nominal annual salary of $1 in addition to his Board fee.

Remuneration arrangements for the new Interim CFO

Stuart Simpson succeeded Philip Marshall as Interim CFO and was appointed to the Board on 21 September 2021. Given that he was appointed after the indicative timings for the NortonLifeLock Merger were known, and given the likely short-term nature of the role, he was appointed on a fixed-term contract to 31 December 2022. His remuneration arrangements are all in line with the shareholder-approved Policy. Under the terms of his service agreement, Mr Simpson will receive a fixed monthly salary payment of $100,000 reflecting his experience and the expertise he brings to the role.

In lieu of an annual bonus and LTIP award, the Committee used its discretion to determine that Mr Simpson would instead receive a one-time performance award at the end of his employment term, with a maximum opportunity of $500,000. Given the specific circumstances of his recruitment in the context of the Merger, and Avast's particular business objectives for the period up to the completion date, this award will be subject to the achievement of individual and Company targets which will be measured over the full term of his employment, for the period from 21 September 2021 to 31 December 2022, as set out on page 128.

Mr Simpson will not participate in any share incentive plans, but will be entitled to receive Company benefits such as life insurance cover and medical insurance in line with the Remuneration Policy, as well as the local pension scheme available to all employees of Avast Plc in the UK. His employer pension contribution is 5% of salary, which is in line with contributions that the wider UK workforce may receive.

In developing Mr Simpson's remuneration arrangements as part of his recruitment, the Committee was mindful of the need to both fairly reward and sufficiently motivate him during a period of significant change, while recognising the specific circumstances faced in the context of the NortonLifeLock Merger and the challenging timelines to deliver his objectives.

Incentive outcomes for 2021

2021 was another successful year for Avast, as we continued to execute on our growth strategy, delivering organic revenue and adjusted net income growth in a challenging pandemic environment.

The Merger with NortonLifeLock will create a combined Company with over 500 million users globally and approximately $3.5 billion in revenue, generating significant long-term shareholder value.

Annual bonus

The annual bonus for 2021 was based on performance against organic billings, adjusted EBITDA, relationship Net Promoter Score (NPS) targets, and performance against strategic KPIs. Organic billings of $972.0m (adjusted for FX) were delivered, resulting in a payout outcome of 37.1% of maximum, while adjusted EBITDA was $517.8m (adjusted for FX), representing a payout outcome of 48.1% of maximum. The Company continued to make good progress in the year on improving the customer experience. Based on the performance delivered, the payout outcome for the NPS element was 51.3% of maximum.

The Committee reviewed individual performance carefully against the strategic KPIs set, and assessed for Ondrej Vlcek as meriting 50% achievement with respect to maximum. In light of the performance delivered in 2021, the Committee determined that a notional bonus of 45.0% of maximum should be paid to Ondrej Vlcek (although as noted above, he elected to waive his annual bonus).

As noted above, Philip Marshall stepped down from the Board on 21 September 2021, but will remain with the business to assist in an orderly handover and as an adviser until completion of the Merger. As part of his departure terms, the Committee exercised its discretion within the policy to determine that his 2021 bonus would be based in equal proportion on Company (financial) measures and personal measures (which also includes personal financial performance). The Company element continued to be measured on organic billings and adjusted EBITDA and the outcome was as described above. The personal element was measured on performance against strategic KPIs, with a portion of this element tied to financial performance, such that 70% of the overall bonus was based on financial performance, consistent with the policy. Under his departure terms, Philip Marshall was awarded 50% of maximum for the strategic KPI measures as CFO, resulting in an overall bonus of 46.3% of maximum.

Directors' remuneration report continued

A description of performance against the targets is set out on pages 119 to 120.

2019 LTIP

In 2019, LTIP awards were made to Ondrej Vlcek and Philip Marshall worth 350% of their base salaries at the time. An additional award was also granted under the 2019 LTIP to both Mr Vlcek and Mr Marshall, to reflect the increase in their salaries and LTIP award levels following Mr Vlcek's promotion to CEO and the expansion in the scope and responsibilities of Mr Marshall's role. The additional awards were granted such that Mr Vlcek's aggregate award was worth 500% of his increased salary, and Mr Marshall's aggregate award was worth 450% of his increased salary.

These awards were assessed based 50% on diluted adjusted EPS growth and 50% on adjusted organic revenue growth. Diluted adjusted EPS growth over the three financial years to 31 December 2021 was 10.6% (CAGR) and adjusted organic revenue growth over this period was 6.4% (CAGR). As a result, 62.93% of the award will vest. Further details of the calculation are provided on page 120.

Review of formulaic outturns

The Committee considered the formulaic outturns under the 2021 annual bonus and 2019 LTIP awards and is satisfied that they are a fair reflection of individual and Company performance as well as the wider stakeholder experience, particularly given the significant shareholder value generated as a result of the Merger with NortonLifeLock, and therefore has not exercised discretion in relation to incentive outcomes during the year.

Early vesting of inflight LTIP awards

In anticipation of the Merger between Avast and NortonLifeLock in early 2022, in 2021 the Committee considered the implications for the inflight 2019, 2020, and 2021 LTIP awards. After careful consideration, the Committee used its discretion to determine that vesting would be accelerated for a time pro-rated portion of the unvested awards, based on the portion of the vesting period that had elapsed at the Court Sanction Date, and that the remainder of the awards would be rolled over into new awards of NortonLifeLock shares. This treatment was set out in the Co-Operation Agreement between Avast and NortonLifeLock. Due to his departure prior to the Merger completion, the Committee used its discretion to determine an alternative treatment for Philip Marshall's awards as part of his departure terms, which is described on page 124. The portion of the 2020 and 2021 LTIP awards that will vest early will be subject to the Committee's assessment of performance for the period up until the Court Sanction Date, in accordance with the plan rules. The performance period for the 2019 LTIP awards is complete and the performance outcome is described above. In line with the LTIP rules, the two-year holding period for all LTIP awards will expire at the Court Sanction Date.

Conclusion

I would like to thank shareholders for their continued feedback and support over the course of the year.

Ms Tamara Minick-Scokalo
Chair of the Remuneration Committee

Annual Remuneration Report 2021

The Annual Remuneration Report that follows has been prepared in accordance with the provisions of the 2018 UK Corporate Governance Code ('Code'), the Listing Rules Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the Companies Act 2006.

2019 Directors' Remuneration Policy

Our Remuneration Policy for Directors ('Policy') was put to shareholders for approval at the AGM on 23 May 2019 and applies to payments made from this date. The following provides a summary of the Policy, along with details of how the Policy will be implemented during 2022, up until the completion of the Merger.

Given the timing of the transaction, no changes to the Policy are being proposed at this point. For full details of the Policy approved by shareholders, please refer to the 2018 Annual Report and Accounts which can be found on our website under the investor section (investors.avast.com/investors/results-reports-and-presentations/).

The Group's overall philosophy on remuneration is based on the approach that remuneration should be simple, while being clearly linked to the performance and behaviour of the individual, business results, and shareholder outcomes. This approach to remuneration, which cascades down through the organisation, is designed to:

- Reward achievement of short- and long-term financial objectives and support delivery of the business strategy and sustainable long-term returns to shareholders;
- Provide competitive, transparent and fair rewards; and
- Align the interests of employees and shareholders through appropriate levels of employee share ownership

Directors' remuneration report continued

Reward levels are set to attract, retain and engage high calibre talent to support the business strategy while being aligned with our culture, purpose, and values. The Group's Remuneration Policy is regularly assessed against market practice in the countries where we compete for talent, as well as against internal practice to ensure it remains appropriate. A significant proportion of potential total reward for our Executive Directors is performance-related, aligning pay with business success. Award levels are capped with payout linked to performance against a limited number of measures which are well linked to our strategy. The high performance hurdles that we set ourselves ensure that the reward received by the executives through the incentive plans aligns with shareholder outcomes, while taking into account our overall risk appetite. The Committee retains the discretion to adjust payouts where this is considered appropriate.

When determining performance measures for annual bonus and Long Term Incentive Plan awards, the Committee seeks to ensure they are aligned to the Company's strategic objectives and long-term shareholder interests. The annual bonus measures are selected to reflect the Company's short-term financial and non-financial priorities. The measures used in the Long Term Incentive Plan are selected to reflect Avast's strategy and to reinforce the key drivers of value creation and growth highlighted elsewhere in this annual report, which included earnings per share and organic revenue growth for the 2021 financial year.

Furthermore, our Remuneration Policy and the long-term nature of our incentive plans promote sustainable financial performance and ensure appropriate safeguards are in place to avoid rewarding failure (such as malus and clawback provisions, shareholding guidelines, and holding periods).

The Committee believes that our Remuneration Policy reflects the principles of provision 40 of the UK Corporate Governance Code, as outlined based on the principles above.

The table below summarises the approved Remuneration Policy and reflects the arrangements agreed for the Interim CFO. The table on page 118 provides a summary of the implementation of the policy in 2021, including the amounts received by the Executive Directors under each element.

BASE SALARY

Purpose and link to strategy: Reflects the particular skills and experience of an individual and provides a competitive base salary, compared with similar roles in similar companies.

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

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

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

Performance measures
n/a

BENEFITS

Purpose and link to strategy: To enable the Executive Directors to undertake their roles, by ensuring their security and wellbeing.

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

Executive Directors can access Avast products and are eligible to participate in any all-employee share plans on the same terms as offered to other employees.

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

Performance measures
n/a

Directors' remuneration report continued

PENSION

Purpose and link to strategy: To provide an appropriate allowance for retirement planning.

Overview
The CEO does not currently participate in pension arrangements, in line with practice for other Czech employees.

The Interim CFO receives a contribution of 5% of salary, in line with the contribution available to other UK employees.

Maximum opportunity
n/a

Performance measures
n/a

ANNUAL BONUS

Purpose and link to strategy: The annual bonus is designed to drive effective delivery of the business strategy, reward short-term operating performance, and promote executive share ownership via the deferral of bonus into shares, where the shareholding guideline has not been met. The annual bonus scheme enables the Group to flexibly control its cost base through performance-linked reward and ensures Executive Director remuneration is directly linked to business performance.

Overview
Annual bonuses are based on performance over one financial year.

Annual bonuses are normally paid in cash, following the year end. Where an executive has not met (or is not on course to meet) the executive shareholding guideline within the timeframe set out, 50% of any bonus earned will normally be deferred into shares.

Any deferred shares would normally vest on the second anniversary of grant.

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

Recovery and withholding provisions apply (see below).

Maximum opportunity
Maximum annual bonus is 200% of salary.

Target bonus payout is set at 50% of the maximum. No more than 12.5% of the maximum will pay out for meeting threshold performance.

Performance measures
The annual bonus for 2021 was based on the following performance measures:

- Billings (as defined on page 110)
- Adjusted EBITDA (as defined on page 110)
- Relationship NPS (as defined on page 110)
- Strategic KPIs

The Committee believes that these measures are appropriate, as they incentivise executives to drive top-line financial results to deliver our growth strategy, while also incentivising them to increase profitability.

Customer satisfaction continues to be included through NPS, in order to incentivise and reward executives for delivering a superior customer experience.

Strategic KPIs are included to ensure a rounded assessment of performance and to incentivise management to deliver against our strategic milestones, so that we continue to lay the foundations for future success.

For 2022, Ondrej Vlcek will continue to waive his bonus and Stuart Simpson will not participate in the annual bonus.

Directors' remuneration report continued

LTIP

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

Overview
LTIP awards normally vest based on performance over a three-year period.

The Committee retains the discretion to adjust the vesting of an LTIP award if it does not consider that it reflects underlying Company performance, or for any other reason it considers appropriate.

Any shares vesting under the LTIP (net of tax) will be subject to a two-year holding period.

Recovery and withholding provisions apply (see below).

Maximum opportunity
The maximum award is normally 500% of salary for the CEO and 450% of salary for the CFO.

No more than 7% of maximum opportunity will be paid for meeting threshold levels of performance under each of the performance measures (i.e. 14% of the aggregate award).

55% of the award will normally vest for target performance and 100% of the award will normally vest for maximum performance. There is a straight-line vesting between the performance points.

Performance measures
2021 LTIP awards were subject to the following performance measures:

- 50% based on diluted adjusted EPS growth.
- 50% on adjusted revenue growth.

The Committee may not grant a 2022 LTIP award to Ondrej Vlcek due to the expected completion of the Merger.

The Committee is satisfied that the combination of adjusted revenue growth and diluted adjusted EPS growth incentivises management to grow the value of the Group over the long term, and is strongly aligned to the execution of the business strategy.

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

SHARE MATCHING PLAN (SMP)

Purpose and link to strategy: The purpose of the SMP is to encourage and enable all eligible employees to acquire a stake in the Company so that they can share in the future growth, development, and success of the Company, and to further align the interests of such employees with the interests of the shareholders of the Company. The SMP allows the Company to match shares purchased by employees in accordance with a matching ratio determined by the Remuneration Committee.

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

Maximum opportunity
Participants can voluntarily invest up to $34,000 per year to acquire shares (via deductions from their base remuneration or quarterly bonus). The Company will award the participant a number of matching shares up to a maximum of one share per one purchased share. The current holding period is two years and the current matching is one share per three purchased shares.

Performance measures
n/a

Directors' remuneration report continued

SHAREHOLDING GUIDELINES

Overview
Executive Directors are normally expected to build a minimum shareholding in the Company.

Maximum opportunity
In-employment – Guideline is 200% of salary, built over a period of five years.

If an individual subject to the guideline does not meet the guideline, or is not on course to meet this guideline, up to 50% of any bonus earned will normally be required to be deferred into shares as a deferred bonus award, and will be expected to retain at least half of the net shares vesting under the Company's discretionary share-based employee incentive schemes until the guideline is met.

Post-employment – We do not have a formal policy on post-employment shareholding in place at the moment; however, the Committee reviewed the approach during 2021 and resolved that this would be included in the next Remuneration Policy put to a shareholder vote. Due to the Merger, a new policy has not been published at this time.

Performance measures
n/a

Recovery and withholding provisions

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

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

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

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

Stakeholder engagement

The Committee took into account the Company's approach to remuneration and related policies for the wider workforce when determining the Policy for Executive Directors. The Committee did not directly consult with employees when setting the Policy, but it took into account general feedback on employee engagement provided to the Board. In 2021, we continued our enhanced employee consultation programme and Pavel Baudis, our 'designated' Non-Executive Director for the purpose of employee engagement, has regularly attended our employee Change Engagement Group, where a number of issues were discussed, including pay and benefits. Although the Committee did not engage with the wider workforce on how executive remuneration aligns with our wider pay policies, it reviewed the regular employee reward programmes, such as the annual salary review, the annual employee Restricted Stock Unit (RSU) awards for high-potential and high-performing employees, as well as the Share Matching Plan to ensure that the employee programmes are in line with the overall remuneration strategy, Company objectives, and competitive needs.

Prior to the announcement of the Merger, in mid-2021 the Committee began to consider possible amendments to the Remuneration Policy and reviewed feedback received from shareholders on the design. As stated above, due to the timing of the transaction, no changes to the policy were proposed and a shareholder consultation did not take place in late 2021 as it ordinarily would have.

Directors' remuneration report continued

Summary of how our policy was implemented in 2021

The Committee considers that the Remuneration Policy operated as it was intended in terms of Company performance and pay quantum during 2021.

	Implementation in 2021		
Summary	CEO: Ondrej Vlcek	Previous CFO: Philip Marshall	New Interim CFO: Stuart Simpson
BASE SALARY			
No salary increases awarded in the year.	Ondrej Vlcek waived his salary (excluding his Board fee). He continued to receive his Board Director's fee ($100,000 per annum) which he donated to charity. He received a nominal annual salary of $1 only in addition to his Board fee. His 'headline' salary was $700,000 (which is inclusive of his $100,000 Board fee)	$600,000 (this includes his Board fee of $100,000 per annum)	$100,000 per month (combined salary and Board fee)
BENEFITS			
Benefits included private health cover (for the individual and family members), life insurance, flexible benefit scheme, and car allowance. (The CEO does not receive private health cover or a car allowance).	$14,881	$49,785	$0
PENSION			
Executive Directors do not receive a pension contribution, except where covered by local employee pension plan policy.	n/a	n/a	$5,000 (Participates in the pension on the same basis as other UK employees)
ANNUAL BONUS			
Maximum opportunity of 200% of salary in 2021. Performance measures for the 2021 annual bonus were as follows: • 35% on Organic Billings • 35% on Adjusted EBITDA • 15% on customer satisfaction • 15% on strategic KPIs Philip Marshall's bonus was based on Organic Billings, Adjusted EBITDA, and personal measures as described on page 120.	The CEO has waived his annual bonus	Outturn as a percentage of maximum: 46.3% $555,600	The Interim CFO did not participate in the 2021 annual bonus plan

Directors' remuneration report continued

	Implementation in 2021		
Summary	CEO: Ondrej Vlcek	Previous CFO: Philip Marshall	New Interim CFO: Stuart Simpson
LTIP			
In 2019, Ondrej Vlcek and Philip Marshall were granted an award of 500% and 450% of salary based on their respective salaries at the time. Performance was measured over three years to 31 December 2021. Performance measures for the 2019 award were as follows: • 50% based on diluted adjusted EPS growth • 50% on adjusted (organic) revenue growth	Percentage of award vesting: 62.93% $4,276,204	Percentage of award vesting: 62.93% $3,377,533	The Interim CFO does not participate in any LTIP awards
SHARE MATCHING PLAN (SMP)			
All employees, including the Executive Directors and members of the Executive Management team, are eligible to participate in the SMP. Participants can voluntarily invest up to $34,000 per year to acquire shares (via deductions from their base remuneration or quarterly bonus). The Company will award the participant a number of matching shares up to a maximum of one share per one purchased share. The current holding period is two years and the current matching is one share per three purchased shares.	The CEO did not participate in the SMP in 2021	The CFO participated in the Share Matching Plan in 2021, and purchased 2,481 shares under the plan eligible for matching and received 1,349 of matched shares	n/a
SHAREHOLDING GUIDELINES			
200% of annual base salary	27,654% of ('headline') salary Shareholding as at 31 December 2021 based on the share price at that date	425% of salary Shareholding as at 21 September 2021 (date of stepping down) based on the share price at that date	n/a

See CFO's report on pages 40 to 53 for further details on financial measures and definitions

Directors' remuneration report continued

Remuneration received by Directors for the year ended 31 December 2021 (audited)

Directors' remuneration for the years ended 31 December 2021 and 2020 was as follows:

Director		Salary & Fees[1]	Benefits[2]	Pensions[3]	Total Fixed	Annual Bonus	Long-term Incentives	Other[4]	Total Variable	Total
Ondrej Vlcek[5]	2021	$100,001	$14,881	n/a	$114,882	$0	$4,276,204[10]	n/a	$4,276,204	$4,391,086
	2020	$100,001	$8,732	n/a	$108,733	$0	$3,103,575[11]	n/a	$3,103,575	$3,212,308
Philip Marshall[6]	2021	$433,334	$49,785	n/a	$483,119	$400,336[7]	$3,377,533[10]	$ 10,481	$3,788,350	$4,271,469
	2020	$600,000	$61,412	n/a	$661,412	$575,023	$3,617,781[11]	$0	$4,192,804	$4,854,216
Stuart Simpson[8]	2021	$335,385	$0	$5,000	$340,385	$0[9]	$0	n/a	$0	$340,385
John Schwarz	2021	$350,000	$0	n/a	$350,000	n/a	n/a	n/a	n/a	$350,000
	2020	$350,000	$5,000	n/a	$355,000	n/a	n/a	n/a	n/a	$355,000
Pavel Baudis[12]	2021	$99,384	$23,284	n/a	$122,668	n/a	n/a	n/a	n/a	$122,668
	2020	$97,086	$21,846	n/a	$118,932	n/a	n/a	n/a	n/a	$118,932
Maggie Chan Jones	2021	$122,174	$0	n/a	$122,174	n/a	n/a	n/a	n/a	$122,174
	2020	$115,000	$5,000	n/a	$120,000	n/a	n/a	n/a	n/a	$120,000
Ulf Claesson[13]	2021	$42,740	$0	n/a	$42,740	n/a	n/a	n/a	n/a	$42,740
	2020	$122,500	$0	n/a	$122,500	n/a	n/a	n/a	n/a	$122,500
Warren Finegold	2021	$141,087	$0	n/a	$141,087	n/a	n/a	n/a	n/a	$141,087
	2020	$137,500	$0	n/a	$137,500	n/a	n/a	n/a	n/a	$137,500
Erwin Gunst[13]	2021	$40,124	$0	n/a	$40,124	n/a	n/a	n/a	n/a	$40,124
	2020	$115,000	$0	n/a	$115,000	n/a	n/a	n/a	n/a	$115,000
Eduard Kucera[12]	2021	$99,383	$23,293	n/a	$122,676	n/a	n/a	n/a	n/a	$122,676
	2020	$97,080	$21,846	n/a	$118,926	n/a	n/a	n/a	n/a	$118,926
Tamara Minick-Scokalo	2021	$119,904	$0	n/a	$119,904	n/a	n/a	n/a	n/a	$119,904
	2020	$111,435	$0	n/a	$111,435	n/a	n/a	n/a	n/a	$111,435
Belinda Richards	2021	$123,491	$0	n/a	$123,491	n/a	n/a	n/a	n/a	$123,491
	2020	$115,000	$0	n/a	$115,000	n/a	n/a	n/a	n/a	$115,000
Lorne Somerville	2021	$0	$0	n/a	$0	n/a	n/a	n/a	n/a	$0
	2020	$39,011	$0	n/a	$39,011	n/a	n/a	n/a	n/a	$39,011
Total	2021	$2,007,006	$111,243	$5,000	$2,123,249	$400,336	$7,653,737	$10,481	$8,064,554	$10,187,803
	2020	$1,999,612	$123,836	n/a	$2,123,448	$575,023	$6,721,356	$0	$7,296,379	$9,419,827

Directors' remuneration report continued

Notes to the single figure

1 Aggregate salary for Executive Directors includes an amount for Board fee and salary.
2 Benefits for Executive Directors include life insurance, health insurance, flexible benefit scheme, and car allowance. Benefits include allowance for Non-Executive Directors who travel intercontinentally.
3 Executive Directors do not receive a pension contribution except where covered by local employee pension plan policy.
4 Refers to amounts received under the Share Matching Plan (see page 117).
5 Mr Ondrej Vlcek elected to indefinitely waive his salary (not including his Board fee) and annual bonus from his appointment as CEO. He continues to receive his Board Director's fee of $100,000, which he donated to charity. From 1 July 2019, Mr Ondrej Vlcek received a nominal annual salary of US$ 1 only in addition to his Board fee.
6 Mr Philip Marshall stepped down from the Board on 21 September 2021 and remuneration shown is pro-rated to reflect his time in role to this date. Further details of remuneration paid to Mr Philip Marshall are provided on page 124.
7 Mr Philip Marshall met his shareholding guideline and therefore the annual bonus for the year ending 31 December 2021 has been paid in cash.
8 Mr Stuart Simpson joined the Board on 21 September 2021 and remuneration shown is from this date.
9 Mr Stuart Simpson participates in a one-off performance bonus which operates for the duration of his appointment, with performance assessed in 2022.
10 LTIP awards granted in March and July 2019 will vest based on performance to 31 December 2021. The value of the award disclosed in the single figure is based on the average share price over the last three months of the financial year ended 31 December 2021 of £5.859. This amount includes the value of additional shares awarded in respect of dividend equivalents. Between grant and the share price used to value the March 2019 award for single figure purposes, the share price had increased from £2.959 at the date of grant to £5.859 (3-month average to 31 December 2021) which equated to an increase in value of each vesting share equivalent to £2.900. Between grant and the share price used to value the July 2019 award for single figure purposes, the share price had increased from £3.136 at the date of grant to £5.859 (3-month average to 31 December 2021) which equated to an increase in value of each vesting share equivalent to £2.723. The value disclosed in the single figure attributable to share price growth is $1,925,998 for Mr Ondrej Vlcek and $1,536,667 for Mr Philip Marshall. The Remuneration Committee did not exercise discretion in respect of the share price appreciation. Based on the performance achieved, these awards will vest at 62.93% of the maximum opportunity. The total number of shares that would have vested to Mr Ondrej Vlcek is 541,583 shares (inclusive of dividend equivalent shares accrued to the date of this report); in accordance with the Merger arrangements a portion of shares will be rolled over into NortonLifeLock shares. The full value of the shares (including the rolled over awards) is disclosed in the table. Mr Philip Marshall will receive 427,766 shares (inclusive of dividend equivalent shares accrued to the date of this report) upon the vesting. These numbers of shares that will vest do not include any dividend equivalents relating to the proposed payment of a dividend on 3 March 2022. As explained on page 120, it is expected that Mr Philip Marshall would receive a top-up cash payment of $87,534 (an estimation using the MCO value of Avast share of $8.45, calculated based on NortonLifeLock share value of $27.97 from 18 February 2022 and the formula outlined in the Scheme Document) in respect of the 2019, if the Merger completes prior to 31 December 2022, which has not been included in the single figure as it is conditional on completion. The 3-month average exchange rate of $1.35/£1 was used to convert the LTIP value from GBP to USD.
11 LTIP values for 2020 for Mr Ondrej Vlcek and Mr Philip Marshall have been restated using the share price on the vesting date of 11 August 2021, being £5.86. 381,901 shares vested to Mr Ondrej Vlcek and 445,175 shares vested to Mr Philip Marshall. The exchange rate on the date of the vesting ($1.3868/£1) was used to convert the LTIP value from GBP to USD.
12 Mr Pavel Baudis and Mr Eduard Kucera have contractually agreed that the portion of their fees paid by Avast Software s.r.o. (equal to $50,000 annually for each) would be converted to CZK at the exchange rate of CZK 21.319/1$ and paid in arrears in monthly payments of CZK 88,830 (gross). The amounts reported in the single figure table are based on actual exchange rates for the year.
13 Mr Ulf Claesson and Mr Erwin Gunst stepped down at the AGM on 6 May 2021.
14 Where relevant figures have been translated from their currency of payment into USD, the exchange rates used by Payroll teams at the times of the payments were applied.

Salary (inclusive of Board fees) (audited)

Since his appointment as CEO, Mr Ondrej Vlcek's 'headline' salary was set at $700,000 (inclusive of his Board fee). Mr Ondrej Vlcek elected to waive his salary (not including his Board fee) and annual bonus. Mr Ondrej Vlcek continued to receive his Board director's fee ($100,000) which he donated to charity. Mr Ondrej Vlcek also received a nominal annual salary of $1, in addition to his Board fee.

Mr Philip Marshall's salary was $600,000 for the year, inclusive of his Board Director's fee ($100,000).

Mr Stuart Simpson's salary was $100,000 per month.

Annual bonus for the year ended 31 December 2021 for Ondrej Vlcek (audited)

The annual bonus for the year under review was based on organic billings, adjusted EBITDA, customer satisfaction (Relationship NPS) and individual strategic KPIs. Performance against financial targets is set out in the table below:

	Weighting	Threshold	Target	Maximum	Performance achieved	Performance at budget FX rate[1]	% of maximum
		12.5% payout	50% payout	100% payout			
Organic Billings	35%	$906.1m	$1,006.7m	$1,208.1m	$946.1m	$972.0m	37.1%
Adjusted EBITDA	35%	$468.4m	$520.4m	$624.5m	$517.6m	$517.8m	48.1%

Notes
1 Actuals at target FX rates exclude currency impact calculated by restating 2021 actuals to 2021 planning rates, and are used for bonus payout calculation purposes.
2 Stuart Simpson did not participate in the 2021 annual bonus award.

In assessing the 15% bonus element associated with our customer satisfaction performance, the Committee considered the improvement in the relationship NPS for Avast paid products and the sustained strong performance for Avast free, AVG paid, and AVG free products. NPS performance for all four products was within or above the target range. Based on the performance delivered, the Committee judged that the Company met its objectives with respect to customer satisfaction in 2021 and that 51.3% of maximum for the customer satisfaction element of the bonus should be paid.

The Company continues to grow and met its commitments to the shareholders, and the Board continues to have full confidence in the leadership to execute on our plans.

The performance of the CEO in 2021 against the Strategic KPIs, agreed at the start of the year and weighted at 15% with respect to the 2021 annual bonus, has been assessed and is described below.

Executive	Performance achieved	Committee's assessment of pay out
Ondrej Vlcek	■ Successfully led negotiations and preparations for the Merger with NortonLifeLock, including effective management of the investor base ■ Launched a new product solution (Avast One) and established a process for ongoing development and monetisation ■ Developed and implemented the strategy and the build-out plan for Identity, including the acquisition of Evernym ■ Delivered succession planning and organisation development programmes	50% of maximum[1]

1 No bonus will be paid to Mr Ondrej Vlcek following his decision to waive his annual bonus since appointment as CEO.

Directors' remuneration report continued

The above performance resulted in the following payment:

Executive	2021 bonus payment	% of maximum
Ondrej Vlcek	$0[1]	n/a

1 No bonus will be paid to Mr Ondrej Vlcek following his decision to waive his annual bonus since appointment as CEO.

Annual bonus for the year ended 31 December 2021 for Philip Marshall (audited)

As noted earlier in this report, Philip Marshall stepped down from the Board on 21 September 2021, but will remain with the business to assist in an orderly handover and as an adviser until 31 March 2022. As part of his departure terms, the Committee exercised its discretion within the policy to determine that his 2021 bonus would be based on an equal weighting of Company (financial) measures and personal measures (which also include personal financial performance).

The Company element was measured on organic billings and adjusted EBITDA and the outcome was as described above for Ondrej Vlcek. The personal element was based on performance against personal/strategic KPIs, which included an element of personal financial performance of 20%. In line with the agreed terms, the outcome under the personal element was 50% of maximum which, together with the outcome for organic billings and adjusted EBITDA, resulted in an overall bonus of 46.3% of maximum. When reviewing personal performance, the Committee took into account Philip Marshall's achievements, including in relation to the financial aspects of negotiations with NortonLifeLock, the management of divestments and business re-financing.

Executive	2021 bonus payment	% of maximum
Philip Marshall	$555,600	46.3%

The Committee considered the formulaic outturns under the 2021 annual bonus awards and was satisfied that they were a fair reflection of individual and Company performance as well as the wider stakeholder experience, and therefore did not exercise discretion in relation to formulaic outcomes during the year.

LTIP vesting for the year ended 31 December 2021 (audited)

On 14 March 2019, Mr Ondrej Vlcek was granted a conditional share award of 350% of salary (his salary at the date of grant was $450,000). This grant was equivalent to 401,602 Performance Share Units (PSUs) at maximum vesting level. The Market Value at Grant was £2.959 per share. As previously noted in the 2019 Directors' remuneration report, an additional conditional share award was made to reflect Mr Ondrej Vlcek's increased salary of $700,000 and increased LTIP opportunity of 500% of base salary. This additional grant was made on 3 July 2019 and was equivalent to 406,309 Performance Share Units (PSUs) at maximum vesting level. The Market Value at Grant was £3.136 per share.

On 14 March 2019, the CFO, Mr Philip Marshall, was granted a conditional share award of 350% of salary (his salary at the date of grant was $525,000). This grant was equivalent to 468,535 Performance Share Units (PSUs) at maximum vesting level. The Market Value at Grant was £2.959 per share. As noted in the 2019 Directors' remuneration report, an additional conditional share award was made to reflect Mr Philip Marshall's increased salary of $600,000 and increased LTIP opportunity of 450% of base salary. This additional grant was made on 3 July 2019 and was equivalent to 182,048 Performance Share Units (PSUs) at maximum vesting level. The Market Value at Grant was £3.136 per share.

