# Avast plc

Half Year Results 2022

**Avast PLC**

**HALF YEAR RESULTS FOR THE SIX-MONTHS ENDED 30 JUNE 2022**

**First half performance in line with the Board's expectations**

Avast plc, together with its subsidiaries ('Avast', 'the Group', 'Avast Group', or 'the Company'), a leading global cybersecurity provider, announces its results for the six-months ended 30 June 2022.

In the first half of 2022 the Group delivered mid-single digit organic billings growth[1] with a good level of profitability.

## RECOMMENDED MERGER OF AVAST PLC WITH NORTONLIFELOCK INC. ('NORTON')

- On 3 August 2022, the CMA published its provisional findings from its Phase 2 investigation into the Merger and provisionally concluded that the Merger is not expected to give rise to a substantial lessening of competition in the UK. Avast continues to work with Norton and the CMA to enable the CMA's final report to be issued as soon as practicable

## FINANCIAL HIGHLIGHTS

- Billings at $483.7m up 0.2% at actual rates, or 6.9% on an organic basis
- Adjusted Revenue[2] at $472.0m up 0.2% at actual rates, or 2.7% on an organic basis
- Consumer Direct Revenue at $407.1m up 1.4% at actual rates, or 2.7% on an organic basis
- Adjusted EBITDA down 7.6% to $249.7m; Adjusted EBITDA margin[3] at 52.9%, down 4.4 ppts, primarily driven by investment into Digital Trust Services ('DTS')
- Strong cash generation, with Unlevered Free Cash Flow of $217.1m (cash conversion[4] of 83%) and Levered Free Cash Flow of $204.3m
- Adjusted fully diluted earnings per share ('EPS') down 14.1% to $0.17 (versus $0.20 at HY 2021)
- The second interim dividend in respect of 2021 paid in February 2022 of 11.2 cents per share; total dividend for 2021 of 16.0 cents per share. Declared conditional interim dividend in respect of 2022 payable in August 2022 of 4.8 cents per share
- Resilient balance sheet with $378.0m of cash and available liquidity[5]
- Leverage remains low, Net debt / LTM ('last twelve months') Adjusted EBITDA at 1.3x at half year
- On a statutory basis, Revenue down 0.2% due to disposal of Family Safety mobile business in 2021, Operating profit down $(54.2)m from $226.7m to $172.6m driven by higher exceptional costs of $25.3m and higher other costs of $27.8m, fully diluted EPS at $0.13 (versus $0.20 at HY 2021)

## OPERATIONAL AND STRATEGIC UPDATES

- Consumer Direct KPIs in the half reflect challenging global and competitive environment offset by Avast initiatives
  - Average Products Per Customer[6] increased 1.2% to 1.45
  - Average Revenue Per Customer[7] was up 2.2% to $50.54
  - Number of Customers[8] was down 4.4% to 15.64m
- Key product initiatives in the first half of 2022
  - Avast One saw the introduction of features that support making Privacy easy (Private Mode, Smart VPN, VPN Kill Switch) and provide advanced Scam Protection (Email Guardian, Scam Protection for Android), as well as Online Safety Score, to drive customer engagement
  - SecureLine VPN saw the release of a beta version with the WireGuard VPN protocol, considered by many experts to be the fastest and most secure VPN protocol available
  - In terms of privacy, the team is experimenting with intelligent "scan lander" web pages that quickly show users a variety of privacy-related threats they may be vulnerable to
  - On SMB, Avast introduced three new product suites: Essential, Premium, and Ultimate Business Security, to simplify the buying experience, and launched USB Protection, a new service that safeguards company data by preventing employees from using unauthorised removable storage devices
- Awards
  - In a study performed by AV-Comparatives, Avast Secure Browser has been ranked first with a 97% block rate (a two percent increase on the previous test in January)

- Avast Business Antivirus Pro Plus was ranked ‘Top Product’ by AV-TEST, earning top scores on protection, performance, and usability