2019 PSU awards were subject to diluted adjusted EPS growth over the three financial years ending 31 December 2021 and adjusted organic revenue growth over the same period. Diluted adjusted EPS growth over the period was 10.6% (CAGR) and adjusted organic revenue growth over the period was 6.4% (CAGR). Therefore, the awards will vest at 62.93% of maximum opportunity.

	Weighting	Threshold	Target	Maximum	Performance achieved	% of maximum
		14% payout	55% payout	100% payout		
Diluted adjusted EPS growth	50%	5% CAGR	8% CAGR	12% CAGR	10.6%	83.69%
Adjusted (organic) revenue growth[1]	50%	5% CAGR	7% CAGR	12% CAGR	6.4%	42.18%

1 Adjusted to exclude impact of discontinued businesses and Jumpshot.

These 2019 awards will vest on the third anniversary of grant or, if earlier, completion of the NortonLifeLock Merger. The awards made on 14 March 2019 will vest on their normal vesting date of 14 March 2022. Regarding the awards made in July 2019, for Mr Ondrej Vlcek, a portion of this award will be pro-rated to reflect the portion of the vesting period elapsed, with the remainder rolled over into NortonLifeLock shares in line with the agreed Merger arrangements. For Mr Philip Marshall, a portion of this award will be pro-rated to reflect the portion of the vesting period elapsed to his exit date (31 March 2022) and another portion subject to cash settlement, estimated to be $87,534 (based on NortonLifeLock share value of $27.97 from 18 February 2022 and the MCO formula outlined in the Scheme Document), if the Merger completes prior to 31 December 2022, as outlined on page 121.

As a result, Mr Ondrej Vlcek will receive 541,583 shares (including dividend equivalent shares) and Mr Philip Marshall will receive 427,766 shares (including dividend equivalent shares) upon vesting. Further dividend equivalents will accrue for these awards as at the date of this report it was announced that the March 2022 dividend would be paid on 3 March 2022. The shares from the vested awards will be subject to the two-year post-vesting holding requirement.

Directors' remuneration report continued

When determining the LTIP outcome, the Committee considered the underlying performance of the Group over the performance period, taking into account performance against key financial and non-financial indicators, the performance of the individuals, the impact of the COVID-19 pandemic and the experience of shareholders and other stakeholders. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee concluded the proposed vesting outcome was an appropriate reflection of progress delivered over the period since grant and has therefore determined that a discretionary adjustment was not required.

Share Matching Plan (audited)

During the year Mr Philip Marshall participated in the Company's Share Matching Plan. Under this plan, participants are able to invest up to $34,000 per annum in the purchase of Company shares. If the participant continues to retain these shares at the end of the two-year holding period, then they will receive one matching share for every three shares purchased.

Two tranches of matching shares vested to Mr Philip Marshall in the year, following completion of their two-year holding periods.

Mr Philip Marshall purchased 2,175 shares in the H2 2018 Accumulation Period, which were allotted to him on 17 January 2019 and earned him 725 matching shares, which vested on 14 January 2021. The share price on 14 January 2021 was £5.30, resulting in a value on the vesting date of £3,843.

He purchased 1,874 shares in the H1 2019 Accumulation Period, which were allotted to him on 16 July 2019 and earned him 624 matching shares, which vested on 27 August 2021. The share price on 27 August 2021 was £6.014, resulting in a value on the vesting date of £3,753.

Details of the treatment of Mr Philip Marshall's awards on completion of the Merger are described on page 124.

Total pension entitlements (audited)

During the year under review, Stuart Simpson received pension contributions of 5% of salary which is in line with the wider workforce rate for UK employees. Ondrej Vlcek and Philip Marshall did not receive any pension contribution or pension allowance, in line with practice for all Czech employees.

LTIP awards made during the year (audited)

On 22 March 2021, the following awards were granted to Mr Ondrej Vlcek and Mr Philip Marshall:

		Details of award granted						
Executive	Type of award	Basis of award granted (maximum)	Share price (£)[1]	Number of shares granted	Face value of award (£000)	Face value of award ($000)[2]	% of face value that would vest at threshold performance	Vesting determined by performance over
Ondrej Vlcek	Conditional share	500% of salary of $700,000	£4.834	544,788	£2,633.5	$3,500.0	14%	Three financial years to 31 December 2023
Philip Marshall	Conditional share	450% of salary of $600,000	£4.834	420,265	£2,031.6	$2,700.0	14%	Three financial years to 31 December 2023

Notes
1 The share price used to determine the number of shares awarded was £4.834 based on the closing share price on 22 March 2021.
2 Exchange rate used to present the face value of the award in USD is the rate on the date of grant of £/$ 1.3290.

The performance condition for these awards is set out below:

	Threshold 14% vesting	Target 55% vesting	Maximum 100% vesting
Diluted adjusted EPS growth (50% weighting)	5% CAGR	7% CAGR	12% CAGR
Adjusted revenue growth (50% weighting)	5% CAGR	7% CAGR	12% CAGR

14% of the total award shall vest for threshold performance (i.e. 7% of the award for each of the two financial criteria), 55% shall vest for target performance, and 100% of the total award shall vest for maximum performance. Straight-line vesting between the performance points will apply.

Treatment of inflight LTIP awards on completion of the NortonLifeLock Merger

In anticipation of the Merger between Avast and NortonLifeLock in early 2022, in 2021 the Committee considered the implications for the inflight LTIP awards. After careful consideration, the Committee used its discretion to determine that vesting would be accelerated for a time pro-rated portion of the awards, based on the portion of the vesting period that had elapsed at the completion date, and that for Ondrej Vlcek the remainder of the awards would be rolled over into new awards over NortonLifeLock shares. This treatment was set out in the Co-Operation Agreement between Avast and NortonLifeLock. Given his departure, Philip Marshall's shares will not be rolled over and will vest on completion, in line with the approach described in the payments for loss of office section on page 124. The portion of the 2020 and 2021 LTIP awards that will vest early will be subject to the Committee's assessment of performance for the period up until completion, in accordance with the plan rules. The performance period for the 2019 awards is complete and the outcome is as described on page 117.

Under the LTIP rules, awards that have vested but are subject to a holding period are released on a change of control.

Directors' remuneration report continued

Directors' shareholdings and share interests (audited)

Share ownership plays a key role in the alignment of our executives with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in the Company. This shareholding guideline was met for 2021 for both Ondrej Vlcek and Philip Marshall. Stuart Simpson joined the Company on 21 September 2021.

The table below sets out the number of shares held or potentially held by Executive Directors (including their connected persons where relevant) as at 31 December 2021 (or if earlier, their date of departure).

	Beneficially owned shares at 31/12/2020[1]	Beneficially owned shares at 31/12/2021[1]	Shareholding guideline achieved[3]	Award Description	Option price (GBP)	Number of unvested options/ awards at 31/12/2020	Number of vested options/ awards at 31/12/2020	Granted[5]	Exercised	Transferred[5]	Lapsed	Number of unvested options/ awards at 31/12/2021	Number of vested options/ awards at 31/12/2021
Ondrej Vlcek	23,715,184	24,097,085	Yes	Performance Stock Units 2018	n/a	538,707	0	19,562	0	381,901	176,368	0	0
				Performance Stock Units 2019[6]	n/a	807,911	0	0	0	0	0	807,911	0
				Performance Stock Units 2020[12,13]	n/a	669,365	0	0	0	0	0	669,365	0
				Performance Stock Units 2021[12,13]	n/a	0	0	544,788	0	0	0	544,788	0
						2,015,983	**0**	**564,350**	**0**	**381,901**	**176,368**	**2,022,064**	**0**
Philip Marshall[2,7,8,9,10,11]	322,760	326,590	Yes	Time Based Options Feb 2018[4]	£2.13	971,163	485,581	0	0	0	0	485,582	971,162
				Time Based Options Mar 2018[4]	£2.37	582,735	582,736	0	0	0	0	291,368	874,103
				Performance Stock Units 2018	n/a	627,960	0	0	0	0	205,588	0	445,175
				Performance Stock Units 2019[6]	n/a	650,583	0	0	0	0	0	650,583	0
				Performance Stock Units 2020[8,12,13]	n/a	516,367	0	0	0	0	0	516,367	0
				Performance Stock Units 2021[8,12,13]	n/a	0	0	420,265	0	0	0	420,265	0
						3,348,808	**1,068,317**	**420,265**	**0**	**0**	**205,588**	**2,364,165**	**2,290,440**
Total	**24,037,944**	**24,423,675**				**5,364,791**	**1,068,317**	**984,615**	**0**	**381,901**	**381,956**	**4,386,229**	**2,290,440**

Notes

1 Includes shares owned by connected parties.

2 Mr Philip Marshall stepped down from the Board and as CFO on 21 September 2021. His shareholding and the number of vested and unvested options are shown as at that date.

3 Calculated based on the share price on 31 December 2021 of £6.0720.

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

5 The 2018 LTIPs vested on 11 August 2021. The information included under the column granted relates to the dividend equivalent shares received by Mr Ondrej Vlcek and the transferred column is reflective of the total shares (including dividend equivalents) that were allotted to him as a result on 24 September 2021.

6 Based on the performance achieved, the awards will vest at 62.93% of the maximum opportunity and Mr Ondrej Vlcek will receive 541,583 shares (inclusive of dividend equivalent shares) and Mr Philip Marshall will receive 427,766 shares (inclusive of dividend equivalent shares) upon vesting. For Mr Ondrej Vlcek, the March 2019 award will vest on its normal vesting date of 14 March 2022 and a portion of his July 2019 award is expected vest early upon the Court Sanction Date and the remainder of the awards would be rolled over into new awards over NortonLifeLock shares as described on page 121. For Mr Philip Marshall, the March 2019 award will vest on its normal vesting date of 14 March 2022 and a portion of his July 2019 award will vest on a pro rata basis on the earlier of the Court Sanction Date and its original vesting date as described on page 124.

7 Includes total of 9,877 shares purchased by Mr Philip Marshall under the Company Share Matching Plan, subject to matching after a two-year holding period. Between 21 September and 31 December, Mr Philip Marshall did not purchase any shares under the Company Share Matching Plan and did not receive any matched shares under the Company Share Matching Plan. Between 31 December 2021 and the date of this report, 1,503 shares were allotted to Mr Philip Marshall on 14 January 2022 under the Share Matching Plan, against the 4,511 SMP shares purchased by him after the H2 2019 Accumulation Period, as per the Plan rules. The remaining 1,356 matched shares will be allotted to him on 31 March 2022.

8 On 24 September 2021, Mr Philip Marshall was allotted 445,175 shares (including dividend equivalent shares) as a result of his 2018 LTIP vesting on 11 August 2021.

9 On 13 December 2021, Mr Philip Marshall exercised 1,845,265 stock options. On 13 December 2021, 677,050 shares were sold to cover the stock option strike price and on 14 December 2021 a further 268,690 shares were sold to cover the tax liability. Effectively, Mr Philip Marshall acquired 899,525 shares on net tax basis.

10 Additionally, Mr Philip Marshall sold 102,390 shares on 28 January 2022.

11 485,582 Time Based Options vested to Philip Marshall on their normal vesting date of 1 February 2022. On 4 February 2022, Mr Philip Marshall exercised 485,582 stock options. On 4 February 2022, 167,580 shares were sold to cover stock option strike price and on 8 February 2022, 73,140 shares were sold to cover tax liability. Effectively, Mr Philip Marshall acquired 244,862 shares on net tax basis. The outstanding 291,368 Time Based Options from the March 2018 award will vest on their normal vesting date of 30 March 2022.

12 Details regarding treatment of outstanding awards upon completion of the NortonLifeLock Merger are described earlier in this report in the page 121.

13 All awards over Avast plc shares will vest or lapse on completion of the NortonLifeLock Merger. A portion of awards held by Mr Ondrej Vlcek will be rolled over into new awards over NortonLifeLock shares as described earlier in this report.

14 There were no other changes in share interests between 31 December 2021 and the date of this report.

Directors' remuneration report continued

The table below sets out the number of shares held or potentially held by Non-Executive Directors (including their connected persons where relevant) as at 31 December 2021.

	Beneficially owned shares at 31/12/2020[1]	Beneficially owned shares at 31/12/2021[1]	Shareholding guideline achieved	Award description	Option price (GBP)	Number of unvested options/ awards at 31/12/2020	Number of vested options/ awards at 31/12/2020	Granted	Exercised	Lapsed	Number of unvested options/ awards at 31/12/2020	Number of vested options/ awards at 31/12/2020
John Schwarz	0	0	n/a	n/a		0	0	0	0	0	0	0
Pavel Baudis	257,182,165	257,182,165	n/a	n/a		0	0	0	0	0	0	0
Maggie Chan Jones	0	0	n/a	n/a		0	0	0	0	0	0	0
Ulf Claesson[2]	1,245,324	1,245,324	n/a	n/a		0	0	0	0	0	0	0
Warren Finegold	108,132	40,000	n/a	n/a		0	0	0	0	0	0	0
Erwin Gunst[2]	0	0	n/a	n/a		0	0	0	0	0	0	0
Eduard Kucera	99,793,912	99,793,912	n/a	n/a		0	0	0	0	0	0	0
Tamara Minick-Scokalo	0	0	n/a	n/a		0	0	0	0	0	0	0
Belinda Richards	0	0	n/a	n/a		0	0	0	0	0	0	0
Total[3,4]	**358,329,533**	**358,261,401**				**0**	**0**	**0**	**0**	**0**	**0**	**0**

Notes
1 Includes shares owned by connected persons.
2 Shareholdings for Erwin Gunst and Ulf Claesson are as at the date they stepped down from the Board, being 6 May 2021. During 2021, after stepping down from the Board, Mr Ulf Claesson sold 50,000 shares on 11 June 2021, purchased 18,811 shares on 21 June 2021, sold 50,000 shares on 18 June 2021, sold 50,000 shares on 24 June 2021, sold 36,851 shares on 5 July 2021, sold 50,000 shares on 15 July 2021, sold 28,284 on 16 July 2021 and purchased 6,253 shares on 18 October 2021.
3 The interests in shares are a result of the vested options owned by the Non-Executive Directors.
4 There were no changes in share interests between 31 December 2021 and the date of this report.

The Company's policy is that Non-Executive Directors will not be granted share options in the future.

Directors' remuneration report continued

Payments for loss of office (audited)

As announced by the Company last year, Philip Marshall stepped down from the Board with effect from 21 September 2021 and will remain employed for a limited period to allow for a smooth transition, after which point he will leave the Company. His termination date will be 31 March 2022. Details of his pro rata remuneration until stepping down from the Board are included in the single figure table on page 118.

Following his resignation from the Board, Mr Marshall continues to be eligible for his salary (including his Board fee). For the period between 21 September 2021 and 31 December 2021, Mr Marshall was paid $ 138,889 in lieu of salary and $27,777 in Board fees.

Mr Marshall remained entitled to receive an annual bonus for the full FY 2021 and details of his pro rata bonus until stepping down from the Board are included in the single figure table. In addition, he will be paid a pro-rated 2021 annual bonus for the period between 21 September 2021 and 31 December 2021 in a value of $155,264.

Mr Marshall also received benefits and a payment in lieu of accrued unused holiday up to 31 March 2022.

For the period between 21 September 2021 and 31 December 2021, he was paid $11,539 in lieu of life and health insurance and $6,332 in lieu of other benefits.

The Committee decided that no bonus would be paid to Mr Marshall in relation to 2022.

In accordance with his contractual entitlement and as set out in the Policy, Mr Marshall will also receive a non-compete payment equivalent to six months' salary and Board fees totalling $300,000 upon termination of his employment.

The Committee has determined, in its discretion, that based on Mr Marshall's contribution to Avast's financial performance and success as CFO, he will be considered a good leaver for the purposes of outstanding incentive awards. As such, the treatment of outstanding awards will be applied in line with the respective plan rules for good leavers as follows:

- Avast Employee Share Plan: All awards will have vested according to their usual timeframes by 30 March 2022. Mr Marshall shall be entitled to exercise his vested options for a limited period following departure on 31 March 2022.
- LTIP awards will be retained and vest according to their usual timeframes, scaled back for performance and pro-rated to 31 March 2022, unless vesting is accelerated due to the NortonLifeLock Merger.
  - For awards granted in 2019, the performance assessment has already been carried out and is described on page 117.
  - For awards granted in 2020, the maximum number of awards that may vest is capped at 197,897.
  - For awards granted in 2021, the maximum number of awards that may vest is capped at 78,948.

The Remuneration Committee used its discretion to assess the performance of the inflight 2020 and 2021 LTIPs based 50% on the diluted adjusted EPS growth and 50% on the Group organic revenue growth to 31 December 2021, and determined that 54.86% of the 2020 LTIPs and 45.95% of the 2021 LTIPs for Mr Marshall will vest, in the event of Merger completion. These vested shares accrue dividend equivalents and will be pro-rated for time served to 31 March 2022 (and the number of shares that will vest are subject to a cap, as described above). However, if completion of the Merger occurs between 31 March 2022 and 31 December 2022, Mr Marshall shall be entitled to a cash payment to compensate him for awards forfeited due to the time pro-rating and the above vesting caps, to better align with the experience of other LTIP participants whose unvested awards were not forfeited on the Merger but instead rolled over into NortonLifeLock shares. Dividend equivalents will be payable when any awards that vest. The holding period will continue to apply for all awards, though any holding period still applicable at the time the Merger completes will expire early at that time, in line with the plan rules.

- Avast Share Matching Plan: Any purchased shares Mr Marshall holds on the exit date will be released (5,366 shares). He will also receive a pro rata portion of the associated matched shares based on the period of time for which he was engaged during the holding period (1,356 shares).

Mr Marshall will be paid up to a maximum of $2,500 for any reasonable costs incurred for the repatriation of his personal effects from the Czech Republic. He will also be paid up to $20,000 for any reasonable costs incurred for assistance with his tax affairs up to the end of the 2022 tax year, up to £16,367 (plus VAT) for legal costs and $500 in respect of certain confidentiality undertakings. He is also entitled to receive life and health insurance benefits until December 2022 and retained his Company laptop and mobile phone (cleaned by the Company).

Payments to past Directors (audited)

Mr Vincent Steckler stepped down from the Board and as CEO on 30 June 2019. In line with his employment agreement, Mr Steckler was entitled to receive health benefits for a period of 24 months. The cost of the health benefits for the period from 1 January 2020 to 30 May 2021 amounted to $36,461. No health benefits have been claimed for the rest of 2021.

No further payments were made to former Directors that have not been previously reported elsewhere.

External appointments

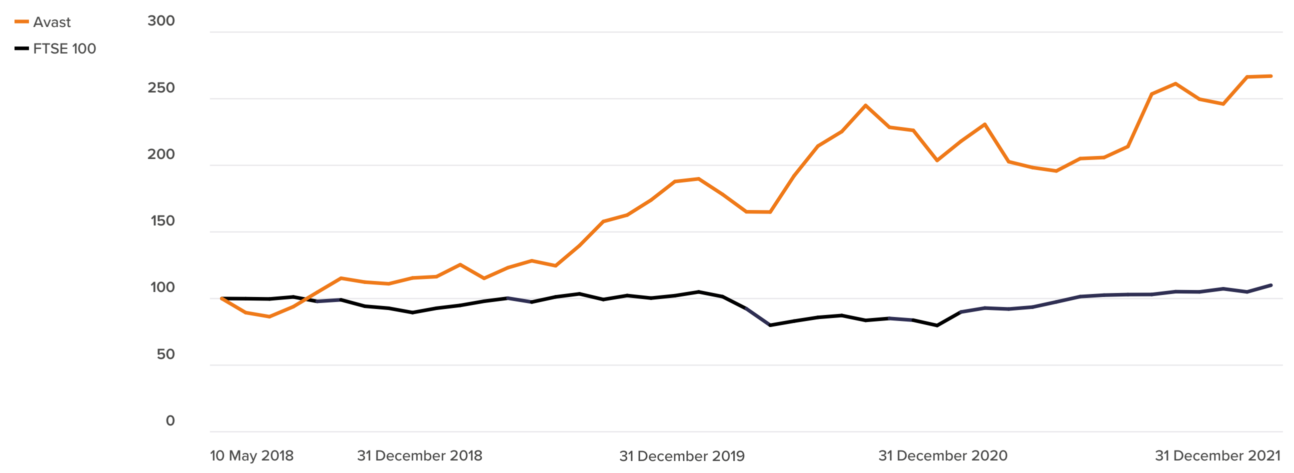
Executive Directors are permitted to hold Non-Executive Director positions in other companies where it is considered appropriate and subject to approval by the Board. Disclosure of any associated income is required to be made to the Board, to shareholders, and in the Annual report and financial statements.

Directors' remuneration report continued

Performance graph

The graph below illustrates the Company's Total Shareholder Return (TSR) performance relative to the constituents of the FTSE 100 index excluding investment companies from the Admission Date on 15 May 2018 to 31 December 2021. This index has been selected as it is a broad market index of which the Company is a constituent. The graph shows performance of a hypothetical £100 invested and its performance over that period.

Total shareholder return of Avast plc compared to the FTSE 100 index



Source: Datastream.

The total remuneration for the Chief Executive to 2021 since the IPO, is shown below, along with the value of bonuses paid and Long Term Incentive Awards vesting, as a percentage of the maximum opportunity.

	2018	2019[1]	2020	2021
CEO total remuneration	VS – $7,500,395	VS – $411,285 OV – $6,465,539	OV – $3,212,308	**OV – $4,391,086**
Annual bonus (% of maximum)[2]	61.8%	n/a	n/a	**n/a**
Share award (% of maximum)	n/a[3]	n/a[3]	67.26%[4]	**62.93%[5]**

Notes
1 Mr Vincent Steckler ('VS') served as CEO from admission to 30 June 2019. Mr Ondrej Vlcek ('OV') was appointed as CEO from 1 July 2019. From this date Mr Ondrej Vlcek waived his salary (not including Board fee) and annual bonus and opted to receive a nominal amount of $1 in addition to his Board fee which he donated to charity.
2 Mr Ondrej Vlcek has decided to waive his annual bonus every year since his appointment as CEO on 1 July 2019.
3 No LTIP share awards vested based on performance to 31 December 2018 or to 31 December 2019. Pre-IPO options granted in April 2017 vested during 2018 and 2019, see Note 9 to the single figure table on page 119 of the 2020 annual report.
4 2018 PSU awards were subject to diluted adjusted EPS growth over the three financial years ending 31 December 2020 and adjusted organic revenue growth over the same period. Diluted adjusted EPS growth over the period was 10.0% (CAGR) and adjusted organic revenue growth over the period was 7.5% (CAGR). Therefore, the awards vested at 67.26% of maximum opportunity.
5 2019 PSU awards were subject to diluted adjusted EPS growth over the three financial years ending 31 December 2021 and organic revenue growth over the same period. Diluted adjusted EPS growth over the period was 10.6% (CAGR) and organic revenue growth over the period was 6.4%. Therefore, the awards vested at 62.93% of maximum opportunity.

Directors' remuneration report continued

CEO to all employee pay ratio

Avast plc has fewer than 250 employees in the UK and as such, it is not required to disclose the CEO to all employee pay ratio. However, in line with our commitment to openness and transparency, the Committee has determined to voluntarily disclose Avast's CEO pay ratio figures in respect of the financial year ending 31 December 2021.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	120 : 1	81 : 1	53 : 1
2020	Option A	78 : 1	53 : 1	30 : 1

The ratios have been calculated using Option A methodology, as this is considered the most statistically accurate method under the reporting regulations. However, certain assumptions have been made based on data availability to ensure a fairer representation of employee pay.

Total FTE remuneration has been determined by taking into account employees in all Avast entities both in the UK and outside the UK for the relevant financial year. We note that the formal requirement relates to UK employees; however, given the majority of our employees are outside of the UK, the Committee considered that showing the ratio based on our full workforce was more appropriate.

The calculations are reflective of the following pay elements: full-time equivalent salary, bonuses paid in 2021, and restricted stock grants vested during 2021. For simplicity, employee benefits have been omitted, as the benefit plans were not changed in 2021.

The employees at the 25th, 50th and 75th percentiles have been determined on the snapshot date of 31 December 2021, the last day of the financial year.

The single figure values for the three employees at 25th percentile, median and 75th percentile have been reviewed. Each employee was a full-time employee during the year.

Year	Supporting information	25th percentile pay	Median pay	75th percentile pay
2021	Salary	$29,194	$45,815	$54,836
	Total pay	$36,463	$54,180	$83,093
2020	Salary	$30,780	$44,939	$78,810
	Total pay	$33,667	$49,430	$86,066

The pay ratio has increased from 2020 to 2021 from 53:1 to 81:1, which is attributed to changes to the CEO's single figure. The CEO waives his annual bonus and as such, the only part of his remuneration package which is variable is the LTIP. His LTIP opportunity increased from 350% of salary in 2018 to 500% of salary in 2019, while the vesting outcome in percentage of maximum terms was very similar for both awards. The increased pay ratio is therefore attributable to the increased LTIP value reported in the single figure table.

The Committee considers that the pay ratios are appropriately representative of pay policies at Avast, where the proportion of the package that is taken as variable pay increases with seniority, reflecting the increased ability of senior individuals to influence Company performance and their increased responsibility levels. For the Executive Directors, a large part of the package is focused on share-based reward in the form of performance shares, ensuring strong alignment with the interests of shareholders, with higher opportunity levels to reflect that pay is at greater risk. As such, the Committee considers that the pay levels received by the Executive Directors are appropriate, and that pay cascades suitably through the organisation, so as to be relevant for each level and to provide packages which attract and reward employees at all levels in the Company.

Directors' remuneration report continued

Annual percentage change in remuneration of Directors and employees

The table below shows the percentage change in the remuneration paid to the Directors from the prior year compared to the average percentage change in remuneration for employees of Avast plc.

Total employee remuneration[1] in the Group (including Executive Directors) increased by 10.6% in 2021 (from $209.4 million to $231.5 million).[2]

		Ondrej Vlcek	Philip Marshall[3]	Stuart Simpson[4]	John Schwarz	Pavel Baudis	Maggie Chan Jones[5]	Ulf Claesson[6]	Warren Finegold[6]	Erwin Gunst	Eduard Kucera	Tamara Minick-Scokalo[7]	Belinda Richards	Lorne Somerville[8]	Employees Group A	Employees Group B
Percentage change from FY 2020 to FY 2021	Salary/fees	0.00%	-27.78%	n/a	0.00%	2.37%	6.24%	-65.11%	2.61%	-65.11%	2.37%	7.60%	7.38%	-100.00%	7.86%	0.17%
	Benefits	70.42%	-18.93%	n/a	-100.00%	6.58%	-100.00%	n/a	n/a	n/a	6.63%	n/a	n/a	n/a	n/a	0.00%
	Bonus	0.00%	-32.35%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.56%	9.58%
Percentage change from FY 2019 to FY 2020	Salary/fees	-63.60%	6.70%	n/a	0.00%	-3.00%	28.60%	0.00%	0.00%	-2.50%	-3.00%	31.30%	0.0.%	-63.90%	4.80%	6.50%
	Benefits	-36.30%	-1.00%	n/a	-75.00%	69.00%	-75.00%	n/a	n/a	n/a	68.00%	n/a	n/a	n/a	0%	0%
	Bonus	-100.00%	-10.40%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16.60%	10.00%

1 Employees of Avast globally ('Group A') and Employees of Avast Plc in the UK ('Group B') who were employed throughout 2021.
2 Personnel expenses as described on page 175.
3 Philip Marshall stepped down from the Board on 21 September 2021. His amounts reflect those shown in the single-figure table on page 117.
4 Stuart Simpson joined the Board on 21 September 2021.
5 Ms Maggie Chan Jones was appointed to the Board on 13 March 2019 and remuneration shown is from this date.
6 Ulf Claesson and Erwin Gunst stepped down from the Board on 6 May 2021.
7 Ms Tamara Minick-Scokalo was appointed to the Board on 13 March 2019 and remuneration shown is from this date.
8 Mr Lorne Somerville stepped down from the Board on 21 May 2020 and remuneration is shown up to this date.

Relative importance on the spend on pay

The following table shows the Company's actual spend on pay for all employees compared to distributions to shareholders for 2021 compared to 2020.

	2020	2021	Change
Total spend on pay	$209.4m	$231.5m[1]	10.6%
Distributions to shareholders by way of dividend and share buyback	$154.7m	$165.0m	6.7%

1 Personnel expenses as described on page 175.

Statement of implementation of the Remuneration Policy in 2022

A summary of how we will operate the Policy in 2022 is set out below. The Policy will operate from 1 January 2022 and will cease to take effect upon completion of the NortonLifeLock Merger. If the Merger does not complete, the Committee will operate executive remuneration in accordance with the existing Remuneration Policy and disclose details of how the policy was implemented in the 2022 Directors' Remuneration Report.

Directors' remuneration report continued

Base salary

Mr Ondrej Vlcek's salary and Board fee were reviewed at the beginning of 2021 and it was determined that no changes would be made. His Board fee therefore remains at $100,000 per annum, which Mr Ondrej Vlcek will continue to donate to charity. He also receives a nominal annual salary of $1 in addition to his Board fee. His notional salary for determining LTIP awards was not increased and therefore will continue at $700,000 (inclusive of the $100,000 Board Director's fee element).

Mr Stuart Simpson's salary was set at recruitment and will continue at $100,000 per month for the duration of his employment term.

Benefits

Mr Ondrej Vlcek does not receive private health cover or a car allowance.

Mr Stuart Simpson will receive Company benefits such as life insurance cover and medical insurance in line with the Remuneration Policy.

Pension

In line with all Czech employees, Mr Ondrej Vlcek does not receive any pension contribution or allowance.

Mr Stuart Simpson receives a pension contribution of 5% of salary in line with the rest of the UK workforce.

Annual bonus

The annual bonus measures and weightings will be unchanged from 2021. The specific targets for the 2022 performance year are considered commercially sensitive and are not disclosed at this time.

The CEO's maximum annual bonus opportunity for the 2022 performance year remains unchanged at 200% of salary. However, as noted above, Mr Ondrej Vlcek has waived his participation in the annual bonus plan.

As agreed at the time of his recruitment, Mr Stuart Simpson will not participate in the annual bonus plan.

Performance bonus for the Interim CFO

As noted previously, Mr Stuart Simpson will not participate in the annual bonus plan; however, he is entitled to receive a performance bonus at the end of his employment term with a maximum opportunity of $500,000 in cash. This is subject to the achievement of individual and Company targets which will be measured over the full term of his employment, starting 21 September 2021 and ending 31 December 2022 as set out below. The Committee considered that this arrangement was appropriate given the unusual circumstances of the upcoming Merger, to incentivise Mr Stuart Simpson to deliver key objectives linked to successful delivery of the transaction. He is the only participant in the scheme. Due to the fact that they are considered commercially sensitive, specific targets are not disclosed at this time.

Objective	Weight
Strategic operational objectives linked to successful delivery of the NortonLifeLock Merger	25%
Strategic financial objectives, including budgeting, cost management, and financial controls	25%
M&A projects	10%
Other strategic and operational objectives	35%
People and culture	5%

The scheme is not pensionable.

Long Term Incentive Plan (LTIP)

The Committee may grant 2022 LTIP awards in line with the Policy, depending on the timing of the NortonLifeLock Merger. In this event, details of the awards including the performance targets would be disclosed to shareholders via the Company's website.

The treatment of inflight LTIP awards in connection with the Merger is described on page 121.

Under the terms of his recruitment, Mr Stuart Simpson will not participate in any LTIPs.

Non-Executive Director fees

Our Non-Executive Director fees policy is to pay an annual basic fee for membership of the Board and additional fees for the Senior Independent Director ('SID'), the Chair of each of its Committees and the members of each of its Committees to take into account the time commitment of these roles. The Chair is paid a single consolidated fee. There have been no changes to the Non-Executive Director or Chair's fees for 2022.

Chair fee	$350,000 (inclusive of Committee fees)
Non-Executive Director base fee	$100,000
Additional fees:	
Senior Independent Director	$15,000
Audit and Risk Committee Chair	$15,000
Audit and Risk Committee member	$7,500
Remuneration Committee Chair	$15,000
Remuneration Committee member	$7,500
Nomination Committee Chair	$15,000
Nomination Committee member	$7,500

Directors' remuneration report continued

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

Executive Directors' service agreements

Each of the Executive Directors has a service contract, which is available for inspection on request. Details of the notice periods currently included in service contracts of the Executive Directors serving in the year are summarised in the table below:

	Date of contract	Notice period
Ondrej Vlcek	9 May 2018	6 months
Philip Marshall	9 May 2018	6 months
Stuart Simpson	21 Sep 2021	Fixed term – to end no later than 31 Dec 2022

The details of the policy on payments for loss of office are available in the 2018 annual report and accounts (page 81) which can be found on our website under the investor section (investors.avast.com/investors/resultsreports-and-presentations/).

Non-Executive Directors' letters of appointment

Non-Executive Directors all serve under letters of appointment (effective from 9 May 2018) for periods of three years.

The Non-Executive Directors (including the Chair) have a notice period of one month, although the Company may elect to make a payment in lieu of notice. The terms and conditions of appointment for Non-Executive Directors are available for inspection upon request.

Membership of the Remuneration Committee

The composition of the Remuneration Committee changed during the year. Tamara Minick-Scokalo succeeded Ulf Claesson as Chair with effect from the 2021 AGM and there were also other changes to the membership. The table below lists the Directors who served on the Remuneration Committee at any point in the year, and their attendance at meetings they were eligible to attend.

	Attendance from meeting eligible to attend
Members at 31 December 2021	
Tamara Minick-Scokalo (Chair)[1]	6/6
John Schwarz	6/6
Belinda Richards[2]	3/3
Former members	
Ulf Claesson (Former Chair)[1]	3/3
Maggie Chan Jones[3]	3/3
Warren Finegold[3]	3/3

1 Tamara Minick-Scokalo succeeded Ulf Claesson as Chair on 6 May 2021.
2 Belinda Richards joined the Committee on 6 May 2021.
3 Warren Finegold and Maggie Chan Jones stepped down from the Committee on 6 May 2021.

The Committee's principal role is to determine Remuneration Policy for Executive Directors and to set remuneration for the Chair, Non-Executive Directors and other senior executives. In determining Remuneration Policy, the Committee takes into account pay and reward for the wider workforce, to ensure policy is appropriate in the context of this and our culture.

In 2021, the meetings of the Committee covered the following key areas:

- Finalising our Directors' Remuneration Report for shareholder approval at the 2020 AGM
- Review of final remuneration outcomes for 2020 and provisional outcomes for 2021
- Review of the Remuneration Policy ahead of the 2022 AGM
- Consideration of remuneration arrangements for 2022
- Review of corporate governance developments and shareholder guidance
- Consideration of the impact of the NortonLifeLock Merger on remuneration outcomes
- Remuneration arrangements for the Interim CFO
- Payments for loss of office for the outgoing CFO
- Alignment of employee benefits programmes to the needs of our people and longer-term business objectives

The Committee also reviewed regular employee reward programmes, such as the annual salary review and the annual employee RSU awards for high-potential and high-performing employees, as well as the Share Matching Plan to ensure the employee programmes are in line with the overall remuneration strategy, Company objectives and competitive needs.

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

Performance evaluation

As explained on page 88, the 2021 Remuneration Committee evaluation was put on hold in light of the proposed Merger.

Directors' remuneration report continued

External advisers

The Remuneration Committee has access to independent advice where it considers it appropriate. The Committee appointed Deloitte LLP as its advisers in 2018 and received advice from Deloitte LLP during the year. The fees paid to Deloitte LLP for providing advice in relation to executive remuneration were £102,175. Fees charged were on a time and expenses basis. Separate teams within Deloitte also provided services in relation to risk advisory, internal audit and controls, international mobility, corporate employment, share schemes, and payroll advice.

The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

The Committee considers that the advice received from the advisers is objective, independent, straightforward, relevant, and appropriate and that it has an appropriate level of access to them and has confidence in their advice. Deloitte LLP is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on their compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services.

The CEO, the Chief of Staff, the General Counsel and the Chief People & Culture Officer have attended certain Committee meetings and provided advice to the Committee during the year. They were not in attendance when matters relating to their own compensation or contracts were discussed.

Statement of shareholder voting

The Remuneration Policy was last approved by shareholders at our AGM on 23 May 2019 and the remuneration report was approved by shareholders at our AGM on 6 May 2021. Details of voting are shown below.

	For		Against		Withheld
	Number of votes	%	Number of votes	%	Number of votes
Approval of the Directors' remuneration report – 2021 AGM	812,969,923	98.42%	13,049,954	1.58%	13,397
Approval of the Directors' Remuneration Policy – 2019 AGM	787,114,401	94.66%	44,405,150	5.34%	0

Approval

This Directors' Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Tamara Minick-Scokalo
Chair of the Remuneration Committee

Date: 24 February 2022

Directors' report

1 Corporate details

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

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

2 Directors and Directors' interests

In respect of the period between 1 January 2021 and the date of this report, the following persons were Directors of the Company:

Name	Role	Appointment date
John Schwarz	Non-Executive Director and Chair	9 May 2018
Ondrej Vlcek	Chief Executive Officer	9 May 2018
Philip Marshall	Chief Financial Officer	9 May 2018*
Stuart Simpson	Interim Chief Financial Officer	21 September 2021
Warren Finegold	Non-Executive Director and Senior Independent Director	9 May 2018
Pavel Baudis	Non-Executive Director	9 May 2018
Maggie Chan Jones	Non-Executive Director	13 March 2019
Ulf Claesson	Non-Executive Director	9 May 2018**
Erwin Gunst	Non-Executive Director	9 May 2018**
Eduard Kucera	Non-Executive Director	9 May 2018
Tamara Minick-Scokalo	Non-Executive Director	13 March 2019
Belinda Richards	Non-Executive Director	8 June 2018

Notes
* Resigned on 21 September 2021.
** Resigned on 6 May 2021.

The Directors and the General Counsel and Company Secretary (certain of whom are also directors of the Company's subsidiaries) have the benefit of a qualifying third-party indemnity from the Company (the terms of which are in accordance with the Companies Act 2006), each of which was in force throughout the year and remains in force at the date of this report.

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

Related party transactions relating to the Directors are detailed in Note 34 of the financial statements.

Details of Directors' interests in shares, options, and LTIPs, together with any changes in these interests up to the date of approval of the annual report are set out on pages 122 to 123 of the Directors' remuneration report.

3 Dividend

The Group's dividend policy focuses on providing significant returns to shareholders, while also ensuring that the Group retains the flexibility to continue to deploy capital towards profitable growth. There can be no guarantees that the Company will pay future dividends. The determination of the level of future dividends, if any, will depend upon the Group's results of operations, financial condition, capital requirements, contractual restrictions, business prospects, and any other factors the Board may deem relevant.

To date, the Directors have aimed to pay a dividend of approximately 40% of the Company's levered free cash flow for each financial year, with approximately one-third of this amount being paid as an interim dividend. On 10 August 2021, the Board declared an interim dividend in the amount of 4.8 cents per share. The dividend was paid to shareholders on 15 October 2021.

Pursuant to the terms of the Scheme, Avast is permitted to declare and pay an interim dividend of up to 11.2 cents per Avast share for the year ending 31 December 2021, if the Merger has not become effective before 1 March 2022. Any such dividend will not result in a commensurate downward adjustment to the value of NortonLifeLock's offer. The Directors declared an interim dividend of 11.2 cents per Avast share on 7 February 2022 conditional on the Merger not becoming effective before 1 March 2022. On 18 February 2022, NortonLifeLock announced an updated Merger timetable, which included an expected Scheme effective date of 4 April 2022. Following this announcement, the Board confirmed on 18 February 2022 that the interim dividend would be paid on 3 March 2022 to shareholders on the register as of 18 February 2022, with an ex-dividend date of 24 February 2022.

Combined with the interim dividend of 4.8 cents per share paid in October 2021 (total payment of $49.6 million), this represents a total dividend for the financial year of 16.0 cents (total payment of $165.0 million), which, if paid, represents 37% of the Group's levered free cash flow for the period.

Further information regarding the Company's ability to make future interim and final dividends is set out in the Scheme Document.

4 Political donations

The Group did not make any political donations, or incur any political expenditure, in the year ended 31 December 2021.

5 Research and development

Avast places a substantial focus on the continuous development and improvement of technology, with 43% of its employees working in research and development (R&D) and an annual spend of $79.8 million. We believe this focus on R&D strongly contributes to the fact that the Group's products are consistently ranked among the highest-rated antivirus solutions by both users and editors on leading download and review websites, as well as in popular media globally.

Directors' report continued

6 Significant agreements

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

Credit Agreement

On 22 March 2021, Avast Software B.V. and certain other members of the Avast Group entered into a credit agreement ('the Credit Agreement') with Credit Suisse (Deutschland) Aktiengesellschaft as administrative agent and Credit Suisse International as collateral agent. The Credit Agreement facilities consist of an initial $480 million initial term loan facility, a €300 million initial term loan facility and a $40 million revolving credit facility. Certain pledge agreements were also entered into. The facilities provided under the Credit Agreement were originally used to consummate the refinancing of Avast Software s.r.o.'s existing credit facilities, and in the case of the revolving credit facility, continue to be used to provide the Group (with the exception of designated unrestricted subsidiaries) with financing to cover their general corporate and working capital needs. While there is a change of control provision in the Credit Agreement, this is not triggered by the Merger.

Google Promotion and Distribution Agreement

Promotion and Distribution Agreement dated 1 July 2012, entered into between Avast Software s.r.o. and Google Ireland Limited (as amended and restated from time to time).

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

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

In addition, in the event of a takeover of the Company, the Board may, at its discretion, elect to accelerate unvested awards under the Company's LTIP. More details in relation to this are set out in the Remuneration Policy approved by the shareholders at the AGM in 2021.

7 Share capital

Share capital structure

As at 31 December 2021, the entire issued share capital of the Company comprised 1,037,355,885 ordinary shares of £0.10 each.

Significant holdings

As at 31 December 2021, the following persons held interests in shares carrying 3% or more in voting rights:

Name	% of total voting rights
PaBa Software s.r.o.	24.79%
Pratincole Investments Limited	9.62%

The shareholdings of PaBa Software s.r.o. and Practincole Investments Limited have not changed since 31 December 2021; however, their % of total voting rights has changed as a result of increases in the issued share capital of the Company. As of the date of this report, PaBa Software s.r.o. and Practincole Investments Limited hold 24.73% and 9.60% respectively.

Relationship agreements

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

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

The Board confirms that through the applicable periods:

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

Restriction on transfer of shares

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

Directors' report continued

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

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

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

Voting rights

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

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

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

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

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

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

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

- Pursuant to the Founder Relationship Agreement:

(i) The Founders are jointly entitled to appoint: (a) one natural person to be a Non-Executive Director of the Company for so long as the Founders and/or their associates hold in aggregate 10% or more (but less than 20%) of the voting rights attaching to the issued share capital of the Company; and (b) two natural persons to be Non-Executive Directors for so long as the Founders and/or their associates hold 20% or more of the voting rights attaching to the issued share capital of the Company; and

(ii) For so long as the Founders hold in aggregate 10% or more of the voting rights attaching to the issued share capital of the Company, one of the Directors appointed by the Founders is permitted to attend as an observer at the Board's Nomination Committee, Audit and Risk Committee, and Remuneration Committee meetings.

Appointment and replacement of Directors

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

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

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

The Company may by ordinary resolution remove any Director before the expiration of their period of office provided special notice has been given in accordance with the Companies Act 2006.

Articles of Association

The Articles of Association of the Company were adopted by special resolution on 9 May 2018 and amended by special resolution on 18 November 2021.

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

Power of the Company's Directors

The business of the Company is managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Articles of Association, the Companies Act 2006, and such directions as may be given by the Company at a general meeting by special resolution.

Directors' report continued

Employee Benefit Trust

The Group has an employee benefit trust (the 'EBT'). As at 31 December 2021, no shares were held by the trust. In the event that shares are held by the EBT on behalf of employees as beneficiaries, the Trustee is required to comply with any direction from the beneficiary as to the exercise of any voting rights carried by such shares but, unless otherwise agreed with the beneficiary in writing, shall not be under any obligation to seek such direction from any beneficiary. In the absence of any such direction, the Trustee shall not be entitled to exercise the voting rights attaching to such shares. Subject to this, the Trustee may vote or abstain from voting shares, or accept or reject any offer relating to shares, in any way it sees fit without incurring any liability and without being required to give reasons for its decision.

8 Authority to purchase its own shares

The Company is permitted, pursuant to the terms of its Articles of Association, to purchase its own shares subject to shareholder approval. At its AGM held on 6 May 2021, the Company was given authority to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) up to a limit of 102,904,691 of its ordinary shares. The minimum price that must be paid for each ordinary share is its nominal value, and the maximum price is the higher of: (i) 105% of the average middle market quotations for an ordinary share as derived from the London Stock Exchange for the five (5) business days immediately before the purchase is made; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the purchase is carried out.

This authority will expire at the earlier of the conclusion of the Company's 2022 AGM and 5 August 2022.

The Company did not repurchase any of its shares during the 2021 financial year.

9 Authority to issue shares

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

At its AGM held on 6 May 2021, the Company was granted authority to allot shares and grant rights to subscribe for, or convert any security into, shares in the Company, up to:

(i) An aggregate nominal amount of £34,301,563 (less the nominal amount of any shares or rights to subscribe for or convert any security into shares in the Company granted under sub-paragraph (ii) below in excess of £34, 301,563); and

(ii) Comprising equity securities (as defined in section 560 of the Companies Act 2006) up to an aggregate nominal amount of £68,603,127 (less any allotments or grants made under sub-paragraph (i) above) in connection with or pursuant to an offer by way of a rights issue, in each case subject to the conditions set out in the AGM notice.

This authority will expire at the earlier of the conclusion of the Company's 2022 AGM and 5 August 2022. The Company did not allot any new shares, other than those shares allotted pursuant to the Group's share option plans and LTIPs.

10 Going concern

The Directors have considered that the recommended merger with NortonLifeLock Inc. ('NortonLifeLock') represents the most significant event impacting the Company in the period to 30 June 2023 ('the going concern period'). In forming their view on the going concern of the Group, the Directors have considered two scenarios, being where the merger does not proceed and the Group continues to operate as in prior years ('Standalone Scenario') and the scenario where the recommended merger proceeds as expected ('Combined Company Scenario').

Standalone Scenario

The Directors have reviewed management's detailed going concern review and analysis of the accounts, and consider that the Group has adequate resources to continue business during the going concern period.

Group's financial covenants

The Group's Term Loan Credit Agreement includes a single financial covenant that is triggered at any time $35m or more is outstanding under the revolving credit agreement as at 30 June or 31 December. The Group must maintain, on a consolidated basis, a leverage ratio (set as a ratio of Consolidated First Lien Net Debt to Consolidated EBITDA which is adjusted for amortisation and depreciation, non-cash expenses such as share-based payments, the effects of business combination accounting, and other non-cash items) less than 6.5x when $35m or more is outstanding. This covenant is tested quarterly at such time as it is in effect. In line with our budget, the Total Net First Lien Leverage Ratio remains materially lower than 6.5x during the period under review. The ratio was 0.7x at 31 December 2021 and there is no reason to believe that the Group would have any material risk against the ceiling of 6.5x. As of 31 December 2021, the $40m committed under the revolving credit facility was undrawn (see Note 27).

Directors' report continued

Reverse stress testing

In undertaking the going concern assessment, Directors have reviewed the latest budget and forecast of the Group through 30 June 2023, including projected billings and cash flows. Cash flow projections have been subject to reverse stress testing, which assessed the potential impact of an extreme scenario whereby billings from the Consumer Direct desktop business contracted drastically without any mitigating action by management. The covenant would be breached only if Consumer Direct desktop billings declined more than 70% YoY in the period through 30 June 2023.

Our business remains resilient because:

- Cash collection is strong and bad debt risk is limited as clients typically pay for services up front
- Flexible cost base – a significant portion of the Group's costs are discretionary in nature
- The deferred revenue balance is growing (deferred revenue up +1.4% vs YE 2020), supporting attractive future revenue growth and good future revenue visibility. The deferred revenue balance as of 31 December 2021 of $503.6 million includes $468.6 million to be released into revenue in the following 12 months
- We continuously monitor and invest into market needs. In FY 2021, Avast continued its strong investment in technology capability and innovation demonstrated by the launch its new innovative integrated solution Avast One to support mid-term growth

The Directors continue to carefully monitor the impact of the COVID-19 pandemic and its impact on the macroeconomic environment and on the operations of the Group, and have a range of possible mitigating actions, which could be implemented in the event of a downturn of the business.

In preparing the Consolidated Financial Statements, management has considered the impact of climate change, particularly in the context of the financial statements as a whole, in addition to disclosures included in the Strategic Report this year. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to June 2023, nor the viability of the Group over the next three years.

Combined Company Scenario

The Directors have specifically considered the impact of the proposed Merger on their going concern conclusion. The Directors were engaged with NortonLifeLock through the process of recommending the Merger and agree there is a sound strategic rationale for the Merger to proceed. In assessing whether the Group will continue to be a going concern in this scenario, the Directors have specifically considered the following key factors:

- The Merger is expected to be complementary to both parties, with Avast benefiting from NortonLifeLock's scale, strength in identity, and broad-based adoption of its Norton 360 platform. In addition, the Directors noted that the Combined Company expects to have a dual headquarters with one in Prague, Czech Republic.
- The Directors have made inquiries of NortonLifeLock to understand their intentions for the Combined Company and whether there were any risks which were significant enough to impact going concern.
- The Quantified Financial Benefits Statement and opinions received from various advisers during the Merger, and have an expectation for the Merger to be accretive to standalone Avast's planned performance.
- The Directors are satisfied that Avast's Term Loan does not have a change of control clause which would be triggered in the event of the Merger completing.
- The Merger is expected to be primarily debt financed, with the Combined Company having over $8 billion of debt, disclosed publicly and secured with lenders. The Directors are satisfied that the majority of this debt is long term with most repayments due in 2027 and subsequent years. The Directors also note that as at 31 December 2021, NortonLifeLock had a cash balance of $1.8 billion and there is a $1.5 billion undrawn revolving credit facility ('RCF') available to the Combined Company, in the event of a liquidity shortfall.
- The covenant identified in relation to the Term Loans. The Directors and management have made reasonable inquiries of NortonLifeLock to understand whether there are risks in relation to available covenant headroom. The Directors have reviewed public filings made by NortonLifeLock, including results for the quarter ended 31 December 2021, and are satisfied that the covenant risk is sufficiently low.
- The Directors have considered the risk of a delay in synergies materialising and noted these to not impact their conclusion of going concern.

On the basis of the above considerations in both Standalone and Combined Company scenarios, the Directors have a reasonable expectation that the Group will have adequate resources to continue in business for the period to 30 June 2023, and therefore continue to adopt the going concern basis in preparing the financial statements.

Impact of COVID-19 on financial statements at 31 December 2021

In light of the impact of COVID-19, management has considered the impact on accounting policies, judgements and estimates. In particular, on the expected credit loss, where customers have been reviewed for potential increased level of risk. There has been no material specific impairment against the Group's receivables recorded as of 31 December 2021.

Directors' report continued

On 31 December 2021, the Group tested goodwill and intangible assets for impairment and considered uncertainty caused by COVID-19. No significant adjustment to Group's accounting estimates has been deemed necessary, considering also the fact that the headroom of market capitalisation over net assets is significant. There is no reason to believe that impairment would be required. See Note 23 for further details of the impairment test.

Impact of proposed Merger with NortonLifeLock

On 10 August 2021, the Boards of NortonLifeLock Inc. ('NortonLifeLock') and Avast announced that they have reached agreement on the terms of a recommended Merger of Avast with NortonLifeLock, in the form of a recommended offer by Nitro Bidco Limited ('Bidco'), a wholly owned subsidiary of NortonLifeLock, for the entire issued and to be issued ordinary share capital of the Company (the 'Merger'). As set out in the announcement pursuant to Rule 2.7 of the City Code on Takeovers and Mergers ('Code'), the Boards of NortonLifeLock and Avast believe the Merger has compelling strategic logic and represents an attractive opportunity to create a new, industry leading consumer cybersafety business, leveraging the established brands, technical expertise, and innovation of both groups to deliver substantial benefits to consumers, shareholders, and other stakeholders.

The Combined Company is expected to unlock significant value creation through cost synergies, providing additional upside potential from new reinvestment capacity for innovation and growth following completion of the Merger, a substantial portion of which would come from headcount reductions, in addition to other initiatives in systems and infrastructure, and contracts and shared services. NortonLifeLock intends to fully observe the existing contractual and statutory employment rights of all Avast management and employees, and does not intend to make any material changes to the conditions of employment of the employees or management of the Avast Group.

NortonLifeLock also values the investment that Avast has made in its technology and the infrastructure and expertise in place within the Avast Group to create, maintain, and enhance existing product offerings and intends to retain Avast's R&D capabilities in the Czech Republic. The Combined Company expects to maintain a significant presence in the Czech Republic, including across R&D, commercial, and general and administrative functions, the level of which will be reviewed in the first year following completion of the Merger, taking into account Avast's current management plans.

The acceleration of the vesting (and any incremental increase in the fair value of the awards) has been recognised prospectively from the date of modification to the expected completion date of the Merger. In total, these modifications increased the share-based payment charge for the year by $2.2m in relation to Performance Stock Units (PSUs) and $4.0m in relation to Restricted Stock Units (RSUs) (see Note 33 for scheme details).

No other modifications or adjustments to accounting judgements and estimates have been made to reflect the proposed Merger.

11 Financial risk management

Details of financial risk management and financial instruments are disclosed in Note 29 of the Group financial statements.

12 Additional disclosures

The Strategic report is a requirement of the UK Companies Act 2006 and can be found on pages 1 to 84 of this report. The Company has chosen, in accordance with section 414 C(11) of the Act, to include the following matters of strategic importance in its Strategic report that would otherwise be disclosed in this Directors' report:

Section	Page(s)
Greenhouse gas emissions, energy consumption, and energy efficiency	73 to 76
Stakeholder and employee engagement disclosures	61 to 69 and 80 to 83

Information required by the Financial Conduct Authority's Listing Rules can be located as follows:

Listing Rule	Section	Page(s)
LR 9.8.4(2)	Publication of unaudited financial information	40 to 53
LR 9.8.4(5) and (6)	Details of waived Director emoluments	109 to 130
LR 9.8.4R(10) and (11)	Related party contracts	200 to 201
LR 9.8.4(14)	Independence of controlling shareholders	132

13 Disclosure of information to auditors

The Directors confirm that:

(i) So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and

(ii) The Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report continued

14 Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The UK Companies Act 2006 requires the Directors to prepare financial statements for each financial period that give a true and fair view of the financial position of the Group and the Parent Company and the financial performance and cash flows of the Group for that period. Under that law, the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards (IFRSs) and in accordance with applicable law, and have elected to prepare the Parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 102 (FRS 102).

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information
- In respect of the Group financial statements, state whether UK-adopted international accounting standards (IFRSs) have been followed, subject to any material departures disclosed and explained in the financial statements
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Group's financial position and financial performance
- In respect of the Parent Company financial statements, state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and/or the Group will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report, and corporate governance statement that comply with that law and those regulations.

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

15 Responsibility statement of the Directors in respect of the annual financial report

The Directors confirm, to the best of their knowledge, that:

- The Group financial statements, prepared in accordance with UK-adopted international accounting standards (IFRSs) and in accordance with applicable law, give a true and fair view of the assets, liabilities, financial position, and profit of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report and Directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

The annual report and the financial statements, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model, and strategy. The Directors' report on pages 131 to 137 was approved by the Board on 24 February 2022 and signed by order of the Board.

By order of the Board

Trudy Cooke
General Counsel and Company Secretary

24 February 2022

Financial statements

Independent Auditor's Report

Independent Auditor's Report to the members of Avast plc

Opinion

In our opinion:

- Avast Plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Avast Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent Company
Consolidated statement of financial position as at 31 December 2021	Company statement of financial position as at 31 December 2021
Consolidated statement of profit and loss for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related Notes 1 to 12 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in shareholders' equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related Notes 1 to 37 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Independent Auditor's Report continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process, including the controls over the review and approval of the budget.
- We tested the mathematical integrity of management's going concern model, including ensuring arithmetic accuracy and agreeing the prospective financial information to that used in other areas of the business.
- We searched for sources of contradictory evidence in our assessment of management's forecasting, including assessing historical budgeting accuracy, comparing the forecast with analyst expectations and our understanding of competitor performance.
- We obtained management's going concern assessment, including the cash flow forecasts and covenant calculation for the going concern period which covers the period to 30 June 2023. The Group has modelled a number of adverse scenarios in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the Group.
- We specifically considered the impact of climate change on the Group, which management have assessed as having a minimal financial impact, and therefore limited impact on the going concern period. Management considered the effects of potential energy price rises during the going concern period would not have a significant drain on the liquidity headroom originally forecast. We also noted there was no refinancing due in the Going Concern period and the term loan has no environmental, social and governance (ESG) related covenants.
- We assessed the factors and assumptions included in each modelled scenario for the cash flow forecasts and covenant calculation with reference to our understanding of the business, principal risks and uncertainties and historical performance. We considered the appropriateness of the methods used to calculate the cash flow forecasts and covenant calculations and determined through inspection and testing of the methodology and calculations that the methods utilised were sufficiently sophisticated to be able to make an assessment for the entity.
- We considered the mitigating factors included in the cash flow forecasts and covenant calculations that are within the control of the Group. This includes review of the Group's non-operating cash outflows and evaluating the Group's ability to control these outflows as mitigating actions if required.
- Performing and reviewing the results of reverse stress testing to identify the extent of decline in the business which would be needed to breach a covenant or erode liquidity.
- Assessing the appropriateness of the duration of the going concern assessment period to 30 June 2023 and considering the existence of any significant events or conditions beyond this period based on our procedures on the Group's business plan, cash flow forecasts and from knowledge arising from other areas of the audit.
- We concluded that the disclosure in Note 1 and the Directors' report appropriately sets out the risks and considerations used to form the Directors' going concern conclusion in both the standalone entity scenario and the combined Company scenario.

Avast Plc's going concern assessment is based on the budget as approved by the Board. We have assessed management's forecast against external analyst reports and historical accuracy, noting no issues. Throughout the going concern assessment period, Avast is forecast to increase its available liquidity and improve its covenant headroom, both of which are significant.

Specifically, to address the impact of the expected merger of Avast Plc with NortonLifeLock Inc. (to form the 'Combined Company') we performed procedures to understand changes in facts and circumstances which may indicate significant doubt over Avast Plc's ability to continue as a going concern. Specifically, we:

- Understood the strategic rationale for the deal and noted there is no intention to remove assets or brands of Avast Plc. We noted, per NortonLifeLock Inc. public statements, there is an intention to maintain dual headquarters for the Combined Company, including in Prague, Czech Republic.
- Have considered the responses to inquiries made by Avast plc to NortonLifeLock to understand their basis for going concern under the Combined Company.
- Made inquiry of the Avast CEO and NortonLifeLock Inc. personnel to understand intentions for Avast subsequent to the acquisition, noting these to not be to the detriment of Avast Plc's operations.
- Obtained and reviewed the historic proforma financial information of the combined Group, quantified financial benefit statements of the merger and analyst consensus of the expected performance.
- Understood the debt financing arrangements in place (as publicly disclosed). We understood the debt covenants in place for the Combined Company.
- Obtained analyst consensus forecasts for the combined operations in order to assess the headroom in the liquidity and covenant headroom in the Combined Company.

Independent Auditor's Report continued

Our key observations:

- The Directors' assessment is that Avast Plc, on a standalone basis, has sufficient liquidity and headroom in covenants throughout the going concern period to 30 June 2023. Management's reverse stress testing demonstrated a 70% reduction in desktop billings would be required to breach the covenant, which is more than the impact of all of management's downside scenarios combined.
- The Combined Company is forecast by analysts to generate significant unlevered free cash flow during the going concern period. Based on publicly available documents and mandatory filings by NortonLifeLock Inc., the Combined Company will have over $9.0 billion of debt, of which $1.0 billion is repayable in the going concern period, with the majority repayable after 2027. We noted the Combined Company will have access to a $1.5 billion revolving credit facility in the period to 2027.
- We have not identified any material climate-related risks that should be incorporated into Avast Plc's forecasts to 30 June 2023.

Going concern has also been determined to be a key audit matter.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company ability to continue as a going concern for the period to 30 June 2023.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	■ We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further five components. ■ The components where we performed full or specific audit procedures accounted for 106% of Profit before tax (PBT), 97% of Revenue and 98% of Total assets.
Key audit matters	■ Revenue recognition, including risk of management override, in particular: – Licence revenue: Improper revenue recognition due to management's incentive to accelerate earnings through manipulation of the licence term – Cut-off risk. – Licence, platform, and other revenue: Improper revenue recognition due to management's incentive to accelerate earnings through manipulation of the timing of revenues or due to an error. ■ Risk of irrecoverable Deferred Tax Asset: The Group operates in multiple tax jurisdictions and has one-off transactions with corresponding tax implications during the year. The Key Audit Matter in 2021 is the deferred tax asset recoverability in the USA. The risk in the current year has increased due to the one-off transaction in relation to the disposal of the Family Safety Mobile business (Location Labs) which was part of US Tax Fiscal Unity. ■ Risk of incomplete or inaccurate Provisions and Contingencies: There are ongoing litigation, claims and regulatory investigations in relation to Avast's business with significant uncertainty and a wide range of potential outcomes. ■ Going Concern: Due to the expected acquisition ('merger') by Nitro Bidco Limited, a wholly owned subsidiary of NortonLifeLock Inc., there is reduced visibility during the going concern period adopted by management.
Materiality	■ Overall Group materiality of $20.9m which represents 5% of the Profit before tax (PBT) adjusted for exceptional items, the unrealised foreign exchange gain (on the Term Loan) and accelerated share-based payments expense (SBP).

Independent Auditor's Report continued

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 33 reporting components of the Group, we selected seven components covering entities within the Czech Republic, the Netherlands, the United States of America and the United Kingdom, which represent the principal business units within the Group.

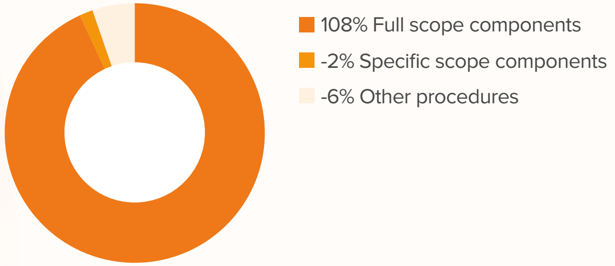
Of the seven components selected, we performed an audit of the complete financial information of two components ('full scope components') which were s elected based on their size or risk characteristics. For the remaining five components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 106% (2020: 99%) of the Group's Profit Before Tax, 97% (2020: 97%) of the Group's Revenue and 98% (2020: 96%) of the Group's Total assets. For the current year, the full scope components contributed 108% (2020: 108%) of the Group's Profit Before Tax, 91% (2020: 88%) of the Group's Revenue and 84% (2020: 88%) of the Group's Total assets. The specific scope components contributed -2% (2020: -9%) of the Group's Profit Before Tax, 6% (2020: 9%) of the Group's Revenue and 14% (2020: 8%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

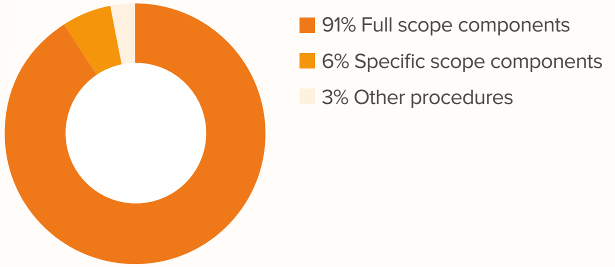
Of the remaining 26 components that together represent -6% of the Group's Profit Before Tax, none are individually greater than 2% of the Group's Profit Before Tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

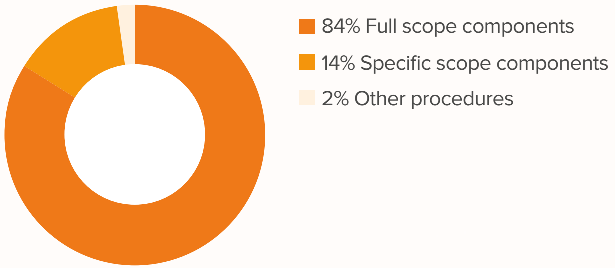
Group's Profit Before Tax



Total Revenue



Total Assets



Independent Auditor's Report continued

Changes from the prior year

The Group has been undergoing a group simplification exercise, including merging and liquidating entities and transfers of trade to centralised entities. While our total full scope locations are consistent with the prior year, our total number of specific scope components reduced from six in the prior year to five in the current year. We believe our overall coverage is comparable and continues to be appropriate for the risk of the business.

Integrated team structure

All audit work performed for the purposes of the audit was undertaken by the integrated audit team. The overall audit strategy is determined by the senior statutory auditor. The senior statutory auditor is based in the UK. However, as Group management and many operations reside in the Czech Republic, the Group audit team ('integrated audit team') includes members from both the UK and Czech Republic, including tax, IT and valuations professionals in both countries, as well as specialists in the Netherlands and the USA. The integrated audit team performs all audit procedures centrally on one audit file.

Members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process. All audit work performed for the purposes of the 2021 annual report and accounts was undertaken by the integrated audit team.

Impact of travel restrictions as a result of COVID-19:

The audit was planned with the expectation that travel restrictions may be in place.

The members of the Group audit team in both jurisdictions work together as an integrated team throughout the audit process, facilitated by EY Technology and all audit evidence being electronic in nature. The senior statutory auditor reviewed and approved key working papers consistently with how this process would have been performed previously.

In order to mitigate the risk of working remotely during the current year audit, the senior statutory auditor held regular video conference calls with the Czech Republic and UK based members of the audit team to lead discussion of the audit approach and issues arising from the audit work, focusing his time on the significant risks and judgemental areas of the audit. There has been a high level of continuity in the core members of the integrated audit team and the senior statutory auditor has held face-to-face meetings with all core team members previously.

The senior statutory auditor held regular video conferences, in place of face-to-face meetings, to meet with Group financial management and other key personnel, including the CFO and CEO. The senior statutory auditor attended all five Audit and Risk Committee meetings throughout the year, all of which were hosted virtually.

Based upon the above approach we are satisfied that the senior statutory auditor has been able to direct, supervise and review the audit. The travel restrictions across the UK and Czech Republic have not prevented the integrated audit team from performing its intended procedures.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on its operations will be from global warming and the increasing potential for extreme weather events. These are explained on pages 71 to 72 in the required Task Force for Climate-related Financial Disclosures and on pages 56 to 59 in the principal risks and uncertainties, which form part of the 'other information', rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks have been appropriately reflected in asset values and associated disclosures where values are determined through modelling future cash flows, being Deferred Tax Asset recoverability and Goodwill and Indefinite Life Intangible Assets. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Independent Auditor's Report continued

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of inappropriate revenue recognition 2021: $941.1m (2020: $892.9m) In particular, the risks are: 1) Licence revenue: Improper revenue recognition due to management's incentive to accelerate earnings through manipulation of the licence term – cut-off risk. 2) Licence, platform, and other revenue: Improper revenue recognition due to management's incentive to accelerate earnings through manipulation of the timing of revenues through or due to an error. Misstatements that occur in relation to this risk would impact the revenue recognised in the income statement as well as deferred revenue. Revenue recognition is a key driver for the Group's profitability which impacts management and employee bonuses (through billings) and has an indirect impact on the value of share-based compensation paid to key management personnel. Therefore, we assess that overstatement of revenue presents a higher risk and a key audit matter. The overall risk of revenue recognition has remained consistent compared to the prior year. Refer to the Audit and Risk Committee report (page 97); Accounting policies (page 158); and Note 5 of the Consolidated Financial Statements (page 171).	We have understood and walked through the process for the recognition of revenue across the Group. We have identified and walked through IT and financial controls over revenue pertaining to significant classes of revenue transactions during the year. We have performed revenue transaction testing in order to ensure that revenue is recognised in line with the Group's revenue recognition policy and IFRS 15 and has been appropriately recorded in the current year income statement and the balance sheet as appropriate. This was achieved by selecting a statistical sample of transactions and: - Performing testing to validate delivery of individual licence keys and correct cut-off through application of the correct licence term - Obtaining evidence that the licence has been delivered to customers prior to revenue recognition commencing - Reviewing standard End User Licence Agreements (EULA) and reseller contract terms for any conditions that would impact timing of revenue recognition and deferred revenue - Agreeing revenue transactions to customer reports to validate occurrence We reconciled the billings raised in the year to cash collected and traced a random sample of billings to actual cash received. We selected a risk-based statistical sample of revenue transactions and assessed the appropriateness of the transaction by checking to supporting evidence and ensuring compliance with IFRS 15 and the Group's revenue recognition policy. In order to gain assurance over Information Prepared by the Entity (IPE) from the licence server, we have tested a control reconciling licences reported by third parties to licences recorded by Avast. In addition, we tested delivery of licences as part of our substantive testing below. We performed an overall recalculation of deferred revenue with specific focus on the split of sales in a one-, two- and three-year period for appropriateness based upon contract terms, where three years was previously the maximum length of licence sold. We obtained customer confirmation of a selected sample of accounts receivable and unbilled revenue and performed alternative procedures where responses were not received. We sampled significant resellers to confirm contract terms and conditions to identify if a change in revenue recognition is required. We performed disaggregated analytical procedures over revenue on a monthly basis at a segment level. We substantively audited manual adjustments made to align revenue recognition with Group accounting policy and IFRS 15. We performed full and specific scope audit procedures over this risk area in seven locations, which covered 97% of the risk amount. For the remaining items we performed other analytical procedures.	As part of our procedures we noted no indication of deliberate or other manipulation of licence terms or management override. Based on the results of the audit procedures performed, we conclude that the revenue recognised during the year, and deferred revenue as at 31 December 2021, are materially correct and appropriately disclosed in the annual report and accounts.

Independent Auditor's Report continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of irrecoverable Deferred Tax Asset **Deferred Tax Asset (DTA): $141.7m, (2020: $174.6m)** The Group operates in multiple tax jurisdictions and has one-off transactions with corresponding tax implications during the year. The Key Audit Matter in 2021 is the deferred tax asset recoverability in the USA. The risk in the current year has increased due to the one-off transaction in relation to the disposal of the Family Safety mobile business (Location Labs) which was part of US Tax Fiscal Unity. Management exercises significant judgement to determine the recoverability of deferred tax assets and have recovery periods of 30 years. Refer to the Audit and Risk Committee report (page 97); Accounting policies (page 158); and Note 13 of the Consolidated Financial Statements (page 176).	In order to respond to our risk, we: - Engaged tax specialists in the USA as part of our procedures to conclude on the impact of the disposal of the Family Safety mobile business (Location Labs US) on the overall Deferred Tax Asset - Engaged EY US tax specialists who agreed with the principle of indefinite recovery period on tax losses - Obtained and audited management's prospective financial information (PFI) to support the recoverability of the US deferred tax asset. We challenged the underlying assumptions including a 30+ year recoverability period by comparison to historic performance, period of availability to utilise losses and other market practices - Obtained and reviewed the transfer pricing agreement in place impacting the US fiscal unity - Audited management's prospective financial information (PFI) to support the recoverability of the significant deferred tax assets - Challenged the underlying assumptions including: – applicability of US tax laws to deferred tax recoverability – assessment against the Group's historic forecasting accuracy – appropriateness of recoverability period by comparison to historic performance, Group and industry-wide performance - Obtained and reviewed management's assessment on the impact of climate change risk on the financial statements and agreed with their conclusion that the impact on DTA recoverability is immaterial - Evaluated the adequacy and completeness of the disclosures provided by the Group in relation to tax balances and activity. We specifically noted management have disclosed the recoverability as a significant judgement and highlighted the length of recoverability in their judgement	We highlight that the recoverability of deferred tax assets for a period in excess of 30 years requires significant judgement, however, conclude this is supportable and appropriately disclosed. We conclude that the deferred income tax asset amount reported as at 31 December 2021 and for the year then ended is materially correct.

Independent Auditor's Report continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of incomplete or inaccurate Provisions and Contingencies: **Provisions: $27.8m (2020: $28.3m)** **Refer to Note 25 of the Consolidated Financial Statements 'Provisions and Contingent Liabilities'** There are ongoing litigation, claims and regulatory investigations in relation to Avast's business with significant uncertainty and a wide range of potential outcomes. The most notable being the regulatory inquiries related to Jumpshot which have progressed during the current year. Judgements are involved in determining the likelihood of a probable outflow occurring from legal cases, together with the estimate of the likely financial cost. Given this judgement, there is a risk that legal provisions are misstated or that contingent liabilities are inadequately disclosed. Specifically, our audit risk relates to regulatory matters for which the economic outflow to the business could be materially different to what is provided, as well as, any cases which could indicate non-compliance with the legal and regulatory frameworks with which the Group is required to comply. This is a new Key Audit Matter in the current year. Refer to the Audit and Risk Committee report (page 97); Accounting policies (page 158); and Note 25 of the Consolidated Financial Statements (page 189).	▪ We performed inquiries of Executive Management including General Counsel to understand new matters in the current year as well as changes in existing matters in the current year, and management's expectation of future developments. ▪ We assessed individual judgements regarding the recognition criteria as set out in IAS 37 in our independent determination of whether these matters rise to the level of a provision or a contingent liability. ▪ We discussed with General Counsel all relevant correspondence with counterparties, to assess the appropriateness of management's conclusion. ▪ We obtained and reviewed external legal advice obtained by Avast to understand the range of potential outcomes. ▪ We have used in-country EY cybersecurity legal specialists to help evaluate the extent of matters identified including the appropriateness of legal precedents used by management in determining the potential range of economic outflows. ▪ We have obtained the analysis performed by the Chief Privacy Officer which includes the basis of the weighted probability calculations deriving the valuation of the provision. We have corroborated the assumptions applied based on our understanding of the inquiry documentation received by the Company from the regulators and the known range of maximum fine limits. ▪ We obtained and reviewed minutes of the Board of Director meetings, performed external legal confirmations and performed an external search for matters occurring and evaluated whether there were any new claims or developments. ▪ We assessed whether the Group's disclosures detailing contingent liabilities and financial commitments adequately disclose relevant facts and circumstances and potential liabilities of the Group. ▪ We evaluated whether any of the ongoing litigation cases gave rise to evidence that there had been instances of non-compliance with the relevant laws and regulations	Having performed our audit procedures, we consider that where an economic outflow is probable, management have booked an appropriate provision. For those cases which we consider meet the criteria of a contingent liability we concluded that sufficient disclosure exists in the annual report to allow users to understand the full range of exposures facing the Company, where that is possible.

There are no Key Audit Matters which were present in the prior year, which are not included in the current year.

Independent Auditor's Report continued

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $20.9 million (2020: $17.4 million), which is 5% (2020: 5%) of Profit before tax (PBT) adjusted for exceptional items, the unrealised foreign exchange (FX) gain on the Term Loan and accelerated share-based payments expense ('SBP'). We believe that PBT adjusted for exceptional items, the unrealised FX gain on the Term Loan and accelerated SBPs provides us with the most relevant measure of underlying performance of the Group as it better reflects the future performance of the business and what users are most interested in. The rise in the current year is in line with the increased profitability in the year.

We determined materiality for the Parent Company to be $34.4 million (2020: $32.0 million), which is 1.0% (2020: 1.0%) of total equity, which is greater than that of the Group as a result of its investment in Avast Holdings B.V.

During the course of our audit, we reassessed initial materiality as part of our routine procedures and noted it to be lower than communicated at planning ($23.2m) due to the timing of expenses in the current year.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely $10.5m (2020: $8.7m). We have set performance materiality at this percentage to ensure that the total uncorrected and undetected audit differences in all accounts did not exceed our materiality.

Starting basis	Adjustments	Materiality
• Profit before tax: $450.3m	• Less: $15.3m (Net Exceptional Gain – Note 6) • Less: $23.3m (The unrealised FX gain on new Term Loan – Note 27) • Add: $6.2m (Acceleration of share-based payments expense – Note 33)	• Totals $417.9m of PBT adjusted for exceptional items, the unrealised FX on term loan and accelerated SBPs • Materiality of $20.9m (5% of materiality basis)

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $2.1m to $9.4m (2020: $1.7m to $7.8m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1.0m (2020: $0.9m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 137, including the strategic report and governance report set out on pages 1 and 85 respectively, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report continued

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements
- The information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements
- The information about the Company corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- The strategic report or the Directors' report; or
- The information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit
- A corporate governance statement has not been prepared by the Company

Corporate governance statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 134
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 60
- Directors' statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 135
- Directors' statement on fair, balanced and understandable set out on page 137
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 55
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 101
- The section describing the work of the Audit and Risk Committee set out on page 97

Independent Auditor's Report continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 137, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
  - Those that relate to the reporting framework (UK-adopted International Accounting Standards, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Companies Act 2006, the UK Corporate Governance Code 2018, the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and the Listing Rules of the Financial Conduct Authority)
  - The UK and EU General Data Protection Regulations (GDPR) and other data protection regulations
  - Relevant consumer rights and tax compliance regulations in the jurisdictions in which the Group operates
- In addition, we concluded that there are certain laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements being:
  - The Listing Rules of the FCA Listing Authority
  - Laws and regulations relating to health and safety, employee matters, environment and bribery and corruption practices
- We understood how Avast plc is complying with those frameworks by making inquiries of the General Counsel and Company Secretary, management, internal audit and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of Board minutes and papers provided to the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they consider there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered: the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and review of accounting estimates and judgements and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Independent Auditor's Report continued

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved General Counsel and Management inquiries, circulation of legal confirmations, review of legal correspondence and journal entry testing.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit and Risk Committee we were appointed by the Company on 6 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2018 to 31 December 2021.

- The audit opinion is consistent with the additional report to the Audit and Risk Committee..

Use of our report

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

Ernst & Young LLP

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

24 February 2022

Consolidated financial statements

Consolidated statement of profit and loss

For the year-ended 31 December 2021

	Note	Year-ended 31 December 2021 $m	Year-ended 31 December 2020 $m
REVENUE	5	941.1	892.9
Cost of revenues	8	(149.5)	(196.0)
GROSS PROFIT		**791.6**	**696.9**
Sales and marketing		(179.8)	(134.7)
Research and development		(79.8)	(86.1)
General and administrative		(137.4)	(140.7)
Total operating costs	9	**(397.0)**	**(361.5)**
OPERATING PROFIT		**394.6**	**335.4**
Net gain on disposal of a business operation	16	47.0	–
Interest income	11	0.2	0.4
Interest expense	11	(26.8)	(35.5)
Other finance income and expense (net)	11	35.3	(64.0)
PROFIT BEFORE TAX		**450.3**	**236.3**
Income tax	13	(101.9)	(66.7)
PROFIT FOR THE FINANCIAL YEAR		**348.4**	**169.6**
Earnings per share (EPS; in $ per share):			
Basic EPS	14	0.34	0.17
Diluted EPS	14	0.34	0.16

The accompanying notes form an integral part of these financial statements.

Consolidated financial statements continued

Consolidated statement of comprehensive income

For the year-ended 31 December 2021

	Year-ended 31 December 2021 $m	Year-ended 31 December 2020 $m
Profit for the financial year	**348.4**	**169.6**
Other comprehensive (losses)/gains:		
Items that will not be reclassified subsequently to profit or loss:		
Changes in the fair value of equity instruments at fair value through other comprehensive income (net of tax)	(1.0)	–
Remeasurement gain on defined benefit plan (net of tax)	0.5	–
Items that may be reclassified subsequently to profit or loss:		
Translation differences	(1.1)	1.9
Total other comprehensive (losses)/gains	**(1.6)**	**1.9**
Comprehensive income for the year	**346.8**	**171.5**

The accompanying notes form an integral part of these financial statements.

Consolidated financial statements continued

Consolidated statement of financial position

As at 31 December 2021

Company registered number: 07118170	Note	31 December 2021 $m	31 December 2020 $m
ASSETS			
Current assets			
Cash and cash equivalents	17	429.0	175.4
Trade and other receivables	18	53.4	63.0
Capitalised contract costs	19	34.2	35.0
Prepaid expenses		9.9	10.3
Tax receivables	13	5.3	5.2
Other financial assets	28	5.7	0.3
		537.5	**289.2**
Non-current assets			
Property, plant and equipment	20	32.4	41.2
Right-of-use assets	21	48.0	56.4
Intangible assets	22	122.0	127.7
Deferred tax assets	13	141.7	174.6
Other financial assets	28	8.0	0.8
Capitalised contract costs	19	2.4	2.8
Prepaid expenses		0.4	0.5
Goodwill	23	2,003.6	1,991.3
		2,358.5	**2,395.3**
TOTAL ASSETS		**2,896.0**	**2,684.5**

Consolidated financial statements continued

Consolidated statement of financial position continued

As at 31 December 2021

Company registered number: 07118170	Note	31 December 2021 $m	31 December 2020 $m
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	24	79.8	63.2
Lease liabilities	21	7.0	7.0
Provisions	25	26.4	27.7
Income tax liability	13	11.8	1.3
Deferred revenue	26	468.6	458.8
Term loan	27	41.0	64.6
Other financial liabilities	28	–	0.4
		634.6	**623.0**
Non-current liabilities			
Lease liabilities	21	45.5	57.5
Provisions	25	1.4	0.6
Deferred revenues	26	35.0	37.7
Term loan	27	744.9	769.4
Other non-current liabilities		–	0.7
Deferred tax liability	13	0.3	0.3
		827.1	**866.2**
Shareholders' equity			
Share capital	30	139.8	138.6
Share premium, statutory and other reserves	30, 31	416.9	374.8
Translation differences		2.1	3.2
Retained earnings		875.5	678.7
Equity attributable to equity holders of the parent		**1,434.3**	**1,195.3**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,896.0**	**2,684.5**

As described in Note 13, deferred tax liability of $21.7m (2020: $22.5m) is offset against deferred tax asset in the Consolidated Statement of Financial Position. Comparative information for the year ended 31 December 2020 was adjusted accordingly.

The accompanying notes form an integral part of these financial statements.

Stuart Simpson
Interim Chief Financial Officer

Consolidated financial statements continued

Consolidated statement of changes in shareholders' equity

For the year-ended 31 December 2021

	Note	Share capital $m	Share premium, statutory and other reserves $m	Translation differences $m	Retained earnings $m	Equity attributable to equity holders of the parent $m	Non-controlling interests $m	Total equity $m
At 31 December 2019		136.0	280.7	1.3	698.9	1,116.9	7.5	1,124.4
Result of the year		–	–	–	169.6	169.6	–	169.6
Other comprehensive income		–	–	1.9	–	1.9	–	1.9
Comprehensive income for the year		–	–	1.9	169.6	171.5	–	171.5
Other movements		–	–	–	0.9	0.9	–	0.9
Transactions with NCI – Purchase of interest		–	–	–	(57.3)	(57.3)	(7.5)	(64.8)
Transactions with NCI – De-recognition of put liability		–	55.7	–	0.6	56.3	–	56.3
Transfer of share-based payments to retained earnings	31	–	(15.4)	–	15.4	–	–	–
Share-based payments	33	–	21.8	–	–	21.8	–	21.8
Issuance of shares under share-based payments plans	30	2.6	32.0	–	(0.6)	34.0	–	34.0
Share-based payments tax		–	–	–	5.9	5.9	–	5.9
Cash dividend	32	–	–	–	(154.7)	(154.7)	–	(154.7)
At 31 December 2020		**138.6**	**374.8**	**3.2**	**678.7**	**1,195.3**	**–**	**1,195.3**
Result of the year		–	–	–	348.4	348.4	–	348.4
Other comprehensive income		–	–	(1.1)	(0.5)	(1.6)	–	(1.6)
Comprehensive income for the year		–	–	(1.1)	347.9	346.8	–	346.8
Other movements		–	–	–	(0.4)	(0.4)	–	(0.4)
Transfer of share-based payments to retained earnings	31	–	(14.1)	–	14.1	–	–	–
Share-based payments	33	–	46.0	–	-	46.0	–	46.0
Issuance of shares under share-based payments plans	30	1.2	10.2	–	(0.7)	10.7	–	10.7
Share-based payments tax		–	–	–	0.9	0.9	–	0.9
Cash dividend	32	–	–	–	(165.0)	(165.0)	–	(165.0)
At 31 December 2021		**139.8**	**416.9**	**2.1**	**875.5**	**1,434.3**	**–**	**1,434.3**

The accompanying notes form an integral part of these financial statements.

Consolidated financial statements continued

Consolidated statement of cash flows

For the year-ended 31 December 2021

	Note	Year-ended 31 December 2021 $m	Year-ended 31 December 2020 $m
Cash flows from operating activities			
Profit for the financial year		348.4	169.6
Non-cash adjustments to reconcile profit to net cash flows:			
Income tax	13	101.9	66.7
Depreciation	12	19.0	19.7
Amortisation	12	25.2	67.9
Impairment		5.6	2.8
Gain on disposal of a business operation	16	(47.0)	–
Movement of provisions and allowances		(1.1)	14.5
Interest income	11	(0.2)	(0.4)
Interest expense, changes of fair values of derivatives and other non-cash financial expense	11	26.8	29.7
Shares granted to employees	33	46.0	21.9
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		10.4	(3.0)
Unrealised foreign exchange gains and losses and other non-cash transactions	11	(38.7)	72.0
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		7.6	14.7
(Increase)/decrease in inventories		0.1	0.8
Increase/(decrease) in trade and other payables		19.9	2.4
Increase in deferred revenues	26	7.3	29.2
Income tax paid		(61.8)	(52.0)
Net cash flows from operating activities		**469.4**	**456.5**

Consolidated financial statements continued

Consolidated statement of cash flows continued

For the year-ended 31 December 2021

	Note	Year-ended 31 December 2021 $m	Year-ended 31 December 2020 $m
Cash flows from investing activities			
Acquisition of property and equipment	20	(9.0)	(12.4)
Acquisition of intangible assets	22	(4.3)	(2.7)
Investment in subsidiary, net of cash acquired	15	(49.5)	–
Settlement of contingent consideration		(0.7)	(4.7)
Proceeds from sale of a business operation, net of cash disposed	16	62.4	3.0
Interest received		0.2	0.4
Net cash used in investing activities		**(0.9)**	**(16.4)**
Cash flows from financing activities			
Transaction with NCI, net of fees		–	(64.8)
Exercise of options	30	10.7	34.0
Dividend paid	32	(165.0)	(154.7)
Repayment of borrowings	27	(31.3)	(261.9)
Proceeds from borrowings	27	6.6	–
Transaction costs related to borrowings	27	(2.7)	–
Interest paid	27	(14.3)	(27.5)
Lease payments interest	21	(1.8)	(2.1)
Lease payments principal	21	(6.8)	(7.2)
Net cash used in financing activities		**(204.6)**	**(484.2)**
Net increase/(decrease) in cash and cash equivalents		264.0	(44.2)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		(10.4)	3.0
Cash and cash equivalents at beginning of period	17	175.4	216.6
Cash and cash equivalents at end of period		**429.0**	**175.4**

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1 General information

Avast plc, together with its subsidiaries (collectively, 'Avast', 'the Group' or 'the Company'), is a leading global cybersecurity provider. Avast plc is a public limited company incorporated and domiciled in the UK, and registered under the laws of England & Wales under company number 07118170 with its registered address at 110 High Holborn, London WC1V 6JS. The ordinary shares of Avast plc are admitted to the premium listing segment of the Official List of the UK Financial Conduct Authority and trade on the London Stock Exchange plc's main market for listed securities.

2 Significant accounting policies

The accounting policies used in preparing the historical financial information are set out below. These accounting policies have been consistently applied in all material respects to all periods presented except for the changes described in Note 4.

Basis of preparation

The audited consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared in accordance with UK-adopted international accounting standards.

The consolidated financial statements have been prepared on a historical cost basis and are presented in US dollars. All values are rounded to the nearest 0.1 million ($m), except where otherwise indicated.

The Group uses the direct method of consolidation, under which the financial statements are translated directly into the presentation currency of the Group, the US dollar (USD). The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and continues to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

Going concern

The Directors have considered that the recommended Merger with NortonLifeLock Inc. ('NortonLifeLock') represents the most significant event impacting the Company in the period to 30 June 2023 ('the going concern period'). In forming their view on the going concern of the Group, the Directors have considered two scenarios, being where the Merger does not proceed and the Group continues to operate as in prior years ('Standalone Scenario') and the scenario where the recommended Merger proceeds as expected ('Combined Company Scenario').

Standalone Scenario

The Directors have reviewed management's detailed going concern review and analysis of the accounts and considers that the Group has adequate resources to continue business during the going concern period.

Group's financial covenants

The Group's Term Loan Credit Agreement includes a single financial covenant that is triggered at any time $35m or more is outstanding under the revolving credit agreement as at 30 June or 31 December. The Group must maintain, on a consolidated basis, a leverage ratio (set as a ratio of Consolidated First Lien Net Debt to Consolidated EBITDA which is adjusted for amortisation and depreciation, non-cash expenses such as share-based payments, the effects of business combination accounting and other non-cash items) less than 6.5x when $35m or more is outstanding. This covenant is tested quarterly at such time as it is in effect. In line with our budget, the Total Net First Lien Leverage Ratio remains materially lower than 6.5x during the period under review. The ratio was 0.7x at 31 December 2021 and there is no reason to believe that the Group would have any material risk against the ceiling of 6.5x. As of 31 December 2021, the $40m committed under the revolving credit facility was undrawn (see Note 27).

Reverse stress testing

In undertaking the going concern assessment, Directors have reviewed the latest budget and forecast of the Group through 30 June 2023, including projected billings and cash flows. Cash flow projections have been subject to reverse stress testing, which assessed the potential impact of an extreme scenario whereby billings from the Consumer Direct desktop business contracted drastically without any mitigating action by management. The covenant would be breached only if Consumer Direct desktop billings declined more than 70% YoY in the period through 30 June 2023.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Our business remains resilient because:

- Cash collection is strong and bad debt risk is limited as clients typically pay for services upfront
- Flexible cost base – a significant portion of the Group's costs are discretionary in nature
- The deferred revenue balance is growing (deferred revenue up +1.4% vs YE 2020) supporting attractive future revenue growth and good future revenue visibility. The deferred revenue balance as of 31 December 2021 of $503.6m includes $468.6m to be released into revenue in the following 12 months
- We continuously monitor and invest into market needs. In FY 2021, Avast continued its strong investment in technology capability and innovation demonstrated by the launch its new innovative integrated solution Avast One to support mid-term growth

The Directors continue to carefully monitor the impact of the COVID-19 pandemic and its impact on the macroeconomic environment on the operations of the Group and have a range of possible mitigating actions, which could be implemented in the event of a downturn of the business.

In preparing the Consolidated Financial Statements, management has considered the impact of climate change, particularly in the context of the financial statements as a whole, in addition to disclosures included in the strategic report this year. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to June 2023 nor the viability of the Group over the next three years.

Combined Company Scenario

The Directors have specifically considered the impact of the proposed Merger on their going concern conclusion. The Directors were engaged with NortonLifeLock through the process of recommending the Merger and agree there is a sound strategic rationale for the Merger to proceed. In assessing whether the Group will continue to be a going concern in this scenario, the Directors have specifically considered the following key factors:

- The Merger is expected to be complementary to both parties, with Avast benefiting from NortonLifeLock's scale, strength in identity, and broad-based adoption of its Norton 360 platform. In addition, the Directors noted that the Combined Company expects to have dual headquarters, with one in Prague, Czech Republic.
- The Directors have made inquiries of NortonLifeLock to understand their intentions for the Combined Company and whether there were any risks which were significant enough to impact going concern.
- The Quantified Financial Benefits Statement and opinions received from various advisers during the Merger, and have an expectation for the Merger to be accretive to standalone Avast's planned performance.
- The Directors are satisfied that Avast's Term Loan does not have a change of control clause which would be triggered in the event of the Merger completing.
- The Merger is expected to be primarily debt financed, with the Combined Company having over $8 billion of debt, disclosed publicly and secured with lenders. The Directors are satisfied that the majority of this debt is long term with most repayments due in 2027 and subsequent years. The Directors also note that as at 31 December 2021 NortonLifeLock had a cash balance of $1.8 billion and there is a $1.5 billion undrawn revolving credit facility (RCF) available to the Combined Company in the event of a liquidity shortfall.
- The covenant identified in relation to the Term Loans. The Directors and management have made reasonable inquiries of NortonLifeLock to understand whether there are risks in relation to available covenant headroom. The Directors have reviewed public filings made by NortonLifeLock, including results for the quarter ended 31 December 2021, and are satisfied that the covenant risk is sufficiently low.
- The Directors have considered the risk of a delay in synergies materialising and noted these to not impact their conclusion of going concern.

On the basis of the above considerations in both Standalone and Combined Company scenarios, the Directors have a reasonable expectation that the Group will have adequate resources to continue in business for the period to 30 June 2023 and therefore continue to adopt the going concern basis in preparing the financial statements.

Impact of COVID-19 on financial statements at 31 December 2021

In light of the impact of COVID-19, management have considered the impact on accounting policies, judgements and estimates. In particular, on the expected credit loss, where customers have been reviewed for potential increased level of risk. There has been no material specific impairment against the Group's receivables recorded as of 31 December 2021.

On 31 December 2021, the Group tested goodwill and intangible assets for impairment and considered uncertainty caused by COVID-19. No significant adjustment to Group's accounting estimates has been deemed necessary, considering also the fact that the headroom of market capitalisation over net assets is significant. There is no reason to believe that impairment would be required. See Note 23 for further details of the impairment test.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Impact of proposed Merger with NortonLifeLock Inc.

On 10 August 2021 the boards of NortonLifeLock Inc. ('NortonLifeLock') and Avast announced that they have reached agreement on the terms of a recommended Merger of Avast with NortonLifeLock, in the form of a recommended offer by Nitro Bidco Limited ('Bidco'), a wholly owned subsidiary of NortonLifeLock, for the entire issued and to be issued ordinary share capital of the Company (the 'Merger'). As set out in the announcement pursuant to Rule 2.7 of the City Code on Takeovers and Mergers ('Code'), the boards of NortonLifeLock and Avast believe the Merger has compelling strategic logic and represents an attractive opportunity to create a new, industry-leading consumer cybersafety business, leveraging the established brands, technical expertise and innovation of both groups to deliver substantial benefits to consumers, shareholders and other stakeholders.

The Combined Company is expected to unlock significant value creation through cost synergies, providing additional upside potential from new reinvestment capacity for innovation and growth following completion of the Merger, a substantial portion of which would come from headcount reductions, in addition to other initiatives in systems and infrastructure, and contracts and shared services. NortonLifeLock intends to fully observe the existing contractual and statutory employment rights of all Avast management and employees and does not intend to make any material changes to the conditions of employment of the employees or management of the Avast Group.

NortonLifeLock also values the investment that Avast has made in its technology and the infrastructure and expertise in place within the Avast Group to create, maintain and enhance existing product offerings and intends to retain Avast's research and development (R&D) capabilities in the Czech Republic.

The Combined Company expects to maintain a significant presence in the Czech Republic, including across R&D, commercial and general and administrative functions, the level of which will be reviewed in the first year following completion of the Merger, taking into account Avast's current management plans.

The acceleration of the vesting (and any incremental increase in the fair value of the awards) has been recognised prospectively from the date of modification to the expected completion date of the Merger. In total, these modifications increased the share-based payment charge for the year by $2.2m in relation to Performance Stock Units (PSUs) and $4.0m in relation to Restricted Stock Units (RSUs) (see Note 33 for scheme details).

No other modifications or adjustments to accounting judgements and estimates have been made to reflect the proposed Merger.

Revenue recognition

Revenue is measured based on the fair value of consideration specified in the contract with a customer, and excludes taxes and duty. The Group recognises the revenue when it transfers control over a product and service to a customer. Each contract is evaluated to determine whether the Group is the principal in the revenue arrangements.

Revenues from individual products and services are aggregated into the following categories:

Consumer

Direct

The principal revenue stream of the Group is derived from the sale of its software and related services for desktop and mobile which protect users' security, online privacy and device performance. Licence agreements with customers include a pre-defined subscription period during which the customer is entitled to the usage of the products, including updates of the software. The typical length of a subscription period is one, 12, 24, or 36 months. Antivirus software requires frequent updates to keep the software current in order for it to be beneficial to the customer, and the customer is therefore required to use the updated software during the licence period. This provides evidence that the licence grants the right to access the software over time and therefore revenue is recognised evenly over the term of the licence. The software licence, together with the unspecified updates, form a single distinct performance obligation.

The Group mainly sells software licences through direct sales (mainly through e-commerce services providers including Digital River) to customers. However, the Group also sells a small portion through indirect sales via the Group's retailers and resellers.

Deferred revenue represents the contract liability arising from contracts with customers. The portion of deferred revenues that will be recognised as revenue in the 12 months following the balance sheet date is classified as current, and the remaining balance is classified as non-current. Deferred revenue also materially represents the transaction price, relating to sales of software licences, that is allocated to future performance obligations.

The Group uses a practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal, and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers' commissions, payment provider fees and the third-party costs). Otherwise revenues are recognised on a net basis.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

The Group accounts for sales of products through e-commerce partners on a gross basis before the deduction of the e-commerce partners' commissions and fees. The Group's e-commerce service providers fulfil administrative functions, such as collecting payment and remitting any required sales tax. The Group's e-commerce service providers collect the fees and transfer cash payments to the Group on a monthly basis within 30 days after the end of the month with respect to which payment is being made. The Group sets the retail list prices and has control over the licences before transferring them to the customer.

The Group also sells subscription software licences through an e-shop directly to end customers in cooperation with certain payment gateways providers. Revenue from sales through the e-shop are accounted for on a gross basis before the deduction of payment gateways fees. The Group sets the final retail prices and fully controls the revenue arrangement with the end customers.

The Group reduces revenue for estimated sales returns. End users may return the Group's products, subject to varying limitations, through resellers or to the Group directly for refund within a reasonably short period from the date of purchase. The Group estimates and records provisions for sales returns based on historical experience. The amount of such provisions is not material.

Indirect

Consumer indirect revenues arise from several products and distribution arrangements that represent the monetisation of the user base. These arrangements are accounted for on a net basis in an amount corresponding to the fee the Group receives from the monetisation arrangement. The contracted partner in the arrangement is the customer rather than the end user. The most significant sources of revenues are:

- Google – The Group has a distribution arrangement with Google Ireland Limited ('Google') pursuant to which the Group is paid fees in connection with the Group's offers to users of Google Chrome. The Group recognises revenue from Google in full in the month they are earned as the Group has no subsequent performance obligations after the date of sale.
- Secure Browsing – The Group's Secure browser earns the Group a share of advertising revenue generated by end user search activity. Revenue is recognised immediately as the Group has no performance obligation after the date of sale.
- Advertising – Other Consumer Indirect derived revenues comprise advertising fees and product fees. Advertising fees are earned through advertising arrangements the Group has with third parties whereby the third party is obligated to pay the Group a portion of the revenue they earn from advertisements to the Group's end users. Amounts earned are reflected as revenue in the month the advertisement is delivered to the end user. The Group also receives product fees earned through arrangements with third parties, whereby the Group incorporates the content and functionality of the third party into the Group's product offerings. Fees earned during a period are based on the number of active clients with the installed third-party content or functionality multiplied by the applicable client fee.

Location Labs, LLC ('Location Labs') provided mobile security solutions that partner with Mobile Network Operators (MNOs) providing locator, phone controls and drive safe products to their customers. Once the product was developed by Avast based on the MNO's requirements, the product was then sold to the end customer via the MNO's subscription plans. The revenues generated by these arrangements were based on revenue share percentages as stated in the MNO agreements. Revenue was recognised on a net basis, after deduction of partners' commissions, based on the delivery of monthly services to the end customers of the MNOs. Avast had no control of the product and no discretion to set the final prices. On 16 April 2021, the Group sold this portfolio of mobile parental controls services ('Family Safety mobile business').

Small and Medium Business (SMB)

SMB includes subscription revenue targeted at small and medium-sized businesses. Revenue is generated from the sale of security software and other IT managed solutions through online channels, resellers and distributors partners. Revenues from sales are recognised on a gross basis, before deduction of the payment gateways fees.

Cost of revenues

Expenses directly connected with the sale of products and the provision of services, e.g. commissions, payments and other fees and third-party licence costs related to the subscription software licences, are recognised as cost of revenues (see Note 8).

Capitalised contract costs

The Group pays commissions, third-party licence costs and payment fees to resellers and payment providers for selling the subscription software licences to end customers. Capitalised contract costs are amortised over the licence period and recognised in the cost of revenues. Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

Taxes

Current income tax assets and liabilities recognised are the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Deferred tax is recognised for all temporary differences, except:

- Where the deferred tax arises from the initial recognition of goodwill (taxable temporary differences only) or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, whereby the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date for the respective tax jurisdiction.

Deferred tax items are recognised outside of profit and loss in the same way as the related underlying transaction, either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The Group's historical financial information is presented in US dollars (USD or $). The functional currencies of all Group entities are presented in the table below. Each entity in the Group (including branch offices not representing incorporated entities) determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. For the purposes of inclusion in the historical financial information, the statement of financial position of entities with non-USD functional currencies are translated into USD at the exchange rates prevailing at the balance sheet date and the income statements are translated at the average exchange rate for each month of the relevant year. The resulting net translation difference is recorded in other comprehensive income.

The functional currencies of the Group's main entities are as follows:

Company or branch	Functional currency
Avast plc	USD
Avast Holding B.V.	USD
Avast Software B.V.	USD
Avast Software s.r.o.	USD
Avast Software, Inc.	USD
Avast Deutschland GmbH	EUR
AVG Technologies UK Limited	GBP
AVG Technologies USA, LLC	USD
FileHippo s.r.o.	CZK
INLOOPX s.r.o.	EUR
Piriform Group Limited	GBP
Piriform Limited	GBP
Piriform Software Limited	GBP
Piriform, Inc.	USD
Privax Limited	USD
TrackOFF, Inc.	USD

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recalculated at the functional currency spot rate of exchange valid at the reporting date. All differences are recorded in the Consolidated Statement of Profit and Loss as finance income and expenses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in Administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred will be recognised at fair value at the acquisition date. Contingent consideration is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. During the measurement period, which may be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statement of Profit and Loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the Consolidated Statement of Profit and Loss in the expense category consistent with the function of the intangible assets.

Indefinite lived intangibles are not amortised but are tested for impairment annually and for impairment indicators on a quarterly basis. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be appropriate.

The useful economic lives of intangible assets are as follows:

	Years
Developed technology	4–5
Avast Trademark	Indefinite
Piriform Trademark	10
AVG Trademark	6
Customer relationships and user base	4
Other licensed intangible assets	3–5

Research and development costs

Research costs are expensed when incurred when the criteria for capitalisation are not met. Development expenditures are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Development expenditure incurred on minor or major upgrades, or other changes in software functionalities, does not satisfy the criteria, as the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense in the Consolidated Statement of Profit and Loss as incurred.

Goodwill

Goodwill is assessed as having an indefinite useful life and is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Repairs and maintenance costs are charged to the Consolidated Statement of Profit and Loss for the accounting period during which they are incurred.

Depreciation is recorded on a straight-line basis over the estimated useful life of an asset, as follows:

	Years
Leasehold improvements	over the lease term
Machinery and equipment	2–5

Gains or losses arising from the de-recognition of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Profit and Loss when the asset is de-recognised.

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the Consolidated Statement of Profit and Loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Any reversal of previously recognised impairment is limited so that the carrying amount of the asset does not exceed the lower of its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Profit and Loss.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the operating segment level, which is the smallest group of CGUs to which the goodwill and intangible assets with indefinite useful life can be allocated. Goodwill is allocated to the groups of CGUs that correspond with operating segments (Consumer and SMB) according to the allocation from past business combinations – see Note 23. Intangible assets with indefinite useful lives are all allocated to the Group of CGUs that correspond to the Consumer operating segment.

Leases

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Right-of-use assets were measured at the amount of the lease liability on adoption using the incremental borrowing rate at the date of initial application (adjusted for any prepaid or accrued lease expenses and assessed for impairment). The weighted average discount rate was 3.3%.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

For any new contracts entered into on or after 1 January 2019, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and are subsequently adjusted (where appropriate) for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the lease term or, if it is shorter, over the useful life of the leased asset. The Group currently applies the lease term for depreciation of all right-of-use assets (see Note 21). Related expenses are presented within depreciation, allocated to general and administrative expenses. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and lease payments within extension option periods for which the Group considers it reasonably certain that the extension option will be utilised.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

The amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Lease interest is presented within Interest expenses. In addition, the carrying amount of lease liabilities is re-measured if there is a reassessment of the lease term (using a revised discount rate at the date of the reassessment) or a change in the variable lease payments that depends on an index or rate (using the original discount rate). In such cases, there is a corresponding adjustment to the right-of-use asset.

Short-term leases and leases of low-value assets

The Group applies a recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Short-term lease payments are recognised as operating expenses in the Consolidated Statement of Profit and Loss on a straight-line basis over the lease term.

Employee stock option plans

Employees of the Group receive remuneration in the form of share-based payment transactions whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined based on the fair value of the share-based payment award at the date when the grant is made, taking into account the market and non-vesting conditions, using an appropriate valuation model. Non-market vesting conditions are not taken into account in determining the fair value of the award. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Consolidated Statement of Profit and Loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in compensation expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. The additional expense, if any, for the incremental fair value of the modified award, measured under IFRS 2, is recognised over the period from the date of the modification to the end of the modified vesting period. When an equity-settled award is cancelled other than by forfeiture, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

The share-based payment expense for the year is reflective of scheme modifications made in October 2021 that would come into place as a result of the proposed Merger, as it is deemed probable that these modifications will apply. These modifications predominantly relate to the early vesting of a pro-rated portion as at the date of the proposed Merger. The expense still to be recognised relating to the awards that are to early vest, is recognised prospectively from the date of modification to the expected date of the proposed Merger. Any incremental value of the modification is also recognised prospectively from the date of modification to the expected date of the proposed Merger. In total, these modifications increased the share-based payment charge for the year by $2.2m in relation to Performance Stock Units (PSUs) and $4.0m in relation to Restricted Stock Units (RSUs) (see Note 33 for scheme details). See significant estimates and judgements made in regards to the modification in Note 3.

Payments for settlement of equity-settled awards are taken to equity up to the fair value of the award at the time of settlement (with any excess recognised in profit or loss).

Deferred tax assets are recognised in connection with a granted stock option in the amount of the expected tax deduction available on exercise, measured using the share price at the end of the period and multiplied by the expired portion of the vesting period. The cumulative related tax benefit is recognised in profit and loss to the extent of the tax rate applied to the cumulative recognised share-based payments expense, with the excess (if any) recognised directly through equity.

Employee benefits

Defined contribution plans

The Group maintains a defined contribution 401(k) retirement savings plan for its US employees. Each participant in the 401(k) retirement savings plan may elect to contribute a percentage of his or her annual compensation up to a specified maximum amount allowed under US Internal Revenue Service regulations. The Group matches employee contributions to a maximum of 4% of the participant annual compensation.

Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognises redundancy and termination benefits when it is demonstrably committed to have terminated the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. There are currently no redundancy and termination benefits falling due more than 12 months after the balance sheet date.

Employee benefit trust

The Group has established an employee benefit trust (Avast plc Employee Benefit Trust) in 2019. The trust is treated as an extension of the Company.

Key management personnel

The Group discloses the total remuneration of key management personnel (KMP) as required by IAS 24 – Related party disclosures. The Group includes within KMP all individuals who have authority and responsibility for planning, directing and controlling the activities of the Group. KMP includes all members of the Board and the Executive Management team of the Group. Other related parties include family members if applicable. See Note 34 for more details.

Financial instruments

Financial assets and liabilities are recognised on the Group's Consolidated Statement of Financial Position when the Group becomes a contractual party to the instrument. When financial instruments are recognised initially, they are measured at fair value, which is the transaction price plus, in the case of financial assets and financial liabilities not measured at fair value through profit and loss, directly attributable transaction costs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Trade and other receivables

Trade receivables are at initial recognition recorded at the original invoice amount, including value-added tax and other sales taxes. At subsequent reporting dates, the carrying amount is decreased by the expected lifetime loss allowance attributable to the receivable or group of receivables based on a credit assessment of the counterparty or estimate for the relevant group of receivables respectively.

The Group uses the expected credit loss model for impairment of receivables. The Group applies practical expedients when measuring the expected credit loss. The Group applies a simplified approach and recognises expected lifetime loss allowances for trade receivables and contract assets. The expected lifetime loss is calculated using the provision matrix, which assigns provision rates to classes of receivables based on the number of days they are overdue, based on the Group's historical credit loss experience adjusted for forward-looking development. The classes of receivables are stratified by types of customer and by operating segments between the Consumer and SMB receivables.

Bad debts are written off in the period in which they are determined to be completely irrecoverable.

Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank and cash in hand.

The Group´s Consolidated Statement of Cash Flows is prepared based on the indirect method from the Consolidated Statement of Financial Position and the Consolidated Statement of Profit and Loss.

Trade payables and other liabilities

Trade payables and other liabilities are recognised at their amortised cost which is deemed to be materially the same as the fair value.

Loans

Loans are initially recognised at their fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability.

De-recognition of financial instruments

A financial asset or liability is generally de-recognised when the contract that gives right to it is settled, sold, cancelled, or expires. Refinancing of the term loan was treated as an extinguishment of the old term loan and recognition of a new loan. See Note 27 for further details.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Statement of Profit and Loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Interest income and expense

Interest income consists of interest income on deposits. Interest expense consists of interest expense on term loans, including amortisation of arrangement fees, and interest expense on leases.

Other finance income and expense

Other financial income and expenses consist of realised and unrealised foreign exchange gains and losses, changes in fair value of derivatives, unwinding of discounts on non-current provisions and other liabilities discounted to net present value and other financial expenses.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Exceptional items

Exceptional items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group. Exceptional items are identified by virtue of their size, nature, or incidence so as to facilitate comparison with prior periods and to assess underlying trends in the financial performance of the Group and its reportable segments. In determining whether an event or transaction is exceptional, management considers quantitative as well as qualitative factors. Once an item is disclosed as exceptional, it will remain exceptional through completion of the event or programme. Examples of such items include but are not restricted to: legal and advisory costs related to the proposed Merger, acquisition, disposals (including gain on disposal), integration, costs incurred due to discontinuation of business and COVID-19 donations.

Change in the reporting of Billings and Revenues

On 1 January 2021, the Group changed its disaggregation of Consumer reporting of billings and revenues. In prior years, the Consumer segment was further split into Consumer Direct Desktop, Consumer Direct Mobile and Consumer Indirect. In 2021, the direct-to-consumer mobile subscription business is reported together with the desktop business within the one category 'Consumer Direct', due to a rise of multi-device subscriptions. Consumer Indirect consists of revenues generated via the carrier channel (named as Partner) alongside Mobile advertising and Platform revenue. The Consumer reporting change has no impact on the overall Group result. There is no change to the overall segments which are consistently reported as Consumer and SMB. Comparative balances have been adjusted for consistency purposes.

Previous structure ($'m)	Year-ended 31 December 2020	Partner/carriers	Mobile subscription	New structure ($'m)	Year-ended 31 December 2020
Consumer Direct Desktop	699.7	–	30.3	Consumer Direct	730.1
Consumer Direct Mobile	72.1	(41.8)	(30.3)		
Consumer Indirect	67.9	41.8	–	Consumer Indirect	109.6
SMB	48.0	–	–	SMB	48.0
Consumer Other*	5.1	–	–	Consumer Other*	5.1
Total	**892.9**	**–**	**–**	**Total**	**892.9**

* For the year ended 31 December 2021 and 2020, Consumer Other includes a portion of revenue from discontinued business and Jumpshot revenue of nil and $1m, respectively.

3 Significant accounting judgements, estimates and assumptions

Significant judgements

Leases – Extension options

When the Group has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. The Group has the option, under some of its leases, to lease the assets for additional terms of up to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew and therefore considers all relevant factors, including long-term business strategy, conditions of the lease, availability of alternative options and potential relocation costs, for it to exercise the renewal. Potential future cash outflows of $8.2m have not been included in the lease liability because it is not reasonably certain that the lease will be extended (or not terminated). There were no significant changes to the extension options for the year ended 31 December 2021. The lease term will be reassessed after the proposed Merger, once completed.

Impairment testing

Significant management judgement and estimates are required to determine the individual cash-generating units (CGUs) of the Group, the allocation of assets to these CGUs and the determination of the value in use or fair value less cost to sell of these CGUs. Management has concluded that the operating segments used for segment reporting represents the lowest level within the Group at which the goodwill is monitored. Therefore, the operating segments correspond to groups of CGUs at which goodwill is tested for impairment.

Notes to the consolidated financial statements continued

3 Significant accounting judgements, estimates and assumptions continued

Significant estimates

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

The Group recognises substantial deferred tax assets from unused tax losses in its US-based subsidiaries excluding Jumpshot Inc. (see Note 13). Management assesses that these deferred tax assets are recoverable, with key elements of judgement being the fact that US tax losses carry over indefinitely, Group's transfer pricing agreement in place and the significant business presence of the Group in the US market give the Group the ability to generate sufficient taxable profit for the foreseeable future.

Based on expectations of future profitability, management expects to recover the deferred tax asset over approximately a 30-year timeframe. The recovery period is sensitive to the level of profitability of the underlying business; however, there are no significant assumptions that would impact our expectation of recovery. Given the transfer pricing agreement in place and the Group's business model, management has not identified any material climate risks which may impact recoverability of the deferred tax asset.

The Group also recognises substantial deferred tax assets from the 2018 transfer of intellectual property to the Czech Republic, which is being recovered linearly over a 15-year period. The management assesses that this deferred tax asset is recoverable, with key elements of judgement being that the major portion of the Group's profit is generated in the Group's Czech entity and this structure is expected to remain for the foreseeable future.

Forecasts used for assessing recoverability of deferred tax assets are those approved by Avast, and do not reflect any changes to the business (or to the quantum of tax losses) that might result from the proposed Merger. It is uncertain if tax loss carryforward can be utilised in full amount after the proposed Merger and (potential) changes in the Group and tax structure.

Provisions

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Other provisions predominantly comprise potential claims in relation to regulatory investigations, contractual indemnities and disputes. The management has provided the best estimate of the provisions, based on the legal advice. Refer to Note 25 for further details.

De-recognition of goodwill

On 16 April 2021, the Group sold a Location Lab to Smith Micro Inc. ('Smith Micro'). As a result, the Group had to de-recognise all assets and liabilities of the sold subsidiary including goodwill. Since the sold business concerns part of Consumer cash-generating unit (CGU), the amount of goodwill de-recognised was determined on the basis of the relative value of the part divested compared to the value of Consumer CGU after the disposal. When determining the value in use of Consumer CGU, the Group used a discounted cash flow model taking into consideration the latest forecast approved by the management. The Group has determined that the appropriate amount of goodwill disposed of is $24.7m which was part of the Consumer CGU (see Note 16).

Share-based payments

In October 2021, management accounted for scheme modifications that are expected to come into place as a result of the proposed Merger. These modifications will result in the early vesting of a pro-rated proportion of awards. In respect of Restricted Stock Units (RSUs) management have made best estimates in regards to the expected timing of proposed Merger on 4 April 2022, and the number of 'good' leavers, whose awards will vest in the event that they are made redundant as a consequence of the Merger. In respect of Performance Stock Units (PSUs), management have made best estimates in regards to the expected timing of proposed Merger, and the performance attainment that will be achieved by scheme members.

In addition, there are judgements to accelerate the cost of awards vesting earlier under the modification prospectively from date of modification to estimated date of Merger. Modification resulted in additional share-based payment expense $2.2m in relation to PSUs and $4.0m in relation to RSUs for the year ended 31 December 2021.

If the Merger were to be completed one month later, the impact on the share-based payments expense would have been $2.0m lower for the year ended 31 December 2021. It is assumed 25% of RSU holders will be 'good' leavers at the time of the Merger. An increase of 5% to the expected number of 'good' leavers would increase the share-based payment expense by $0.8m for the year ended 31 December 2021. An increase of 10% to the performance attainment would increase share-based payment expense by $1.0m.

Notes to the consolidated financial statements continued

4 Application of new and revised IFRS standards

New and adopted standards

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include several practical expedients that are not applicable to Avast except the following one:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

The Group borrowed a term loan with a USD and EUR tranche tied to the three-month USD LIBOR and three-month EURIBOR, respectively. Maturity of the term loan is on 22 March 2028. See Note 27 for further details. EURIBOR is expected to continue beyond 2021 and there is no current indication it will cease in the near future. On the other hand, the three-month USD LIBOR will cease on 30 June 2023.

Upon the discontinuation of USD LIBOR, the Group's credit agreement contains a mechanism by which USD LIBOR will be replaced with a new reference rate reflecting the market standard. According to the credit agreement, the new reference rate will be determined by Credit Suisse as set forth in order:

(1) The sum of: (a) term SOFR and (b) the related spread adjustment

(2) The sum of: (a) daily simple SOFR and (b) the related spread adjustment

(3) The sum of: (a) the alternate benchmark rate that has been selected by Credit Suisse and the Company as the replacement for the then-current rate; and (b) the related spread adjustment

If the replacement rate is the rate reflected in numbers (1) or (2) above, then no further consents are required under the credit agreement for implementation of the new reference rate. If the replacement rate is the rate reflected in number (3) below, the credit agreement may be amended without further consent so long as the Required Lenders have not objected to such amendment after five business days' notice to the Lenders of such change.

Any technical, administrative, or operational changes (including changes to the definition of 'Base Rate', the definition of 'Business Day', the definition of 'Interest Period', timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, etc.) might be adopted or implemented by Credit Suisse in a manner substantially consistent with market practice.

Credit Suisse will however promptly notify the Company of the new reference rate, effective date and the removal or reinstatement of any tenor.

The three-month USD LIBOR will be discontinued immediately after 30 June 2023. While the current IBOR fixings allow the next interest rate payment to be determined at the beginning of the period (forward-looking approach), the benchmark based on the new reference rates will not be set until the end of the interest period (backward-looking approach) since the new reference rates are based on actual transactions. Floor of 0% will be unchanged.

The above provisions explain how the interest rate will be determined when the USD LIBOR rates cease, especially having the spread adjustment, which will ensure economic equivalence between the contracting parties. These amendments had no impact on the consolidated financial statements of the Group. The Group will apply the practical expedients in future periods once the three-month USD LIBOR ceases to be calculated.

For lease liabilities under IFRS 16 using an incremental borrowing rate, IBOR replacement is not expected to have an impact on existing lease liabilities. This is because the incremental borrowing rate is fixed at the inception of the lease, and that rate is applied to the lease liability over the whole lease term to measure the lease liability at its effective interest rate. Lease payments are not contractually dependent on IBOR. New leases entered into following IBOR replacement will then have incremental borrowing rates determined using a benchmark rate based on the IBOR replacement rate.

Standards issued but not yet effective and not early adopted

The Group has not applied certain new standards, amendments and interpretations to existing standards that have been issued but are not yet effective. These include:

- Amendment to IFRS 3 Business Combinations – effective on 1 January 2022
- Proceeds before Intended Use – Amendment to IAS 16 Property, Plant and Equipment – effective on or 1 January 2022
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – effective on 1 January 2022
- Annual Improvements 2018-2020 (Amendment) – effective on 1 January 2022

Notes to the consolidated financial statements continued

4 Application of new and revised IFRS standards continued

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current – effective on 1 January 2023
- Definition of Accounting Estimates – Amendments to IAS 8 – effective on 1 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 – effective on 1 January 2023
- Disclosure of Accounting Policies – Amendments to IAS 1 – effective on 1 January 2023
- IFRS 17 Insurance Contracts – effective on 1 January 2023

The Group does not currently plan to adopt early any of the new standards issued but not effective as discussed above. The Group is currently assessing the impact of these amendments.

5 Segment information and other disclosures

Management monitors operating results in two customer segments: consumer products (which generate direct and indirect revenue streams) and products for the SMB market. For management reporting purposes, the operating and reportable segments are determined to be Consumer and Small and Medium Business (SMB). This is the level on which the Chief Operating Decision Maker decides about the allocation of the Group's resources.

The principal products and services offered by each segment are summarised below:

Consumer –The Group's consumer products include direct revenue streams through its offerings for desktop security and mobile device protection and consist of free and premium paid products for the individual consumer market. The Group also has several value-added solutions for performance, privacy, and other tools. The Group also focuses on monetising the user base indirectly by leveraging its user base to partner with third-party vendors. Products and services include secure web browsing, distribution of third-party software, an e-commerce tool, and mobile advertising.

SMB – The Group's SMB segment focuses on delivering high-level security and protection solutions for SMB customers.

Billings is one of the important metrics used to evaluate and manage operating segments. Billings represent the full value of products and services being delivered under subscription and other agreements and include sales to new end customers plus renewals and additional sales to existing end customers. Under the subscription model, end customers pay the Group for the entire amount of the subscription in cash upfront upon initial delivery of the applicable products. The invoicing timing may slightly vary through the year with immaterial impact, as part of our usual renewal offers testing. Although the cash is paid upfront, under IFRS subscription revenue is deferred and recognised ratably over the life of the subscription agreement, whereas non-subscription revenue is typically recognised immediately.

The Group evaluates the performance of its segments based primarily on Billing, Revenue and Operating profit. Billings are not defined or recognised under IFRS and considered as a non-IFRS financial measure used to evaluate current business performance. Certain costs that are not directly applicable to the segments are identified as 'Corporate Overhead' costs and represent general corporate costs that are applicable to the consolidated Group. In addition, costs relating to share-based payments and exceptional items are not allocated to the segments since these costs are not directly applicable to the segments, and therefore not included in the evaluation of performance of the segments.

Notes to the consolidated financial statements continued

5 Segment information and other disclosures continued

The following tables present summarised information by segment:

For the year ended 31 December 2021 ($m)	Consumer	SMB	Total
Billings	**896.3**	**52.1**	**948.4**
Deferral of revenue	(6.8)	(0.5)	(7.3)
Segment revenue	**889.5**	**51.6**	**941.1**
Segment cost of revenues	(86.1)	(4.0)	(90.1)
Segment sales and marketing costs	(112.1)	(19.3)	(131.4)
Segment research and development costs	(40.4)	(3.4)	(43.8)
Segment general and administrative costs	(1.8)	(0.7)	(2.5)
Total Segment operating profit	**649.1**	**24.2**	**673.3**
Corporate overhead			(155.7)
Depreciation and amortisation			(44.2)
Exceptional items			(31.7)
Share-based payments			(46.0)
Employer's taxes on share-based payments			(1.1)
Consolidated operating profit			**394.6**

For the year ended 31 December 2020 ($'m)	Consumer	SMB	Total
Billings	**873.6**	**48.4**	**922.0**
Deferral of revenue	(28.8)	(0.3)	(29.1)
Segment revenue	**844.8**	**48.1**	**892.9**
Segment cost of revenues	(81.1)	(5.8)	(86.9)
Segment sales and marketing costs	(84.3)	(17.5)	(101.8)
Segment research and development costs	(49.2)	(3.5)	(52.7)
Segment general and administrative costs	(1.2)	0.2	(1.0)
Total Segment operating profit	**629.0**	**21.5**	**650.5**
Corporate overhead			(154.9)
Depreciation and amortisation			(87.6)
Exceptional items			(49.9)
Share-based payments			(21.9)
Employer's taxes on share-based payments			(0.8)
Consolidated operating profit			**335.4**

Corporate overhead costs primarily include the costs of the Group's IT, Technology (R&D), HR, Finance and Central Marketing functions, legal and office related costs, which are not allocated to the individual segments.

The following table presents depreciation and amortisation by segment:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Consumer	23.6	67.4
SMB	0.1	0.1
Corporate overhead	20.5	20.1
Total depreciation and amortisation	**44.2**	**87.6**

The following table presents further disaggregation of revenue:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Consumer Direct	811.2	730.0
Consumer Indirect	76.1	109.7
SMB	51.6	48.0
Other	2.2	5.2
Total	**941.1**	**892.9**

As described in the Note 2, the Group changed its disaggregation of Consumer reporting of billings and revenues. Comparative information for the year ended 31 December 2021 was adjusted accordingly.

Notes to the consolidated financial statements continued

5 Segment information and other disclosures continued

The following table presents the Group´s non-current assets, net of accumulated depreciation and amortisation, by country. Non-current assets for this purpose consist of property and equipment, right-of-use assets and intangible assets.

	31 December 2021		31 December 2020	
	($m)	(in %)	($m)	(in %)
Czech Republic	160.8	79.5%	193.7	86.0%
USA	30.7	15.2%	12.9	5.7%
UK	7.2	3.6%	13.9	6.1%
Other countries*	3.6	1.7%	4.8	2.2%
Total	**202.4**	**100%**	**225.3**	**100.0%**

* No individual country represented more than 5% of the respective totals.

The following table presents revenue attributed to countries based on the location of the end user:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	($m)	(in %)	($m)	(in %)
USA	345.6	36.7%	349.0	39.1%
UK	90.6	9.6%	81.6	9.1%
France	73.3	7.8%	69.2	7.8%
Germany	67.5	7.2%	60.1	6.7%
Other countries*	364.1	38.7%	332.9	37.3%
Total	**941.1**	**100%**	**892.9**	**100%**

* No individual country represented more than 5% of the respective totals.

Revenues from relationships with certain third parties exceeding 10% of the Group's total revenues were as follows:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	($m)	(in %)	($m)	(in %)
Revenues realised through online resellers: Digital River	711.4	75.6%	620.1	69.5%

In 2021 and 2020, revenues realised through Digital River significantly increased by $91.3m and $98.3m, respectively, due to the continuing transfer of part of the business from in-house payment processing to the external vendor. The majority of revenues from Digital River were reported in the Consumer segment, while the remaining $31.6m (2020: $22.5m) of revenues were reported in the SMB segment.

6 Exceptional items

The following table presents the exceptional items by activity:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Exceptional items in operating profit	31.7	49.9
Net gain on disposal of business operation	(47.0)	–

Exceptional items in operating profit

During the year ended 31 December 2021, the Group incurred legal, professional and impairment costs of $4.0m in relation to the disposal of Family Safety mobile business (see Note 16), legal and professional costs of $2.6m in relation to the acquisition of Evernym (see Note 15), exceptional impairment and onerous contract provision costs of $7.5m related to data servers necessary to remain in operating condition due to an ongoing regulatory investigation and $9.2m of personnel, legal and consultancy costs related to the proposed Merger with NortonLifeLock Inc. Personnel costs related to the proposed Merger of $2.6m comprise primarily retention bonuses, which are accrued over the retention period. The remaining $8.4m of exceptional items relates to costs of restructuring programme and the change in provisions related to regulatory investigation and contract indemnity claims relating to Jumpshot (see Note 25). Restructuring programme focused on transformation of operations will be completed in 2022. Tax benefit from these exceptional items amounted to $2.5m.

Notes to the consolidated financial statements continued

6 Exceptional items continued

Total $31.7m of exceptional items included in operating profit comprised $3.2m included in the cash flow from investing activities and $5.5m of impairment charges, which were non-cash items. Out of remaining $23.0m exceptional items that enter operating cash flows, $14.9m were not paid before year-end and included in liabilities.

During the year ended 31 December 2020, the Group returned the investment made by Ascential plc into Jumpshot in the total amount of $73.0m, which included associated exit costs of $8.2m. These costs were included in the exceptional costs, in the net cash flows from operating activities and treated as tax non-deductible. The amount of investment returned to Ascential excluding exit costs was included in the net cash flows from financing activities.

In total, the Group incurred $25.4m in relation to the winding down of the operations of Jumpshot. These costs were primarily cash items consisting of restructuring personnel costs, legal fees, refunds to the customer and Ascential exit costs. The non-cash items included gain from release of deferred revenue of $7.6m which was offset by impairment of fixed assets and right-of-use assets of $3.1m and creation of bad debt provision and write-offs of account receivables and other assets of $4.5m. These exceptional items have been treated as tax non-deductible and all have been included in the cash flows from operating activities.

In addition, Avast donated $25m to accelerate global R&D programmes to help combat COVID-19. Total donations were included in the net cash flows from operating activities and the related tax impact has been included in the tax adjusting items ($4.7m).

Net gain on disposal of a business operation

On 16 April 2021, the Group sold a portfolio of mobile parental controls services including location features, content filtering and screen time management to Smith Micro Software Inc. ('Smith Micro') recognising a gain of $47.0m as an exceptional item. Proceeds from this transaction, net of cash sold, have been included in cash flows from investing activities. The tax impact of the net gain on disposal of a business operation was $16.7m of which majority is taxable in the USA and will be offset against tax loss carryforward (Note 13), thus does not significantly impact income tax paid.

All exceptional items incurred during the 12 months ended 31 December 2021 and 2020 relate to the Consumer segment.

7 Auditor's remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other non-audit services provided to the Group.

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Audit of the financial statements	1.9	0.9
Audit of the financial statements of subsidiaries	0.1	0.2
Total audit fees	**2.0**	**1.1**
Audit related assurance services*	0.1	0.1
Total non-audit fees	**0.1**	**0.1**
Total fees	**2.1**	**1.2**

* The audit related assurance services relate to provision of Financial Statement Review procedures on the 30 June 2021 Financial Statements.

8 Cost of revenues

Cost of revenues consist of the following:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Amortisation	22.7	65.9
Depreciation	9.3	8.4
Personnel costs of product support and virus updates	13.8	18.2
Share-based payments (incl. employer's costs)	2.4	0.8
Digital content distribution costs	17.2	20.9
Third-party licence costs	4.6	5.6
Other product support and virus update costs	17.3	13.4
Commissions, payment and other fees	62.2	60.5
Impairment	–	2.3
Total	**149.5**	**196.0**

Notes to the consolidated financial statements continued

9 Operating costs

Operating costs are internally monitored by function; their allocation by nature is as follows:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Depreciation	9.7	11.3
Amortisation	2.5	2.0
Personnel expenses	171.3	169.4
Share-based payments (incl. employer's costs)	44.7	21.8
Advertising	85.4	59.1
Purchases of services from third-party vendors	75.8	69.2
Gifts and charities	2.7	27.8
Other operating expenses	(0.7)	0.4
Impairment	5.6	0.5
Total	**397.0**	**361.5**

Purchases of services from third-party vendors include legal, outsourced and other services.

10 Personnel expenses

Personnel expenses consist of the following:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
($m)	Employees	Non-Executive Directors	Employees	Non-Executive Directors
Wages and salaries	143.5	0.7	137.8	0.8
Social security and health insurance*	29.8	–	27.4	–
Pension costs	1.0	–	0.5	–
Social costs	6.4	–	6.7	–
Severance payments and termination benefits	3.7	–	14.3	–
Share-based payments (including employer's costs)	47.1	-	22.7	-
Total personnel expense	**231.5**	**0.7**	**209.4**	**0.8**

* State and government pension costs of Czech employees are also included in the social security and health insurance costs.

The average number of employees by category during the period was as follows:

	Year-ended 31 December 2021	Year-ended 31 December 2020
Sales and marketing	724	683
Research and development	775	878
General and administrative	301	242
Total average number of employees	**1,800**	**1,803**

The decrease in average number of employees reflects the disposal of Family Safety mobile business (more than 85% of these employees were included in R&D function).

Notes to the consolidated financial statements continued

11 Finance income and expenses

Interest income:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Interest on bank deposits	0.2	0.4
Total finance income	**0.2**	**0.4**

Interest expense:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Term loan interest expense	(25.0)	(33.4)
Lease interest expense	(1.8)	(2.1)
Total interest expense	**(26.8)**	**(35.5)**

Other finance income and expense (net):

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Changes of fair values of derivatives	0.4	1.7
Revolving loan – commitment fee	(0.3)	(0.4)
Foreign currency gains/(losses)	2.3	(7.7)
Unrealised foreign exchange gains/(losses) on borrowings	32.2	(62.1)
Other financial income	0.7	4.5
Total other finance income and expense (net)	**35.3**	**(64.0)**

12 Depreciation and amortisation

Amortisation by function:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Cost of revenues	22.7	65.8
Total amortisation of acquisition intangible assets	22.7	65.8
Cost of revenues	0.6	0.6
Sales and marketing	0.5	0.2
Research and development	0.4	0.4
General and administration	1.0	0.9
Total amortisation of non-acquisition intangible assets	**2.5**	**2.1**
Total amortisation	**25.2**	**67.9**

Depreciation by function:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Cost of revenues	9.2	8.4
Sales and marketing	–	0.1
Research and development	0.2	0.2
General and administration*	9.6	11.0
Total depreciation	**19.0**	**19.7**

* $6.7m (2020: $7.9m) is attributable to the depreciation of right-of-use assets (see Note 21).

Tangible and intangible assets are allocated to each department of the Group. The depreciation and amortisation of these assets is reported as part of operating costs and cost of revenues.

13 Income tax

In the Consolidated Statement of Financial Position, the Corporate Income tax receivable of $1.9m (2020: $1.9m) is part of the caption tax receivables.

The major components of the income tax in the consolidated statement of comprehensive income are:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Current income tax		
Related to current year	(73.6)	(68.0)
Related to prior year	(0.2)	0.3
Current income tax total	**(73.8)**	**(67.7)**
Deferred tax		
Related to current year	(28.8)	1.2
Related to prior year	0.7	(0.2)
Deferred tax total	**(28.1)**	**1.0**
Total income tax (expense)/ income through P&L	**(101.9)**	**(66.7)**

Notes to the consolidated financial statements continued

13 Income tax continued

The Group changed the presentation in the Consolidated Statement of Financial Position of the deferred tax liability related to Group purchase price allocations ($22.5m as at 31 December 2020) to offset this amount against the recognised deferred tax assets. This balance relates principally to taxable entities in the Czech, UK and US jurisdictions for which significant deferred tax assets are recognised. As required by IAS12 'Income Taxes', deferred tax liabilities are offset against deferred tax assets in the Consolidated Statement of Financial Position where there is a legally enforceable right to set off current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously in future periods. Comparative information for the year ended 31 December 2020 was adjusted accordingly. There is no impact on profit or earnings per share of this adjustment.

The Group generates a temporary difference relating to an intra-group loan denominated in USD received by Avast Software s.r.o., a subsidiary with a USD functional currency (but with a tax currency of CZK). This loan is subject to hedging in its local statutory books (with the effect that current tax relief does not cover the full period exchange differences). The tax impact related to the loan is a deferred tax benefit of $1.5m (2020: expense $4.4m) and the Group reports a deferred tax asset of $7.2m (2020: $5.7m) related to the loan.

The reconciliation of income tax (expense)/benefit applicable to accounting profit before income tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate is as follows:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Profit before tax	**450.3**	**236.2**
Group effective income tax rate (19.5% in 2021 and in 2020*)	(87.8)	(46.1)
Recurring adjustments		
Non-deductible expenses	(3.8)	(1.8)
Share-based payments	(6.1)	(3.0)
FX effect on intercompany loans	1.5	(4.4)
Non recurring adjustments		
Current year deferred tax assets not recognised	(1.6)	(19.2)
Recognition of previously not recognised deferred tax assets	6.5	0.7
Effect of prior year taxes	0.5	0.1
Effect of enacted changes in tax rates on deferred taxes	0.9	1.1
Taxable gain on Family Safety mobile business disposal	(7.3)	–
De-recognition of previously recognised deferred tax assets	(5.9)	–
Effect of higher tax rate in the Netherlands	(1.6)	3.4
Remaining impact of tax rate variance and other effects	2.8	2.5
Total income tax	**(101.9)**	**(66.7)**

* Estimated as a Group's blended rate across the jurisdictions where the Group operates.

The deferred tax relates to following temporary differences:

($m)	31 December 2021	31 December 2020
Temporary differences	Asset/(Liability)	Asset/(Liability)
Tangibles and intangibles fixed assets	(25.0)	(26.2)
IP transfer tax benefit	106.7	119.8
Deferred revenue and unbilled receivables	1.0	1.7
Tax loss carryforward	38.3	50.1
Tax credits carryforward	7.6	7.1
Loans and derivatives	(0.4)	2.4
Carryforward of unutilised interest	2.0	3.4
Share-based payments transactions	4.0	3.4
Provisions	1.6	2.3
Tax impact from FX difference on intercompany loans	7.2	5.7
Other	(1.6)	4.5
Net	**141.4**	**174.2**

Notes to the consolidated financial statements continued

13 Income tax continued

Tax losses carried forward are recorded by the following subsidiaries:

($m)	31 December 2021 Deferred tax from tax losses carryforward	31 December 2020 Deferred tax from tax losses carryforward	Tax jurisdiction
Avast Software Inc. (tax group incl. Location Labs and AVG Technologies USA)	36.9	49.9	USA
Other	1.4	0.2	–
Total deferred tax from tax losses carryforward	**38.3**	**50.1**	**–**

Total deferred tax asset recognised by Avast Software Inc. (tax group incl. Location Labs and AVG Technologies USA), in excess of deferred tax liabilities is $35.8m (2020: $62.3m). Refer to Note 3 for the nature of the evidence supporting its recognition.

Tax losses carried forward in the USA are related mainly to share-based payments exercises.

As a result of share-based payments exercises there was a $15.5m (2020: $41.0m) tax deduction in Avast Software, Inc., Location Labs, LLC, Jumpshot, Inc., Avast plc, AVG UK, Privax UK and Piriform UK that created a tax benefit of $3.4m (2020: $9.6m). A tax benefit of $1.5m (2020: $7.3m) exceeding related cumulative remuneration expenses is recognised directly in equity, of which the current tax benefit is $1.5m (2020: $0.4m) and deferred tax benefit is $0m (2020: $6.9m).

The tax deduction for share-based payments is not received until the instruments are exercised. Therefore, a temporary difference arises between the tax deduction (pro-rated for the period to vesting) and the tax effect of the related cumulative remuneration expense. The deferred tax asset of $4.0m (2020: $3.4m) is measured as an estimated tax deduction at the date of exercise (pro-rated for the period to vesting), based on the year-end share price. As the amount of the deferred tax asset exceeded the tax effect of the related cumulative remuneration expense, the reduction in the excess of the associated deferred tax of $0.7m was recognised directly in equity.

Tax losses reported by Avast Software Inc. can be utilised by all subsidiaries incorporated in the USA (Note 37) excluding Jumpshot, Inc. Tax credit of $0m (2020: $4.5m) from federal and state tax losses generated during the years 2011–2017 can be utilised over 20 years. Tax credit of $36.9m (2020: $45.4m) from federal and state tax losses can be carried forward for an indefinite period of time.

Deferred tax asset related to carryforward of unused tax loss, tax credits and other temporary differences in the United States is recoverable based on the current business model and the group structure of Avast. Potential impacts of the proposed Merger on the recoverability of this deferred tax asset have not been analysed yet. It is uncertain if tax loss carryforward can be utilised in full amount after the proposed Merger and (potential) changes in the group and tax structure.

Following the transactions of IP transfer in 2018, the Group reports a deferred tax asset of $106.7m (2020: $119.8m), of which the major part of $104.7m relates to the transfer of the former Dutch AVG business from Avast BV to Avast Software s.r.o. The temporary difference is amortised and deducted from the tax base of Avast Software s.r.o. registered in the Czech Republic linearly over 15 years.

The Group does not recognise the following potential deferred tax asset of $40.8m (2020: $39.6m), mostly related to Jumpshot tax losses $17.3m (2020: $14.9m), non-deductible finance costs $13.5m (2020: $4.1m) temporary difference related to EUR loan $0m (2020: $14.5m), for which the Group considers future recoverability to be uncertain.

($m)	31 December 2021 Asset/(Liability)	31 December 2020 Asset/(Liability)
Tax losses carried forward – expiration 20 years	9.1	6.6
Tax losses carried forward – indefinite	15.8	7.6
Tax losses carried forward – expiration 1–10 years	1.3	5.5
Temporary differences related to loans and interests – indefinite	13.5	18.6
Other temporary differences – expiration n/a	1.1	1.3
Total deferred tax asset not recognised	**40.8**	**39.6**

Notes to the consolidated financial statements continued

13 Income tax continued

The movement in deferred tax balances:

($ m)	31 December 2020				31 December 2021
Temporary differences	Asset/(Liability)	Effect of business combinations	Recognised in profit and loss	Recognised in equity	Asset/(Liability)
Fixed assets	(26.2)	(4.0)	5.2	–	(25.0)
IP transfer tax benefit	119.8	–	(13.1)	–	106.7
Deferred revenue and unbilled receivables	1.7	–	(0.7)	–	1.0
Tax loss carryforward	50.1	–	(11.8)	–	38.3
Tax credits carryforward	7.1	–	0.5	–	7.6
Loans and derivatives	2.4	–	(2.8)	–	(0.4)
Carryforward of unutilised interest	3.4	–	(1.4)	–	2.0
Share-based payments transactions	3.4	–	1.3	(0.7)	4.0
Provisions	2.3	–	(0.7)	–	1.6
Tax impact from FX difference on intercompany loans	5.7	–	1.5	–	7.2
Other	4.5	–	**(6.1)**	–	(1.6)
Net	**174.2**	**(4.0)**	**(28.1)**	**(0.7)**	**141.4**

($m)	31 December 2019			31 December 2020
Temporary differences	Asset/(Liability)	Recognised in profit and loss	Recognised in equity	Asset/(Liability)
Fixed assets	(38.2)	12.0	–	(26.2)
IP transfer tax benefit	122.9	(3.1)	–	119.8
Deferred revenue and unbilled receivables	3.5	(1.8)	–	1.7
Tax loss carryforward	45.8	(2.7)	7.0	50.1
Tax credits carryforward	4.2	2.9	–	7.1
Loans and derivatives	2.1	0.3	–	2.4
Carryforward of unutilised interest	2.7	0.7	–	3.4
Share-based payments transactions	5.7	(0.9)	(1.4)	3.4
Provisions	0.8	1.5	–	2.3
Tax impact from FX difference on intercompany loans	10.1	(4.4)	–	5.7
Other	8.0	(3.5)	–	4.5
Net	**167.6**	**1.0**	**5.6**	**174.2**

Notes to the consolidated financial statements continued

13 Income tax continued

The deferred tax asset increased significantly due to tax losses realised in 2018, 2019 and 2020 from significant share-based payments' exercises. Such significant share-based payments' transactions are not expected to repeat in future periods and management expects the underlying business to remain profitable for the foreseeable future.

The temporary differences associated with investments in the Group's subsidiaries, for which a deferred tax liability has not been recognised in the period presented, aggregate to \$56.5m (2020: \$77.1m). These relate to undistributed reserves of the US subsidiaries, which would be subject to withholding taxes if distributed. The Group has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. While EU subsidiaries (including the Czech Republic and the Netherlands) have significant reserves, the management has determined that, based on the Group structure, no material withholding taxes would arise from distributions from these subsidiaries following the UK's exit from the European Union.

14 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of shares of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued if all dilutive potential ordinary shares were converted into ordinary shares.

Adjusted EPS is calculated by dividing the adjusted net profit for the period attributable to equity holders by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in calculating EPS:

	Year-ended 31 December 2021	Year-ended 31 December 2020
Net profit attributable to equity holders (\$m)	**348.4**	**169.6**
Basic weighted average number of shares	1,031,854,145	1,022,001,218
Effects of dilution from share options, performance and restricted share units	7,425,430	14,815,576
Total number of shares used in computing dilutive earnings per share	1,039,279,575	1,036,816,794
Basic earnings per share (\$/share)	**0.34**	**0.17**
Diluted earnings per share (\$/share)	**0.34**	**0.16**

Notes to the consolidated financial statements continued

14 Earnings per share continued

Adjusted earnings per share measures:

	Year-ended 31 December 2021	Year-ended 31 December 2020
Net profit attributable to equity holders ($m)	**348.4**	**169.6**
Share-based payments (including employer's costs)	47.1	22.7
Exceptional items	31.7	49.9
Amortisation of acquisition intangible assets	22.7	65.8
Unrealised FX (gain)/loss on EUR tranche of bank loan	(32.2)	62.1
Tax impact from FX difference on intercompany loans	(1.5)	4.4
Tax impact on donations	–	(4.7)
Tax impact on adjusted items	(2.9)	(15.7)
Tax impact of IP transfer	6.3	6.3
Gain on disposal of business operation	(47.0)	–
Tax impact from disposal of business operation	16.7	–
Adjusted net profit attributable to equity holders ($ 'm)	**389.4**	**360.2**
Basic weighted average number of shares	1,031,854,145	1,022,001,218
Adjusted basic earnings per share ($/share)	**0.38**	**0.35**
Diluted weighted average number of shares	1,039,279,575	1,036,816,794
Adjusted diluted earnings per share ($/share)	**0.37**	**0.35**

Management regards the above adjustments necessary to give a fair picture of the adjusted results of the Group for the period.

15 Business combinations

Acquisition of Evernym, Inc. ('Evernym')

On 9 December 2021, Avast Group announced that it would acquire a self-sovereign identity (SSI) company Evernym, Inc. that provides decentralised identity solutions that enable organisations to issue and request verifiable credentials, and individuals to establish identity wallets and personal control over identity information. Adding a decentralised identity function to Avast's personal privacy tools is a natural step to empower individuals to take control of and protect their online presence.

The transaction closed on 17 December 2021 which is considered the acquisition date. The transaction represents a business combination with Avast Software Inc. being the acquirer. The fair value of the consideration at the acquisition date was determined by the Group to be $49.7 million for 100% ownership. The consideration given was paid in cash.

The fair value of assets acquired and liabilities incurred on the acquisition date was determined on a provisional basis as follows:

($m)	Fair value recognised on 17 December 2021
ASSETS	
Cash and cash equivalents	0.2
Trade and other receivables	0.2
Tax receivables	0.1
Prepaid expenses	0.1
Other financial assets	0.4
Intangible assets	16.8
Total assets	**17.8**
LIABILITIES	
Trade and other payables	1.1
Deferred tax liability	4.0
Total liabilities	**5.1**
Net assets acquired	**12.7**
Consideration paid	**49.7**
Goodwill	**37.0**

The business combination resulted in the recognition of goodwill of $37.0m, which is allocated to the Consumer CGU and is tested for impairment at least annually. The goodwill of $37.0m comprises the workforce and the value of expected synergies arising from the acquisition. The carrying value of goodwill is not expected to be tax deductible.

Notes to the consolidated financial statements continued

15 Business combinations continued

Determination of the fair value of acquired assets and liabilities comprised of:

- Current assets – the fair value of all current assets of the acquiree has been determined to correspond to their carrying values
- Intangible assets – the business combination resulted in the recognition of intangible assets. The fair value of each of the assets was determined by an independent external valuer using cash flows, margins and discount rates inherent to each asset. See Note 22 for further details
- Deferred revenues – due to negligible incremental costs resulting from the obligation to provide support and maintenance services in the future, the fair value of deferred revenues was revalued to zero
- Trade payables – there was no significant difference between the carrying and fair value of the other liabilities as of the acquisition date
- A deferred tax liability of $4.0m was recognised in respect of the above intangible assets

Analysis of cash flow on acquisition:

($m)	
Cash consideration	(49.7)
Net cash acquired with the business (included in cash flow from investing activities)	0.2
Net cash flow on acquisition	**(49.5)**

The Group incurred acquisition-related transaction costs of $2.6 million which were recorded as general and administrative expenses in the Consolidated Statement of Profit and Loss and treated as exceptional items.

The revenues and net profit of the Group for the year ended 31 December 2021 would not have been significantly different had the acquisition occurred at the beginning of the reporting period (1 January 2021).

16 Disposal of a business operation

Disposal of Family Safety mobile business

On March 8, 2021 Avast Group announced that it would sell a portfolio of mobile parental controls services including location features, content filtering and screen time management to Smith Micro Software Inc. ('Smith Micro'). The transaction consisted of the sale of 100% of the shares of in Location Labs, owned by AVG Technologies USA, LLC, containing patents and part of contractual relationships, sale of intellectual property (IP) owned by Avast Software s.r.o. and sale of other assets of Avast Software Inc, Avast Slovakia, s.r.o., and Privax d.o.o.

The transaction closed on 16 April 2021 which is considered the disposal date.

The total selling price for the transactions was $85.8m and comprised the following components:

- Cash of $57.9m was received on the disposal date.
- Escrow amount of $5m was withheld in escrow for a 12-month period to satisfy any potential indemnity claims against the Group under the applicable share and asset purchase agreement entered into between the parties.
- Receivable of $0.5m. As of 31 December 2021, this amount was received.
- 1.5m shares of common stock of Smith Micro with the fair value of $8.4m on the disposal date.
- Earn-out of $1.2m was estimated at the time of disposal as it was assessed there was a low probability the conditions would be met. Conditions related to the renewal of customer's agreement which however was secured under the new ownership of Location Lab subsequent to the disposal. As of 31 December 2021, Avast received $14.0m as the earn-out conditions were met.

The carrying amounts of assets and liabilities as of the date of sale were as follows:

($m)	16 April 2021
Cash and cash equivalents	6.3
Trade and other receivables	6.2
Prepaid expenses	0.5
Current assets	**13.0**
Property, plant & equipment	0.9
Intangible assets	0.2
Non-current assets	**1.1**
Total assets	**14.1**
Trade and other payables	1.0
Deferred revenues	0.2
Other current liabilities	0.1
Total current liabilities	**1.3**
Net assets	**12.8**

Since the sold business concerns part of Consumer cash-generating unit (CGU), the amount of goodwill de-recognised was determined on the basis of the relative value of the part divested compared to the value of Consumer CGU after the disposal. When determining the value in use of Consumer CGU, the Group used a discounted cash flow model taking into consideration the latest forecast approved by the management. The Group has determined that the appropriate amount of goodwill disposed of is $24.7m which was part of the Consumer CGU.

Notes to the consolidated financial statements continued

16 Disposal of a business operation continued

The resulting gain on disposal of a business operation is shown in the table below:

($m)	16 April 2021
Total disposal consideration	**85.8**
Carrying amount of net assets sold	(12.8)
Gain on disposal of a business operation	**73.0**
Other adjustments:	
Goodwill write-off (Note 23)	(24.7)
Intangibles write-off (Note 22)	(1.3)
Net gain on disposal of a business operation	**47.0**

Analysis of cash flows on disposal:

($m)	
Cash received	57.9
Net cash sold of the business (included in cash flow from investing activities)	(6.3)
Transaction costs paid	(3.2)
Earn-out received	14.0
Net cash flow on disposal	**62.4**

Transaction costs of $3.2m have been expensed and are included in general and administrative expenses in the Consolidated Statement of Profit and Loss and are part of investing cash flows in the Consolidated Statement of Cash Flows. These costs have been treated as exceptional.

17 Cash and cash equivalents

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following:

($m)	31 December 2021	31 December 2020
Cash on hand and cash equivalents	0.2	0.3
Cash in bank	428.8	175.1
Total	**429.0**	**175.4**

18 Trade and other receivables

($'m)	31 December 2021	31 December 2020
Trade receivables	6.5	13.6
Unbilled revenues	46.3	48.1
Other receivables	1.4	3.5
Trade receivables, gross	**54.2**	**65.2**
Less: Expected loss allowance on trade receivables, unbilled revenues and other receivables	(0.8)	(2.2)
Trade receivables, net	**53.4**	**63.0**

Trade receivables are non-interest bearing and are generally payable on 30-day terms. The fair value of receivables approximates their carrying value due to their short-term maturities. The expected loss allowance relates to trade receivables (with only insignificant amounts relating to other classes of receivable).

Unbilled revenues represent sold products (for which the revenue has been deferred over the term of the product licence) but for which an invoice has not yet been issued.

Other receivables represent mainly advances to, and receivables from, employees.

($m)	Amount
Allowances at 31 December 2019	**6.8**
Additions	3.7
Write-offs	(5.3)
Reversals	(3.0)
Allowances at 31 December 2020	**2.2**
Additions	–
Write-offs	(0.8)
Reversals	(0.6)
Allowances at 31 December 2021	**0.8**

Movements in the allowances described above relate mainly to trade receivables.

As of 31 December 2020 and 2021, the nominal value of receivables overdue for more than 360 days are $1.2m (carrying value: nil) and $0.1m (carrying value: nil), respectively.

The ageing analysis of trade receivables, unbilled receivables and other receivables was as follows (carrying amounts after valuation allowance):

Notes to the consolidated financial statements continued

18 Trade and other receivables continued

($ m)	Not past due	Past due 1–90 days	Past due more than 90 days	Past due more than 180 days	Past due more than 360 days	Total
31 December 2020	62.0	0.8	0.1	0.1	–	**63.0**
31 December 2021	53.0	0.4	–	–	–	**53.4**

19 Capitalised contract costs

($m)	31 December 2021	31 December 2020
At 1 January	**37.8**	**37.7**
Additions	65.6	67.7
Sales commissions and fees	61.7	61.6
Licence fees	3.9	6.1
Amortisation	(66.8)	(67.6)
Sales commissions and fees	(62.2)	(62.1)
Licence fees	(4.6)	(5.5)
At 31 December	**36.6**	**37.8**
Total current	**34.2**	**35.0**
Total non-current	**2.4**	**2.8**

Capitalised contract costs include commissions and fees and third-party licence costs related to the subscription software licences that are amortised on a straight-line basis over the licence period, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs are reviewed for impairment annually. All costs are expected to be recovered.

Notes to the consolidated financial statements continued

20 Property, plant and equipment

($m)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Cost at 31 December 2019	**61.6**	**0.1**	**9.5**	**7.7**	**78.9**
Additions	9.0	–	0.7	2.7	12.4
Transfers	6.4	–	0.5	(6.9)	–
Disposals	(2.0)	–	–	(0.1)	(2.1)
Cost at 31 December 2020	**75.0**	**0.1**	**10.7**	**3.4**	**89.2**
Additions	6.6	–	1.4	1.1	9.1
Transfers	3.1	–	–	(3.1)	–
Disposals	(21.6)	–	(0.5)	(0.1)	(22.2)
Disposal of a business operation (Note 16)	(1.9)	–	–	–	(1.9)
Net foreign currency exchange difference	0.2	–	–	–	0.2
Cost at 31 December 2021	**61.4**	**0.1**	**11.6**	**1.3**	**74.4**

($m)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Acc. depreciation and impairment losses at 31 December 2019	**(33.5)**	**(0.1)**	**(2.4)**	**–**	**(36.0)**
Depreciation	(10.0)	–	(1.8)	–	(11.8)
Impairment	(2.2)	–	–	–	(2.2)
Disposals	2.0	–	–	–	2.0
Acc. depreciation and impairment losses at 31 December 2020	**(43.7)**	**(0.1)**	**(4.2)**	**–**	**(48.0)**
Depreciation	(10.3)	–	(2.0)	–	(12.3)
Impairment	(4.3)	–	–	(0.5)	(4.8)
Disposals	21.6	–	0.5	–	22.1
Disposal of a business operation (Note 16)	1.0	–	–	–	1.0
Acc. depreciation and impairment losses at 31 December 2021	**(35.7)**	**(0.1)**	**(5.7)**	**(0.5)**	**(42.0)**
NBV at 31 December 2020	**31.3**	**–**	**6.5**	**3.4**	**41.2**
NBV at 31 December 2021	**25.7**	**–**	**5.9**	**0.8**	**32.4**

For the year ended 31 December 2021, the Group recorded an impairment loss of $4.8m (2020: $2.2m) for idle fixed assets due to discontinuation of Jumpshot's business. These have been fully impaired as there is no future use expected. The impairment loss is included in general and administrative expenses in Consumer segment in the Consolidated Statement of Profit and Loss.

There has been no individually significant addition to the property, plant and equipment during the year.

21 Leases

Right-of-use assets

Set out below, are the carrying amounts of the Group's right-of-use assets and the movements during the period. The Group has lease contracts related primarily to office buildings.

($m)	31 December 2021	31 December 2020
At 1 January	**56.4**	**62.6**
Additions	0.2	3.2
Remeasurements	(0.8)	0.6
Impairment	(0.8)	(0.5)
Disposals	(0.3)	(1.6)
Depreciation of right-of-use assets	(6.7)	(7.9)
At 31 December	**48.0**	**56.4**

Notes to the consolidated financial statements continued

21 Leases continued

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

($m)	31 December 2021	31 December 2020
At 1 January	**64.5**	**64.8**
Additions	0.2	3.2
Remeasurements	(1.0)	0.6
Terminations	(0.3)	(1.9)
Lease interest expense	1.8	2.1
Payments of lease liabilities	(8.6)	(9.3)
Foreign currency exchange difference	(4.1)	5.0
At 31 December	**52.5**	**64.5**

($m)	31 December 2021	31 December 2020
Current	7.0	7.0
Non-current	45.5	57.5
Total	**52.5**	**64.5**

Below are the terms of significant lease contracts as of 31 December 2021:

Significant lease contracts	Carrying amount ($m)	End date	Option to extend	Option to be used
Enterprise Building in Prague, Czech Republic*	20.5	August 2024	24 months two times	Yes – in full
Vlněna Office in Brno, Czech Republic	20.7	January 2026	60 months two times	Yes – in full

* Lease payments are subject to indexation based on changes of consumer price index. A 1% increase in the index would not substantially increase total lease payments.

The following table shows the breakdown of the lease expense between amount charged to operating profit and amount charged to finance costs:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
Depreciation of right-of-use assets	6.7	7.9
Short-term lease expense	0.8	0.5
Impairment	0.8	0.5
Leases of low-value lease expense	0.2	–
Charge to operating profit	**8.5**	**8.9**
Lease interest expense	1.8	2.1
Charge to profit before taxation for leases	**10.3**	**11.0**

For maturity of the leases, refer to Note 29.

Notes to the consolidated financial statements continued

22 Intangible assets

($m)	Developed technology	Trademarks	Software	Customer relationship and user base	Other	In progress	Total
Cost at 31 December 2019	**250.5**	**164.1**	**40.0**	**246.6**	**34.6**	**2.8**	**738.6**
Additions	–	–	–	–	2.0	0.7	2.7
Transfers	–	–	–	–	0.2	(0.2)	–
Disposals	–	–	–	–	–	(0.4)	(0.4)
Cost at 31 December 2020	**250.5**	**164.1**	**40.0**	**246.6**	**36.8**	**2.9**	**740.9**
Business combination (Note 15)	13.1	0.3	–	3.4	–	–	16.8
Additions	–	–	–	–	3.0	1.3	4.3
Transfers	–	–	–	–	0.9	(0.9)	–
Disposals	–	–	–	–	(0.2)	(0.1)	(0.3)
Disposal of a business operation (Note 16)	–	(5.3)	–	–	(0.3)	–	(5.6)
Cost at 31 December 2021	**263.6**	**159.1**	**40.0**	**250.0**	**40.2**	**3.2**	**756.1**

($ 'm)	Developed technology	Trademarks	Software	Customer relationship and user base	Other	In progress	Total
Acc. amortisation at 31 December 2019	**(245.4)**	**(48.9)**	**(27.3)**	**(208.4)**	**(15.3)**	**–**	**(545.3)**
Amortisation	(5.1)	(15.7)	(4.9)	(37.8)	(4.4)	–	(67.9)
Acc. amortisation at 31 December 2020	**(250.5)**	**(64.6)**	**(32.2)**	**(246.2)**	**(19.7)**	**–**	**(613.2)**
Amortisation	–	(14.7)	(4.9)	(0.4)	(5.2)	–	(25.2)
Disposals	–	–	–	–	0.2	–	0.2
Disposal of a business operation (Note 16)	–	4.0	–	–	0.1	–	4.1
Acc. amortisation at 31 December 2021	**(250.5)**	**(75.3)**	**(37.1)**	**(246.6)**	**(24.6)**	**–**	**(634.1)**
NBV at 31 December 2020	**–**	**99.5**	**7.8**	**0.4**	**17.1**	**2.9**	**127.7**
NBV at 31 December 2021	**13.1**	**83.8**	**2.9**	**3.4**	**15.6**	**3.2**	**122.0**

Notes to the consolidated financial statements continued

22 Intangible assets continued

The Group assesses that the Avast trademark, with a carrying value of $70.3m, has an indefinite useful life, as it is a well established brand. Avast is a core brand and is expected to be a core brand for the foreseeable future, as the Group constantly invests into brand development and brand awareness.

The AVG trademark, with a carrying value of $10.5m, has a remaining useful life of 0.8 years as of 31 December 2021. The Piriform trademark, with a carrying value of $2.1m, has a remaining useful life of 5.6 years as of 31 December 2021.

AVG-developed technology and customer relationship have been fully depreciated as of 31 December 2021.

Piriform and FileHippo software, with a carrying value of $2.9m, has a remaining useful life of 0.5 years as of 31 December 2021.

Other category of intangible assets includes intangible assets acquired through smaller business combinations and legal patents.

The major additions are primarily through business combinations in the year ended 31 December 2021 (Note 15). There have been no individually significant additions to the intangible assets during the year ended 31 December 2020.

The Group has not capitalised development costs in the year ended 31 December 2021 (2020: nil) as the Company believes the criteria set out in IAS 38 has not been met. See Note 2.

23 Goodwill and impairment

($m)	31 December 2021	31 December 2020
At 1 January	**1,991.3**	**1,991.3**
Acquisitions (Note 15)	37.0	–
Disposals (Note 16)	(24.7)	–
At 31 December	**2,003.6**	**1,991.3**

Goodwill was calculated as the difference between the acquisition date fair value of consideration transferred less the fair value of acquired net assets.

Goodwill and intangible assets impairment tests

Goodwill and intangible assets with an indefinite useful life are tested for impairment at least once a year, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

The impairment test as of 31 December 2021 is performed on the basis of two groups of cash-generating units that correspond to the two operating segments as below:

($m)	31 December 2021	31 December 2020
Consumer	1,990.7	1,978.4
SMB	12.9	12.9
Total goodwill	**2,003.6**	**1,991.3**

The Group prepares projected 2022–2024 free cash flow derived from the most current financial plan of the Group approved by the Board which takes into account both historical performance, industry forecasts and expectations for future developments. Cash flow projections are based on management assumptions that include compound revenue growth of 5 to 8% (in line with assumptions used for prior year assessment), an increase in operating costs from the Company's planned on-premises to cloud migration and additional investment into marketing and new initiatives. The forecasts (and the assessment of sensitivity) have therefore not taken into account any impact on the business arising from the proposed Merger. In performing the value-in-use calculations, the Group has applied pre-tax discount rates to discount the forecast future attributable pre-tax cash flows.

In addition, consideration has been given to the potential financial impacts of climate change related risks on the prospective financial information impacting the carrying value of goodwill through a qualitative review of the Group's climate change risk assessment. This review did not identify any material financial reporting impacts.

The key assumptions used in the assessments are as follows:

($'m)	31 December 2021	31 December 2020
Terminal growth rate	2.0%	2.0%
Pre-tax discount rate	9.9%	12.2%

Terminal growth rate does not exceed the long-term average growth rate for the market. Pre-tax discount rate represents the Group's weighted average cost of capital calculated from the cost of equity and cost of debt at a ratio typical for an industry of 70% equity and 30% debt.

The Group has considered sensitivity of the impairment of test results to changes in key assumptions. The recoverable amount of tested assets exceeds their carrying value. As the Group's management is not aware of any other indications of impairment and given the results of the impairment tests, no impairment was recorded.

No reasonable possible change in the calculation assumptions would lead to an impairment.

Notes to the consolidated financial statements continued

24 Trade payables and other liabilities

($m)	31 December 2021	31 December 2020
Trade payables	8.0	5.4
Accruals	44.4	30.1
Amounts owed to employees	21.9	21.1
Social security and other taxes	2.0	2.0
Other payables and liabilities	3.5	4.6
Total trade payables and other liabilities	**79.8**	**63.2**

25 Provisions and contingent liabilities

The movements in the provision accounts were as follows:

($m)	Accrued vacation provision	Provision for restructuring	Onerous contract provision	Other	Total
As at 31 December 2019	**1.7**	**1.8**	**0.8**	**8.2**	**12.5**
Additions	0.8	7.4	–	11.6	19.8
Utilisation	(1.7)	(1.4)	(0.3)	(0.6)	(4.0)
As at 31 December 2020	**0.8**	**7.8**	**0.5**	**19.2**	**28.3**
Additions	0.9	4.8	2.4	14.8	22.9
Release	–	–	–	(11.8)	(11.8)
Utilisation	(0.8)	(7.7)	(0.1)	(3.0)	(11.6)
As at 31 December 2021	**0.9**	**4.9**	**2.8**	**19.2**	**27.8**
As at 31 December 2020					
Total current	0.8	7.8	0.2	18.9	27.7
Total non-current	–		0.3	0.3	0.6
As at 31 December 2021					
Total current	0.9	4.7	1.6	19.2	26.4
Total non-current	–	0.2	1.2	–	1.4

Onerous contract provision relates to the unavoidable costs of maintenance of data servers necessary to remain in operating condition due to an ongoing regulatory investigation. The Group doesn't draw any benefits from operating these servers, therefore an impairment has been recorded for their net book value (see Note 20).

As disclosed in the prior year, as part of the process to effect an orderly wind-down of Jumpshot, Avast has been in communication with relevant regulators and authorities in respect of certain data protection matters. These discussions have progressed during the year, and while not complete, Avast has received formal complaints from certain regulatory agencies. Avast continues to believe that it has acted appropriately and in compliance with all laws and has not admitted any liability. However, in an effort to close matters, discussions have commenced regarding possible settlement. Consequently, a provision of $10.2m has been made during the year. The timing of the potential outflow is not known but could be within the next year.

While this represents management's current best estimate of the outflow required to settle the cases, there remains the potential for additional outflows that are not currently provided. Depending on the nature of settlement discussions, the timing of any outflow could take significantly longer than a year. In estimating the likely timing and outflow required to settle the cases, Management have considered both other previously settled cases in the public domain, as well as the advice of its external legal team. Avast continues to cooperate fully in respect of all regulatory inquiries.

The release of certain provisions related mainly to a provision for an alleged patent infringement claim, which has been dismissed with no costs resulting from it.

Notes to the consolidated financial statements continued

26 Deferred revenue

The Group sells consumer and corporate antivirus products for periods of 12, 24 or 36 months with payment received at the beginning of the licence term. Revenues are recognised ratably over the subscription period covered by the agreement. Deferred revenue materially represents the transaction price relating to sales of software licences that is allocated to future performance obligations.

The movements in the deferred revenue were as follows:

($m)	31 December 2021	31 December 2020
At 1 January	**496.5**	**474.8**
Additions – billings	948.4	922.0
Deductions – revenue	(941.1)	(892.9)
Disposal of a business operation	(0.2)	–
Jumpshot's release of deferred revenue*	–	(7.6)
Translation and other adjustments	–	0.2
At 31 December	**503.6**	**496.5**

* Jumpshot's release of deferred revenue is included in exceptional costs.

Current	468.6	458.8
Non-current	35.0	37.7
Total	**503.6**	**496.5**

Prior year current deferred revenue is recognised as revenue in the current period.

27 Term loan

Term loan balance is as follows:

($m)	31 December 2021	31 December 2020
Current term loan	41.0	64.6
Long-term term loan	744.9	769.4
Total term loans	**785.9**	**834.0**

($m)	31 December 2021	31 December 2020
USD tranche principal	462.0	113.8
EUR tranche principal	327.0	722.7
Total principal	**789.0**	**836.5**

On 22 March 2021, the Group borrowed a new term loan with a USD and EUR tranche of USD 480m and EUR 300m respectively, decreasing the margin on both tranches by 25bps and extending the maturity to seven years. The new term loan was issued at a below par value of 99.75% resulting in an effective cost of margin of 203.57. The previous term loan was net settled. The size of the USD and EUR tranche significantly changed which resulted in the de-recognition of the previous term loan. The arrangement fees of the previous term loan of $2.3m were released into interest expense. Both term loans are presented in the above table as outstanding at each reporting period for the comparability.

The term facility was drawn from a syndicate of lenders, with Credit Suisse International (CSI) as administrative agent. The term loan is subject to quarterly amortisation payments of 1.25% of the original principal amount, USD 6.0m and EUR 3.8m per quarter beginning on 30 June 2021. The Group may voluntarily prepay term loans in whole or in part without premium or penalty.

Notes to the consolidated financial statements continued

27 Term loan continued

The following terms apply to the bank loans outstanding at 31 December 2021:

Facility	Interest	Floor	Margin 31 December 2021	Margin 31 December 2020
USD Tranche	3-month USD LIBOR	0.00% p.a.	2.00% p.a.	2.25% p.a.
EUR Tranche	3-month EURIBOR	0.00% p.a.	2.00% p.a.	2.25% p.a.

Both facilities are repayable in full at the end of the 84-month term on 22 March 2028. The margin payable on both facilities is dependent upon the ratio of the Group's net debt to Consolidated EBITDA as defined in the facility agreement. See Note 4 for details of the transition of IBOR rates to risk-free rates.

The Credit Agreement requires the following mandatory repayments (so called Excess Cash Flow payment) in addition to the quarterly amortisation payments: Commencing with the fiscal year of the Company ending 31 December 2022, 50% of Excess Cash Flow (as defined and subject to certain reductions and to the extent where Excess cash flow payment exceeds $75m and 15% of Four Quarter Consolidated EBITDA), with a reduction to 25% and elimination based upon achievement of First Lien Net Leverage Ratios not exceeding 3.5x and 3.0x, respectively. The First Lien Net Leverage Ratio ('the leverage ratio') is defined as the nominal value of debt less cash on hand as of the relevant date divided by adjusted operating profit for the preceding four calendar quarters. The operating profit is adjusted for amortisation and depreciation, non-cash expenses such as share-based payments, the effects of business combination accounting and other non-cash items.

The following pledge agreements existed as of the date of issuance of these consolidated financial statements:

- Avast Software B.V. pledged its 100% share in Avast Software s.r.o.
- Avast Software B.V. pledged its receivables
- Avast Software B.V. pledged its equity interests in Avast Software Inc. and Sybil Software LLC
- Avast Software, Inc. pledged its equity interests in AVG Technologies USA, LLC
- Avast Holding B.V. pledged its 100% share in Avast Software B.V.
- Avast Holding B.V. pledged its interest in any intercompany loans owed to by loan parties

Since Avast Software s.r.o. forms a substantial portion of the Group, the estimated value of the pledged assets exceeds the total value of the term loan.

Term loan balance reconciliation

The table below reconciles the movements of the Term loan balance with the statement of cash flow:

($m)	31 December 2021	31 December 2020
Term loan balance at beginning of period	**834.0**	**1,027.7**
Net loan refinancing*	6.6	–
Drawing fees	(2.7)	–
Interest expense	25.0	33.4
Interest paid	(14.3)	(27.5)
Loan repayment	(31.3)	(261.9)
Unrealised foreign exchange loss/(gain)**	(32.2)	62.1
Other	0.8	0.2
Term loan balance at end of period	**785.9**	**834.0**

* Net loan refinancing consists of repayment of old loan of $(827.6)m, new loan drawn of $843.6m and portion of transaction costs related to borrowings deducted by bank of $(5.0)m and portion of cash interest deducted by bank of $(4.0)m.

** Unrealised foreign exchange loss/(gain) amount includes gain of $23.3m relating to the new term loan for the year ended 31 December 2021.

Notes to the consolidated financial statements continued

27 Term loan continued

The presentation of the above items has changed since the issuance of interim financial statements where separate lines were presented for the new loan drawn of $843.6m, loan repayments of $838.2m (being the sum of the old loan repayment of $827.6m and quarterly amortisation payments of $10.6m) and the bank fees were included within drawing fees of $7.7m. In addition, cash flow presentation changed to show the proceeds of $6.6m received on refinancing, drawing fees of $2.7m and the quarterly amortisation loan repayments of $31.3m. At the interim, the Group presented the proceeds from borrowings/repayments of $5.4m (which included net loan proceeds and quarterly amortisation repayments), drawing fees of $7.7m and interest paid of $10m (which included the bank fees/interest deducted on refinancing) in the cash flow statement.

Revolving facility

On 22 March 2021, the Group also obtained a revolving credit facility of $40.0m for operational purposes which has not been drawn as of the date of these consolidated financial statements. It is valid up to 22 March 2026. The Credit Agreement includes a financial covenant that is triggered if at any time $35.0m or more is outstanding under the revolving credit agreement at the last day of any four-quarter period ending on 30 June or 31 December. If the revolving credit facility exceeds this threshold, then the Group must maintain, on a consolidated basis, a leverage ratio of less than 6.5x. This covenant is tested quarterly at such time as it is in effect.

28 Financial assets and liabilities

The carrying amount of financial assets and liabilities held by the Group was as follows:

($m)	Type	31 December 2021	31 December 2020
Financial assets			
Financial assets at fair value through profit or loss			
Escrow	Level 2	5.0	–
Equity instruments at fair value through other comprehensive income			
Quoted equity instruments	Level 1	7.1	–
Financial assets at amortised cost			
Cash and cash equivalents		429.0	175.4
Trade and other receivables		53.4	63.0
Other financial assets		1.6	1.2
Total financial assets		**496.1**	**239.6**
Total current		**488.1**	**238.8**
Total non-current		**8.0**	**0.8**
Financial liabilities			
Derivatives not designated as hedging instruments			
Interest rate cap	Level 3	–	0.4
Financial liabilities at amortised cost			
Trade and other payables		77.8	63.2
Lease liabilities (Note 21)		52.5	64.5
Term loan		785.9	834.0
Total financial liabilities		**916.2**	**962.1**
Total current		**125.8**	**135.2**
Total non-current		**790.4**	**826.9**
Net financial liabilities		**420.1**	**722.5**

Notes to the consolidated financial statements continued

29 Financial risk management

The Group's classes of financial instruments correspond with the line items presented in the Consolidated Statement of Financial Position.

The management of the Group identifies the financial risks that may have an adverse impact on the business objectives and through active risk management mitigates these risks to an acceptable level.

The specific risks related to the Group's financial assets and liabilities and sales and expenses are interest rate risk, credit risk and exposure to the fluctuations of foreign currency.

Credit risk

The outstanding balances of trade and other receivables are monitored on a regular basis. The Group has been managing receivables effectively and improved collections process by simplifying the billing system structure which is reflected in the overall decrease of total receivables (see Note 18).

The credit quality of larger customers is assessed based on the credit rating, and individual credit limits are defined in accordance with the assessment.

The Group did not issue any guarantees or credit derivatives. The Group does not consider the credit risk related to cash balances held with banks to be material.

A significant portion of sales is realised through the Group's online resellers, mainly Digital River. The Group manages its credit exposure by receiving advance payments from Digital River.

The Group evaluates the concentration of risk with respect to accounts receivable as medium, due to the relatively low balance of trade receivables that is past due. The risk is reduced by the fact that its customers are located in several jurisdictions and operate in largely independent markets and the exposure to its largest individual distributors is also medium.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in foreign currency).

At the Parent Company level, the functional and presentation currency is the US dollar and the Group's revenue and costs are reported in US dollars. The Group is exposed to translation risk resulting from the international sales and costs denominated in currencies other than US dollars and the resulting foreign currency balances held on the balance sheet. The Group is exposed to material transaction and translation currency risk from fluctuations in currency rates between USD, GBP, CZK and EUR.

The following table shows payments for the Group's products and services by end users (either directly to Group or paid to an e-commerce service provider) in individual currencies. Based on agreements with the Group, e-commerce service providers may convert billings collected on behalf of the Group in specific currencies to a remittance currency (usually USD and EUR) at the existing market rates which does not remove the underlying foreign exchange risk. The table below shows the original currency composition of payments made by end users to illustrate the foreign exchange risk to billings.

	Year-ended 31 December 2021	Year-ended 31 December 2020
USD	43%	46%
EUR	25%	24%
GBP	9%	9%
Other	23%	21%
Total	**100%**	**100%**

As the majority of revenues represent sales of software licences, the revenues are recognised over the duration of the licence period, despite payment being received at the start of the licence period. Because the release of deferred revenues is performed using the exchange rates valid at the start of the licence term, they are not subject to foreign currency risk.

The following table shows financial assets and liabilities in individual currencies, net:

($m)	31 December 2021	31 December 2020
USD*	(240.3)	34.3
EUR*	(223.9)	(766.4)
CZK	(11.1)	(18.5)
GBP	46.7	15.9
Other	8.5	11.3
Total	**(420.1)**	**(723.4)**

* The fluctuation in the currencies is mainly caused by the term loan repayments as further described in Note 27.

Financial assets and liabilities include cash and cash equivalents, trade and other receivables and trade and other payables, term loan, lease liabilities, other current liabilities, and non-current financial assets and liabilities.

The table below presents the sensitivity of the profit before tax to a hypothetical change in EUR, CZK and other currencies and the impact on financial assets and liabilities of the Group. The sensitivity analysis is prepared under the assumption that the other variables are constant. The analysis against USD is based solely on the net balance of cash and cash equivalents, trade and other receivables, trade and other payables and term loan.

Notes to the consolidated financial statements continued

29 Financial risk management continued

($m)	% change	31 December 2021	31 December 2020
EUR	+/-10%	(22.4)/22.4	(76.6)/76.6
CZK	+/-10%	(1.1)/1.1	(1.8)/1.8
GBP	+/-10%	4.7/(4.7)	1.6/(1.6)
Other	+/-10%	0.9/(0.9)	1.1/(1.1)

The sensitivity analysis above is based on the consolidated assets and liabilities, i.e. excluding intercompany receivables and payables. However, Avast Software s.r.o. has a significant intercompany loan payable to Avast Software B.V. denominated in USD. As the functional currency of Avast Software s.r.o. is the USD but the tax basis of Avast Software s.r.o. is denominated in CZK the income tax gains or losses of Avast Software s.r.o. are exposed to significant foreign exchange volatility. If the CZK depreciates against the USD, the corporate income tax expense would decrease. Avast Software B.V. is not exposed to any similar volatilities as its functional and tax currency is the USD.

Interest rate risk

Cash held by the Group is not subject to any material interest. The only liability held by the Group subject to interest rate risk is the loan described in Note 27. Other liabilities and provisions themselves are not subject to interest rate risk. The Group keeps all its available cash in current bank accounts (see Note 17).

As at 31 December 2021, the Group has a term loan with an interest rate of three-month USD LIBOR plus a 2.00% p.a. mark-up for USD tranche and three-month EURIBOR plus a 2.00% p.a. mark-up for EUR tranche. The three-month USD LIBOR and three-month EURIBOR are subject to a 0% interest rate floor. As of 31 December 2021, the three-month USD LIBOR was 0.22% p.a. and three-months EURIBOR was -0.57%.

Interest rate sensitivity

A change of 100 basis points in market interest rates would have increased/(decreased) equity and profit and loss before tax by the amounts shown below:

	Year-ended 31 December 2021	Year-ended 31 December 2020
Increase in interest rates	(5.7)	(3.9)
Decrease in interest rates	1.0	–

Liquidity risk

The Group performs regular monitoring of its liquidity position to maintain sufficient financial sources to settle its liabilities and commitments. The Group is dependent on a long-term credit facility and so it must ensure that it is compliant with its terms. The Group does not intend to repay the term loan prematurely, however understands that it is NortonLifeLock's intention to do so, should the proposed Merger conclude. As it generates positive cash flow from operating activities, the Group is able to cover the normal operating expenditures, pay outstanding short-term liabilities as they fall due without requiring additional financing and has sufficient funds to meet the capital expenditure requirement. The Group considers the impact on liquidity each time it makes an acquisition in order to ensure that it does not adversely affect its ability to meet the financial obligation as they fall due.

As at 31 December 2021 and 2020, the Group's current ratio (current assets divided by current liabilities including the current portion of deferred revenue) was 0.85 and 0.46. The ratio is significantly impacted by the high current deferred revenue balance due to the sales model, where subscription revenue is collected in advance from end users and deferred over the licence period. The Group's current ratio excluding deferred revenue was 3.24 and 1.76 as at 31 December 2021 and 2020, respectively.

In 2021, Avast's credit rating was upgraded to Ba1 from Ba2 with Moody's, while Standard & Poor's rating remained at BB+, driven mainly by the strong financial performance. The credit ratings are subject to regular review by the credit rating agencies and may change in response to economic and commercial developments.

The following table shows the ageing structure of financial liabilities as of 31 December 2021:

($m)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	9.9	29.6	157.8	591.7	**789.0**
Interest payment	4.1	12.3	69.4	5.2	**91.0**
Trade payables and other liabilities	69.8	8.0	–	–	**77.8**
Lease liability	2.1	6.2	27.8	23.0	**59.1**
Total	**85.9**	**56.1**	**255.0**	**619.9**	**1,016.9**

Notes to the consolidated financial statements continued

29 Financial risk management continued

The following table shows the ageing structure of financial liabilities as of 31 December 2020:

($m)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	16.1	48.4	772.0	–	**836.5**
Interest payment	5.0	14.6	30.1	–	**49.7**
Trade payables and other liabilities	53.6	7.5	–	–	**61.1**
Derivative financial instruments	0.4	–	–	–	**0.4**
Other non-current liabilities	–	–	0.7	–	**0.7**
Lease liability	2.2	6.9	33.8	32.4	**75.3**
Total	**77.3**	**77.4**	**836.6**	**32.4**	**1,023.7**

Fair values

The fair values of financial assets and liabilities are included at the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the end of the reporting period. The following methods and assumptions are used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Term loans – approximates to the carrying amount. Term loan was recently refinanced and recognised at fair value. See Note 27 for further details
- Receivables and payables – approximates to the carrying amount
- Lease liabilities – approximates to the carrying amount

Financial assets and liabilities that are recognised at fair value subsequent to initial recognition are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The carrying amount of financial assets and liabilities held by the Group is shown in Note 28.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in circumstances, including economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using the net liability position and gearing ratio (the net liability position divided by the sum of the net liability position and equity). The Group includes within the net liability position all current and non-current liabilities, less cash and cash equivalents.

($m)	31 December 2021	31 December 2020
Current and non-current liabilities	1,461.7	1,511.7
Less: cash and short – term deposits	(429.0)	(175.4)
Net liability position	1,032.7	1,336.3
Equity	1,434.3	1,195.3
Gearing ratio	**41.9%**	**52.8%**

Notes to the consolidated financial statements continued

30 Share capital and share premium

Shares issued and fully paid:	Number of shares	Share Capital ($m)	Share Premium ($m)
Share capital at 31 December 2019 (Ordinary shares of £0.10 each)	**1,008,020,035**	**136.0**	**55.6**
Issuance of shares under share-based payment plans	20,492,707	2.6	32.0
Share capital at 31 December 2020 (Ordinary shares of £0.10 each)	**1,028,512,742**	**138.6**	**87.6**
Issuance of shares under share-based payment plans	8,843,143	1.2	10.2
Share capital at 31 December 2021 (Ordinary shares of £0.10 each)	**1,037,355,885**	**139.8**	**97.8**

During the year 3,418,209 shares in relation to vested RSUs (2020: 2,994,633) and 1,820,902 shares in relation to the vested PSUs and its dividend equivalents (2020: nil) were issued to the EBT for the nominal value of $0.7m (2020: $0.6m). At 31 December 2021, no shares were held by the trust.

31 Other reserves

The movements in the other reserves were as follows:

($m)	2021	2020
Other reserves at 1 January	**287.2**	**225.1**
Redemption obligation reserve	–	55.7
Share-based payments[1]	46.0	21.8
Transfer of share-based payments to retained earnings[2]	(14.1)	(15.4)
Other reserves at 31 December	**319.1**	**287.2**

1 The fair value of share awards granted to employees is recorded over the vesting periods of individual options granted as a personnel expense with a corresponding entry to other reserves. Refer to Note 33 for further details of share-based payments.

2 Transfer represents reclassification of accumulated share-based payments reserve into retained earnings in relation to share-based payments relating to the Company's employees and recharges made by the Company to its subsidiaries. The same transfer is made in the Company's individual financial statements.

32 Dividends made and proposed

($m)	2021	2020
Interim 2021 dividend paid of $4.8 cents (2020: $4.8 cents) per share	49.6	49.3
Final 2020 dividend paid of $11.2 cents (2019: $10.3 cents) per share	115.4	105.4
Total cash dividend paid	**165.0**	**154.7**

Dividend proposed

The Board announced on 7 February 2022 that it had declared a conditional interim dividend of 11.2 cents per share. The payment of this dividend is subject to the terms of the scheme and is therefore conditional on the Merger not having become effective before 1 March 2022. On 18 February 2022, NortonLifeLock announced an updated merger timetable, which included an expected Scheme effective date of 4 April 2022. Following this announcement, the Board confirmed on 18 February 2022 that the conditional interim dividend would be paid on 3 March 2022 to shareholders on the register as of 18 February 2022, with an ex-dividend date of 24 February 2022.

33 Share-based payments

During the period, the Group has had several equity-settled incentive plans available for employees:

Avast plc, 2018 Long Term Incentive Plan (LTIP)

The purpose of the LTIP is to incentivise employees and Executive Directors whose contributions are essential to the continued growth and success of the business of the Company, in order to strengthen their commitment to the Company and, in turn, further the growth, development and success of the Company. The following types of awards can be granted:

Performance Stock Units (PSUs)

PSUs are granted to Executive Directors and members of the Executive Management team. Each PSU entitles a participant to receive a share in the Company upon the attainment, over a three-year performance period, of challenging performance conditions determined by the Remuneration Committee. The award carries a right to a dividend equivalent. PSUs are exercisable once vested.

Notes to the consolidated financial statements continued

33 Share-based payments continued

Restricted Stock Units (RSUs)

RSUs are granted to key employees of the Group who are not Executive Directors or members of the Executive Management team. Each RSU entitles a participant to receive a share in the Company upon vesting of the RSU. Each award of RSUs ordinarily vests either in three equal proportions over a three-year period or on the third anniversary of grant or over such other period as the Committee may determine, provided the participant remains in service. The award carries no right to a dividend equivalent. RSUs are exercisable once vested.

Stock options ('options')

Options are granted to key employees of the Group who are not Executive Directors or members of the Executive Management team. Each option entitles a participant to the right to acquire a share of the Company upon vesting of the option. Each option ordinarily becomes exercisable either in three equal proportions over a three-year period or on the third anniversary of the grant, or over such other period as the Remuneration Committee may determine. All remaining unvested stock options may vest on the date of the Merger.

Share Matching Plan (SMP)

The purpose of the SMP is to encourage and enable employees and Executive Directors to acquire a significant stake in the Company so that they can share in the future growth, development and success of the Company. Under this plan, employees are granted one matched share for every three purchased shares after a two-year period. The plan ceased to operate on 31 December 2021.

Deferred Bonus Plan (DBP)

The Company has adopted the Deferred Bonus Plan for only Executive Directors. Where a participant is required to defer a portion of their annual bonus into shares under the terms of the Company's annual bonus arrangements, the Remuneration Committee may grant an award to acquire shares under the DBP in order to facilitate such deferral. Awards ordinarily vest on the second anniversary of the date of grant. No award under DBP was granted in 2021.

Existing Employee Share plan (formerly known as Avast Holding 2014 Share Option Plan 'Avast Option Plan')

The Avast Option Plan was the primary share option plan of the Group prior to the IPO. No new options have been granted under the Avast Option Plan since the IPO. Furthermore, the Company does not intend to grant any further options under the Avast Option Plan. Options generally vest over a four-year period in four equal installments. Some of the options granted to the key management personnel are performance-based. The contractual life of all options is 10 years.

Due to the proposed Merger, the above plans will be impacted. The treatment of outstanding awards granted under the LTIP, whether in the form of PSUs or RSUs, will differ depending on whether the awards are vested or unvested. The pro rata portion of Avast awards which will vest at the point of close will be determined by applying a specific formula, the remainder unvested Avast awards will be rolled over to NortonLifeLock LTIP on a mandatory basis, and will continue to vest as per the original vesting schedule. The management have made best estimates in regards to the expected timing of proposed Merger, and the number of 'good' leavers, whose awards will vest in the event that they are made redundant as a consequence of the Merger. See Note 3 for significant estimates.

On 18 February 2022, NortonLifeLock and Avast plc announced that the planned Merger between the two entities will complete on 4 April 2022. It was assumed that the Merger would take place before 31 March 2022 when determining the fair value of share-based payment expense. In the event that the Merger takes place after this date, certain share-based payments relating to a former Director will be partly cash-settled. As the change in expected Merger date was not announced until 18 February 2022, this constitutes a non-adjusting event post balance sheet. The change would result in an increase in liabilities of $1.9m, a decrease in other reserves $0.9m and a net $1.0m increase in the share-based payment expense.

Share-based payment expense

The total expense that relates to share-based payment transactions during the year is as follows:

($m)	Year-ended 31 December 2021	Year-ended 31 December 2020
LTIP*	45.6	21.9
SMP	0.2	0.5
Option plans	0.2	(0.5)
Total share-based payment expense	**46.0**	**21.9**

* For the year ended 31 December 2021 LTIP expense includes modification expense of $6.2m as already described in Note 2. There was no material incremental value arising from the modification but it led to an acceleration of share-based expense.

The Group also recognised additional $1.1m (2020: $0.8m) of employer's costs related to the share-based payments exercise included in cost of revenues and operating costs. Total costs related to share-based payments adjusted out from the operating profit amounted to $47.1m (2020: $22.7m).

Notes to the consolidated financial statements continued

33 Share-based payments continued

Share options

The number and weighted average exercise prices of, and movements in, share options of Avast Option Plan in the year is set out below:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	Number of shares options	Weighted average exercise ($)	Number of shares options	Weighted average exercise ($)
Outstanding – 1 January	**4,762,327**	**2.77**	**24,757,234**	**2.27**
Forfeited	(161,227)	3.42	(3,302,223)	3.53
Exercised	(3,325,616)	2.70	(16,692,684)	2.10
Outstanding – 31 December	**1,275,484**	**2.76**	**4,762,327**	**2.77**
Vested and exercisable – 31 December	**284,856**	**1.49**	**2,489,697**	**2.36**

The weighted average share price for options exercised during the year was £ pence 567.78 (2020: £ pence 390.36).

Options outstanding at the end of the year had the following range of exercise prices and weighted average remaining contractual life:

	31 December 2021		31 December 2020	
Exercise price:	Number of shares outstanding	Weighted average remaining life (years)	Number of shares outstanding	Weighted average remaining life (years)
$0.77 – $0.94	105,362	3.70	470,403	3.80
$1.00 – $1.86	179,494	5.37	709,601	6.34
$2.72 – $3.63	990,628	6.17	3,582,323	7.19
Outstanding – 31 December	**1,275,484**	**5.86**	**4,762,327**	**6.73**

Replacement options

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	Number of shares	Weighted average exercise ($)	Number of shares	Weighted average exercise ($)
Outstanding – 1 January	**9,393**	**0.19**	**583,435**	**0.18**
Exercised	(9,393)	0.19	(574,042)	0.19
Outstanding – 31 December	**–**	**–**	**9,393**	**0.19**
Vested and exercisable – 31 December	**–**	**–**	**9,393**	**0.19**

Notes to the consolidated financial statements continued

33 Share-based payments continued

Restricted Stock Units

The following table illustrates the number and weighted average share price on date of award, and movements in, restricted stock units granted under the LTIP:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	Number of shares	Weighted average share price (£ pence)	Number of shares	Weighted average share price (£ pence)
Outstanding – 1 January	**8,469,126**	**443.74**	**8,160,349**	**319.76**
Granted	10,188,309	546.67	5,287,758	529.86
Forfeited	(2,502,601)	467.93	(1,984,348)	355.32
Vested	(3,418,209)	396.80	(2,994,633)	303.43
Outstanding – 31 December	**12,736,625**	**531.20**	**8,469,126**	**443.74**

The fair value of RSUs granted is initially measured as at date of grant using Black-Scholes model, the outcome of which is a weighted average fair value of RSUs granted during the year of £ pence 528.52 (2020: £ pence 503.77). Future dividends have been taken into account based on expected cash flow and dividend policy. The dividend yield assumption represents the expected average annual dividend payment over the life of the award.

Performance Stock Units

The following table illustrates the number and weighted average share price on date of award, and movements in, performance stock units granted under the LTIP:

	Year-ended 31 December 2021		Year-ended 31 December 2020	
	Number of shares	Weighted average share price (£ pence)	Number of shares	Weighted average share price (£ pence)
Outstanding – 1 January	**5,848,670**	**277.91**	**5,358,037**	**242.30**
Granted	965,053	483.40	1,185,732	404.60
Forfeited	(1,177,251)	219.60	(695,099)	219.60
Vested	(1,727,631)	219.60	–	–
Outstanding – 31 December	**3,908,841**	**371.97**	**5,848,670**	**277.91**

PSU holders are entitled to the dividend equivalent which was issued in the form of shares of 93,271 for the year ended 31 December 2021 (2020:nil).

The vesting of the awards under LTIP is subject to the attainment of performance conditions as described in the Directors' remuneration report.

The fair value of PSUs granted is measured as at date of grant using Black-Scholes model, the outcome of which is a weighted average fair value of PSUs granted during the year was £ pence 483.60 (2020: £ pence 404.60).

Notes to the consolidated financial statements continued

33 Share-based payments continued

Share Matching Plan

During 2021, the Group has issued 212,268 (2020: 231,348) shares to the employees under the Share Matching Plan. Due to the proposed Merger, the plan ceased to operate on 31 December 2021 and all participants will receive all of the matched shares that participant would have received had he/she remained in service and held their purchased Avast shares for the full holding period of two years.

The cost of the additional shares of $0.2m is to be accelerated and recognised against the other reserves through the proposed Merger date. The weighted average fair value of additional shares was £ pence 544.56 for the year ended 31 December 2021 (2020: £ pence 454.70).

34 Related party disclosures

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

Compensation of key management personnel (including Directors)

	Year-ended 31 December 2021		Year-ended 31 December 2020	
($m)	Key management personnel	Other related parties	Key management personnel	Other related parties
Short-term employee benefits (including salaries)	11.4	–	10.5	0.2
Termination benefits	3.3	–	0.2	–
Share-based payments	9.2	–	6.4	–
Total	**23.9**	**–**	**17.1**	**0.2**

The amounts in the table above includes, in addition to the compensation of key management personnel of the Group, the remuneration of employees of the Group that are considered related parties under IAS 24 Related Party Disclosures.

Statutory Directors' remuneration amounted to $2.5m (2020: $2.7m) for qualifying services to the Company which also includes pension contributions. In addition, statutory Directors' termination benefits were made during the year, further reported in the Directors' remuneration report.

The aggregate amount of gains made by Directors on the exercise of share options during the year was nil (2020: $10.7m (£8.3m)).

The aggregate amount of gains made by Directors on the LTIP granted in 2018 was $6.7m (£4.7m) during the year (2020:nil). The aggregate value of the LTIP granted in 2019 will be reported as statutory Directors' remuneration when it vests in 2022 (but is included in the single total figure table in the Directors' remuneration report).

Further details about the Directors' remuneration is set out on pages 109 to 130.

Other related parties

Nadační fond Abakus ('Abakus Foundation')

On 29 September 2020, Avast's founders Messrs. Baudiš and Kučera established the new foundation Abakus.

On 1 January 2021, Abakus Foundation merged as a successor company with Nadační fond Avast ('Avast Foundation'). The legacy and the projects of Avast Foundation in the Czech Republic will continue through the Abakus Foundation, the Avast Founders' foundation. The Abakus Foundation will support important societal topics such as end-of-life care, support for families with disabled children, and general educational improvement in the Czech Republic. The foundation is considered to be a related party as the spouses of Messrs. Kučera and Baudiš are members of the management board of the foundation.

During the 12 months ended 31 December 2021, Avast Software s.r.o. paid donations of $1.9m to the Abakus Foundation.

During the 12 months ended 31 December 2020, Avast Software s.r.o. paid donations of $4.0m to the Avast Foundation. Further $21m were paid to the Avast Foundation as part of COVID-19 donations.

Stichting Avast ('Avast Foundation')

On 6 January 2021, Stichting Avast, known as Avast Foundation, was established in the Netherlands by Avast Holding. The new Avast Foundation will support a new range of programmes that are aligned with Avast's core mission of protecting people in the digital world. The Foundation is considered a related party as some of the key management personnel of Avast are members of the Foundation's Board.

During the 12 months ended 31 December 2021, Avast Software s.r.o paid donations of $3.2m to Avast Foundation.

Notes to the consolidated financial statements continued

34 Related party disclosures continued

Enterprise Office Center

On 15 November 2016, Enterprise Office Center (owned by Erste Group Immorent) where Avast Software s.r.o. resides was sold by a third party to a group of investors including co-founders of the Group, Eduard Kučera and Pavel Baudiš for $119.5m (ca. €110m). The annual rent is €3.2m ($3.7m). The term of lease ends in August 2024 and offers two options to extend for another 24 months under the same conditions.

35 Commitments

Below are contractual commitments in relation to cloud computing services:

	($m)
Less than 1 year	4.8
1–3 years	25.2
3–5 years	30.0
Total	**60.0**

36 Principal exchange rates

	Year-ended 31 December 2021	Year-ended 31 December 2020
Translation of Czech crown into US dollar ($:CZK1.00)		
Average	0.0462	0.0431
Closing	0.0456	0.0468
Translation of Sterling into US dollar ($:£1.00)		
Average	1.3778	1.2860
Closing	1.3478	1.3648
Translation of Euro into US dollar ($:€1.00)		
Average	1.1894	1.1384
Closing	1.1325	1.2271

Notes to the consolidated financial statements continued

37 Full list of subsidiaries as of 31 December 2021

AVG Technologies UK Limited (06301720), Piriform Software Ltd (08235567) and Privax Limited (07207304) will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2021.

Country of incorporation	Registered office	Registered address	Class of shares held	Percentage of shares held
Netherlands	Avast Holding B.V.	Databankweg 26, Amersfoort, 3821 AL, The Netherlands	Ordinary	100%
	Avast Software B.V.	Databankweg 26, Amersfoort, 3821 AL, The Netherlands	Ordinary	100%
	AVG Ecommerce CY BV	Databankweg 26, Amersfoort, 3821 AL, The Netherlands	Ordinary	100%
Czech Republic	Avast Software s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
	Jumpshot s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	99.9%
	FileHippo s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
Germany	Avast Deutschland GmbH	Gladbecker Str. 1, 40472 Düsseldorf, Germany	Ordinary	100%
UK	AVG Technologies UK Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Privax Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Piriform Software Ltd	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Evernym (UK) Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
USA	AVAST Software, Inc.	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
	Remotium Inc.	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
	Sybil Software LLC	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
	Jumpshot, Inc.	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	99.9%
	AVG Technologies USA, LLC*	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
	Piriform, Inc.	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
	Evernym, Inc.	Suite 450, 9300 Harris Corners Parkway, Charlotte, NC 28269, USA	Ordinary	100%
Hong Kong	AVAST Software (Asia) Limited	10/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong	Ordinary	100%
Cyprus	Piriform Group Ltd	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
	Piriform Limited	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
Australia	AVG Technologies AU Pty Ltd	C/- Intertrust Australia Pty Ltd, Suite 2, Level 25, 100 Miller Street, North Sydney NSW 2060 Australia	Ordinary	100%
Norway	AVG Technologies Norway AS	Lysaker Torg 5, 1366 Lysaker, Bærum, Norway	Ordinary	100%
Slovak Republic	Avast Slovakia s.r.o.**	Poštová 1, 010 08 Žilina, Slovakia	Ordinary	100%
Switzerland	Avast Switzerland AG	Grosspeteranlage 29, 4052 Basel, Switzerland	Ordinary	100%

Notes to the consolidated financial statements continued

37 Full list of subsidiaries as of 31 December 2021

Country of incorporation	Registered office	Registered address	Class of shares held	Percentage of shares held
Serbia	Privax d.o.o. Beograd	Bulevar Mihaila Pupina 6, 11070 Belgrade-Novi Beograd, Serbia	Ordinary	100%
Japan	Avast Software Japan Godo Kaisha	1F and 2F Otemachi Building, 1-6-1 Otemachi, Chiyoda-ku, Tokyo, Japan	Ordinary	100%
Romania	Avast Software Romania S.R.L.	Municipiul Iasi, Strada Palas Nr. 7B-7C, Clădirea C1, United Business Center 3, Etaj 8, Judet Iasi, Romania	Ordinary	100%
Ireland	Avast Software Ireland Limited	5th Floor Beaux Lane House, Mercer Street, Lower Dublin 2 D02 DH60, Ireland	Ordinary	100%
Italy	Avast Software Italy s.r.l.	Viale Abruzzi 94 CAP 20131, Milano, Italy	Ordinary	100%

* As of 28 May 2021, TrackOFF, Inc. merged into AVG Technologies USA, LLC.
** As of 11 January 2021, Inloop s.r.o. changed its legal name to Avast Slovakia s.r.o.

The Company's directly held subsidiary is Avast Holding B.V. All other subsidiaries are indirectly held.

Company financial statements

Company statement of financial position

As at 31 December 2021

	Notes	31 December 2021 $m	31 December 2020 $m
Non-current assets			
Investment in subsidiary	4	3,277.3	3,245.6
Deferred tax assets		1.8	0.9
Total non-current assets		**3,279.1**	**3,246.5**
Current assets			
Tax receivables		1.8	0.2
Trade and other receivables:			
Amounts due from related party		171.8	26.4
Prepayments		0.9	0.7
	5	172.7	27.1
Total current assets		**174.5**	**27.3**
Total assets		**3,453.6**	**3,273.8**
Current liabilities			
Trade and other payables:			
Trade payables		9.1	3.2
Amounts due to related party		0.5	–
	6	**9.6**	**3.2**
Provisions	7	3.0	–
Total current liabilities		**12.6**	**3.2**
Net assets		**3,441.0**	**3,270.6**
Capital and reserves			
Share capital	8	139.8	138.6
Share premium	8	97.8	87.6
Merger reserve	9	2,893.9	2,893.9
Other reserve	9	69.1	37.2
Retained earnings		240.4	113.3
Total equity		**3,441.0**	**3,270.6**

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual profit and loss account. The profit of the Company was $278.2m (2020: Loss of $(6.2)m).

These financial statements were approved by the Board of Directors on 24 February 2022 and signed on its behalf by:

Stuart Simpson
Interim Chief Financial Officer

Company financial statements continued

Company statement of changes in equity

For the year-ended 31 December 2021

	Notes	Share capital $m	Share premium $m	Merger reserve $m	Other reserve $m	Retained earnings $m	Total equity $m
At 31 December 2019		**136.0**	**55.6**	**2,893.9**	**30.8**	**258.9**	**3,375.2**
Loss for the year		–	–	–	–	(6.2)	(6.2)
Total comprehensive profit for the year		**–**	**–**	**–**	**–**	**(6.2)**	**(6.2)**
Share-based payments deferred tax		–	–	–	–	0.5	0.5
Share-based payments transfer to retained earnings	9	–	–	–	(15.4)	15.4	–
Share-based payments	9	–	–	–	21.8	–	21.8
Exercise of options	8	2.6	32.0	–	–	(0.6)	34.0
Cash dividend		–	–	–	–	(154.7)	(154.7)
At 31 December 2020		**138.6**	**87.6**	**2,893.9**	**37.2**	**113.3**	**3,270.6**
Profit for the year		–	–	–	–	278.2	278.2
Total comprehensive profit/(loss) for the year		**–**	**–**	**–**	**–**	**278.2**	**278.2**
Share-based payments deferred tax		–	–	–	–	0.5	0.5
Share-based payments transfer to retained earnings	9	–	–	–	(14.1)	14.1	–
Share-based payments	9	–	–	–	46.0	–	46.0
Exercise of options	8	1.2	10.2	–	–	(0.7)	10.7
Cash dividend		–	–	–	–	(165.0)	(165.0)
At 31 December 2021		**139.8**	**97.8**	**2,893.9**	**69.1**	**240.4**	**3,441.0**

Notes to the Company financial statements

1 General

Avast plc (Company) is a public limited company incorporated and domiciled in the UK, and registered under the laws of England & Wales under company number 07118170 with its registered address at 110 High Holborn, London WC1V 6JS. The ordinary shares of Avast plc are admitted to the premium listing segment of the Official List of the UK Financial Conduct Authority and trade on the London Stock Exchange plc's main market for listed securities.

2 Summary of significant accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 ('FRS 102') and under the historical cost accounting rules.

The Company is a qualifying entity as it prepares consolidated financial statements. In its individual financial statements, the Company has applied the disclosure exemptions available under the FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland in respect of preparation of a cash flow statement and disclosure of key management personnel compensation.

As the Consolidated Financial Statements of the Company include the equivalent disclosures, the Company has also taken the exemptions available under FRS 102 in respect of disclosures in respect of share-based payments and financial instruments.

The Company has taken the exemption not to disclose intra-group transactions with wholly owned subsidiary undertakings.

Going concern

The Company and its subsidiaries have considerable financial resources and a large number of customer contracts across different geographic areas and industries. The Directors have reviewed the projected cash flows for the Group and have a reasonable expectation that the Company is well placed to manage its business risk successfully and has adequate resources to continue in operational existence for the foreseeable future, and a period from the signing of the financial statements through 30 June 2023. For this reason, the Directors have adopted the going concern assumption in preparing the financial statements (see Note 2 of consolidated financial statements of the Company).

Investments in subsidiary

The investment in subsidiary is stated in the Company's separate financial statements at cost less impairment losses. The carrying value of the investment in subsidiary is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

Financial instruments

Financial assets and liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a contractual party to the instrument. When financial instruments are recognised initially, they are measured at fair value, which is the transaction price plus, in the case of financial assets and financial liabilities not measured at fair value through profit and loss, directly attributable transaction costs.

The Company's receivables qualify as basic financial instruments under Section 11 of FRS 102 and are included at amortised cost.

Capitalisation of share-based payments

Where the Company grants share-based awards over its own shares in exchange for employee services rendered to its subsidiaries, it recognises an increase to the cost of investment equivalent to the share-based payment expense recognised in the consolidated financial statements and a corresponding credit in other reserves in equity.

The Company recharges the expenses for share-based awards relating to employees employed in US and UK subsidiaries to the subsidiary which employs the respective employee at an amount equivalent to the respective share based payment expense recognised in the consolidated financial statements relating to those subsidiary employees. The Company recognises in its individual financial statements an increase to amounts due from related parties and a corresponding decrease in the cost of investment. Therefore, the cost of investment increases by the share-based payment expense recognised in the consolidated financial statements net of any recharges and amounts relating to services supplied to the Company. Refer to Notes 2 and 3 of the consolidated financial statements for accounting policy, significant estimates and judgements in respect of share-based payments.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange valid at the balance sheet date and the gains or losses on translation are included in profit or loss as finance income and expenses. Non-monetary assets and liabilities denominated in foreign currencies are stated at historical foreign exchange rates.

Notes to the Company financial statements continued

2 Summary of significant accounting policies continued

Functional currency

The Company's functional currency is US dollars.

Employee benefit trust

The Group has established an employee benefit trust (Avast plc Employee Benefit Trust) in 2019. The trust is treated as an extension of the Company. During the year 3,418,209 shares in relation to vested RSUs (2020: 2,994,633) and 1,820,902 shares in relation to the vested PSUs and its dividend equivalents (2020: nil) were issued to the EBT for the nominal value of $0.7m (2020: $0.6m). At 31 December 2021, no shares were held by the trust.

3 Auditor's remuneration

The figures for auditor's remuneration for the Company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 are not presented as the consolidated financial statements comply with this regulation on a consolidated basis.

4 Investment in subsidiary

The investment in subsidiary represents the investment in Avast Holding B.V. ('Avast Holding'), a wholly owned subsidiary of the Company. A full list of the Company's direct and indirect subsidiaries is included in Note 37 of the consolidated financial statements.

	$m
Cost at 31 December 2019	**3,231.1**
Capitalisation of share-based payments	14.5
Cost at 31 December 2020	**3,245.6**
Capitalisation of share-based payments	31.7
Cost at 31 December 2021	**3,277.3**

The additions in the year relate to IFRS 2 share-based payment expense.

5 Trade and other receivables

($m)	31 December 2021	31 December 2020
Amounts due from related party (subsidiary)	171.8	26.4
Prepayments	0.9	0.7
Total	**172.7**	**27.1**

As of 15 May 2018, the Company entered into a cash management agreement with Avast Corporate Services B.V., its indirect subsidiary, which operates a cash pooling arrangement for the Group. Under this agreement the Company has a short-term loan receivable of $143.0m (2020: $15.0m), repayable on demand, with a variable interest rate based on three-month USD LIBOR -0.19% (2020: -0.5%) assessed quarterly. The interest income for the period ended 31 December 2021 was $nil (2020: $0.2m). The interest rates for both credit and debit balances are floored at 0%.

The cash pool agreement is tied to the three-month USD LIBOR. Three-month USD LIBOR will cease on 30 June 2023. The Company is in process of determining the changes to the current cash pool agreement.

Amendments to FRS 102, effective for periods beginning on or after 1 January 2021, introduced a practical expedient for interest rate benchmark reform similar to that under IFRS, as described in Note 4 of the consolidated financial statements. While the practical expedient had no impact on the financial statements for the current financial year, it will be applied in future periods to any changes to the basis for determining the contractual cash flows as a consequence of the cessation of USD LIBOR.

In addition, the amounts due from related party also include $20.4m (2020: $6.1m) of recharges for management services provided by the Company to Group subsidiaries and $8.2m (2020: $5.2m) of recharges for share-based payment expense to US and UK.

6 Trade and other payables

($m)	31 December 2021	31 December 2020
Trade payables	9.1	3.2
Amounts due to related party (subsidiary)	0.5	–
Total	**9.6**	**3.2**

7 Provisions

The movements in the provision accounts were as follows:

($ m)	Provision for restructuring
As at 1 January 2021	–
Additions	3.0
As at 31 December 2021	**3.0**

The above provision relates to the cost of restructuring programme that is focused on transformation of operation that will be completed in 2022. For details of provisions, see Note 25 of consolidated financial statements.

Notes to the Company financial statements continued

8 Called up, allotted and fully paid share capital

Shares issued and fully paid:	Number of shares	Share Capital ($ m)	Share Premium ($ m)
Share capital on 31 December 2019 (Ordinary share of £0.10 each)	**1,008,020,035**	**136.0**	**55.6**
Issuance of shares under share-based payments plans	20,492,707	2.6	32.0
Share capital on 31 December 2020 (Ordinary share of £0.10 each)	**1,028,512,742**	**138.6**	**87.6**
Issuance of shares under share-based payments plans	8,843,143	1.2	10.2
Share capital on 31 December 2021 (Ordinary share of £0.10 each)	**1,037,355,885**	**139.8**	**97.8**

For details of dividends, see Note 32 of consolidated financial statements.

For details of options and other share awards over the Company's shares, see Note 33 of consolidated financial statements of the Company.

9 Reserves

Merger reserve

Merger reserve includes a reserve for the share-for-share exchange transaction that qualified for merger relief in accordance with section 612. This reserve also includes the value of the options over PLC shares that were subsequently net exercised on the IPO, in excess of the share capital and premium arising on exercise. The merger reserve is non-distributable.

Other reserve

The fair value of share awards granted to employees is recorded over the vesting periods of individual options granted as a personnel expense (or where appropriate, capitalised as investment in subsidiary) with a corresponding entry to other reserves. The amount of $46.0m (2020: $21.8m) represents the expense from the share awards granted under Avast's incentive plans for the year ended 31 December 2021. In addition, the amount of $14.1m (2020: $15.4m) represents reclassification of accumulated share-based payments reserve into retained earnings in relation to share-based payments relating to the Company's employees and recharges made to subsidiaries. This reflects the extent to which the share-based payment credits are considered realised.

For more information about the plan, see Note 33 in the consolidated financial statements.

10 Dividend

The dividend income for the year ended 31 December 2021 was $290.5m (2020: $nil).

11 Personnel expenses

Personnel expenses of the Company consist of the following:

($m)	2021	2020
Wages and salaries	20.0	6.7
Social security and health insurance	2.0	1.0
Social costs	0.7	0.4
Share-based payments (including employer's costs)	6.5	2.5
Total personnel expense	**29.2**	**10.6**

The average number of employees by category during the period was as follows:

	2021	2020
Sales and marketing	29	8
General and administrative	24	10
Total average number of employees	**53**	**18**

The total expense that relates to the equity-settled share-based payment transactions of employees of the Company during the period is as follows:

($m)	2021	2020
Avast Option Plan	0.1	0.1
LTIP	5.8	2.1
Total share-based payment expense	**5.9**	**2.2**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, further details of which are given in Note 33 of the consolidated financial statements.

Notes to the Company financial statements continued

12 Guarantees

As denoted in Note 37 of the consolidated accounts, the Company will guarantee the debts and liabilities of certain of its UK subsidiaries at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under these guarantees as remote.

Glossary

Adjusted Cash EBITDA	Cash earnings before interest, taxation, depreciation, and amortisation ('Adjusted Cash EBITDA') is defined as Adjusted EBITDA plus the net deferral of revenue, the net change in deferred cost of goods sold. A full reconciliation is included in the 'PRESENTATION OF RESULTS AND DEFINITIONS'.
Adjusted Cost of Revenues/ Operating costs	Adjusted Cost of Revenues/Operating costs represent the Group's cost of revenues/operating costs adjusted for depreciation and amortisation charges, share-based payments charges and exceptional items. A full reconciliation is included in the 'Costs' section of the 'FINANCIAL REVIEW'.
Adjusted EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ('Adjusted EBITDA') is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition intangible assets, share-based payments including related employer's costs, exceptional items, amortisation of acquisition intangible assets. A full reconciliation is included in the 'PRESENTATION OF RESULTS AND DEFINITIONS'.
Adjusted EBITDA margin	Adjusted EBITDA margin percentage is defined as Adjusted EBITDA divided by Revenue.
Adjusted effective tax rate	Adjusted Income tax as a percentage of Adjusted Profit before tax (defined as Adjusted Net Income before deduction of Adjusted Income tax). For the Adjusted Income Tax reconciliation see 'Income Tax' section of 'FINANCIAL REVIEW'.
Adjusted EPS	Basic Adjusted earnings per share amounts are calculated by dividing the Adjusted net income for the period by the weighted average number of shares of common stock outstanding during the year. The diluted Adjusted earnings per share amounts consider the weighted average number of shares of common stock outstanding during the year adjusted for the effect of dilutive options. For the reconciliation see 'Earnings per share' in the 'FINANCIAL REVIEW' section.
Adjusted Net Income	Adjusted Net Income represents statutory net income plus share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the tax impact from the unrealised exchange differences on intercompany loans and the tax impact of the foregoing adjusting items, IP transfer and donations, less gain on disposal of business operation. For the reconciliation see 'PRESENTATION OF RESULTS AND DEFINITIONS' section.
Amortisation of acquisition intangibles	Represents the amortisation of intangible assets acquired through business combinations which does not reflect the ongoing normal level of amortisation in the business.
Average Products Per Customer (APPC)	APPC is defined as the Consumer Direct simple average valid licences or subscriptions for the period presented divided by the simple average number of Customers during the same period. See 'Consumer Direct'.
Average Revenue Per Customer (ARPC)	ARPC is defined as the Consumer Direct revenue for the period of the last 12 months divided by the simple average number of customers during the same period. See 'Consumer Direct'.
Cash conversion	Unlevered Free Cash Flow as a percentage of Adjusted Cash EBITDA. See 'Cash flow' section of 'FINANCIAL REVIEW'.
Discontinued Business	In January 2020 Avast decided to terminate the provision of anonymised data to its data analytics business, Jumpshot, having concluded that the business was not consistent in long term with the Group's privacy priorities as a global cybersecurity company. As the Company is also exiting its toolbar-related search distribution business (which had previously been an important contributor to AVG's revenues) and the browser clean-up business, the growth figures exclude all of these (referred to above and throughout the report as 'Discontinued Business'). These revenues were negligible by the end of 2020 in line with expectations. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5 since it has either not been disposed of but is being continuously scaled down, or it is considered to be neither a separate major line of business, nor geographical area of operations.

Glossary continued

Exceptional items	Exceptional items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group. The Group believes that these non-recurring items should be separately disclosed to facilitate better understanding of the underlying business performance of the Group. For details see 'Exceptional items' of 'FINANCIAL REVIEW' and Note 6.
Gross debt	Represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals). A reconciliation is included in the 'Financing' section of the 'FINANCIAL REVIEW'.
Levered Free Cash Flow	Represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments. See 'Cash flow' section of 'FINANCIAL REVIEW' for reconciliation.
Net debt	Net debt indicates gross debt netted by the Company's cash and cash equivalents. A reconciliation is included in the 'Financing' section of the 'FINANCIAL REVIEW'.
Number of customers	Users who have at least one valid paid Consumer Direct subscription (or licence) at the end of the period.
Organic growth	Organic growth represents growth figures excluding the impact of FX, acquisitions, business disposals and Discontinued Business. Excludes current period billings and revenue of acquisitions until the first anniversary of their consolidation. As such, organic revenue refers to revenue normalised as described here.
Unlevered Free Cash Flow	Represents Adjusted Cash EBITDA less capex, donation and taxation, plus cash flows in relation to changes in working capital (excluding change in deferred revenue and change in deferred cost of goods sold as these are already included in Adjusted Cash EBITDA). Changes in working capital are as per the cash flow statement on an unadjusted historical basis and unadjusted for exceptional items. In 2020, $25m of COVID-19 donations were included in the calculation of Unlevered Free Cash Flow as all the other exceptional costs are excluded from Adjusted Cash EBITDA (as defined above) and thus from Unlevered Free Cash Flow. See 'Cash flow' section of 'FINANCIAL REVIEW' for reconciliation.
Unrealised FX on EUR tranche of bank loan	In the reported financials, the Group retranslates into USD at each balance sheet date the Euro value of the Euro tranche of the bank debt, with the unrealised FX movement going to the income statement. This adjustment reverses this unrealised element of the FX gain/loss.

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Lancing
West Sussex BN99 6DA

UK callers: 0371 384 2030
International callers: +44 121 415 7047

Registered office address

Avast plc
110 High Holborn
London WC1V 6JS

Company number : 07118170

Investor Relations

IR@avast.com

Public Relations

mediarelations@avast.com