- In March, Avast announced the withdrawal of the availability of all products from Russia and Belarus and suspended all marketing and sales operations in these countries
- Avast completed the acquisition of SecureKey in April, a global provider of digital identity and authentication solutions. SecureKey complements Evernym’s self-sovereign identity solutions and together they represent the foundation of Avast’s DTS business

| ($’m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) [9] |
|---|---|---|---|---|
| Billings | 483.7 | 482.7 | 0.2 | 4.7 |
| Acquisitions | 5.8 | - | n/a | n/a |
| Discontinued Russia and Belarus[10] | - | 3.2 | n/a | n/a |
| Disposal Family Safety mobile business [11] | - | 9.2 | n/a | n/a |
| Discontinued Business[10] | 6.4 | 9.3 | (30.6) | (30.4) |
| **Billings excl. Acquisitions, Disposals and Discontinued business** | **471.5** | **461.0** | **2.3** | **6.9** |

| ($’m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Adjusted Revenue | 472.0 | 471.3 | 0.2 | 1.3 |
| Acquisitions | 6.6 | - | n/a | n/a |
| Discontinued Russia and Belarus | - | 1.0 | n/a | n/a |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| **Adjusted Revenue excl. Acquisitions, Disposals and Discontinued business** | **458.9** | **451.8** | **1.6** | **2.7** |

| ($’m) | H1 2022 | H1 2021 | Change % |
|---|---|---|---|
| Adjusted EBITDA | 249.7 | 270.2 | (7.6) |
| Adjusted EBITDA Margin % | 52.9 | 57.3 | (4.4) ppts |
| Adjusted Net Income | 178.0 | 205.8 | (13.5) |
| Net Debt | 649.7 | 527.0 | 23.3 |

Statutory Results:

| ($’m) | H1 2022 | H1 2021 | Change % |
|---|---|---|---|
| Revenue | 470.3 | 471.3 | (0.2) |
| Operating profit | 172.6 | 226.7 | (23.9) |
| Net Income | 141.0 | 205.8 | (31.5) |
| Net Cash Flows from operating activities | 190.6 | 263.1 | (27.6) |

RECOMMENDED MERGER OF AVAST PLC WITH NORTONLIFELOCK INC.

On 10 August 2021, the Boards of NortonLifeLock, Inc. ("Norton") and the Company reached agreement on the terms of a recommended merger of the Company with Norton, in the form of a recommended offer by Nitro Bidco Limited, a wholly owned subsidiary of Norton, for the entire issued and to be issued ordinary share capital of the Company (the “Merger”). It is intended that the Merger will be affected by means of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act 2006. Further details relating to the offer by Norton is set out in the announcement made by Norton on 11 August 2021 pursuant to Rule 2.7 of the City Code on Takeovers and Mergers (“Code”) and the scheme document published by the Company on 28 October 2021.

On 3 August 2022, the UK’s Competition and Markets Authority (the “CMA”) published its provisional findings that the Merger was not expected to give rise to a substantial lessening of competition in the UK and Norton and Avast published their response to the CMA’s findings. As stated in that announcement, Norton intends to continue to work with the CMA and with Avast to enable the CMA's final report to be issued as soon as practicable. The statutory deadline for publication of the CMA's final report is 8 September 2022 (unless extended).

**PUBLICATION**

A copy of the half year report will shortly be available on the Company website at https://investors.avast.com.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This announcement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the Company's business. Whilst the Company believes the expectations reflected herein to be reasonable in the light of the information available to them at this time, the actual outcome may be materially different owing to factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. Accordingly, no reliance may be placed on the figures contained in such forward-looking statements.

Notes:

Throughout the Half Year Report a number of alternative performance measures are used to provide users with a clearer picture of the performance of the business. This is in line with how management monitor and manage the business day-to-day. Definitions and details are provided below. Further definitions (see 'PRESENTATION OF RESULTS AND DEFINITIONS') and reconciliations (see 'FINANCIAL REVIEW') of non-GAAP measures are included in the notes to the financial statements.

All dollar figures throughout the report are at actual currency rates unless otherwise indicated.

[1] *Organic growth rate excludes the impact of FX, acquisitions, business disposals and discontinued business including discontinued sales in Russia and Belarus. It excludes current period billings and revenue of acquisitions until the first anniversary of their consolidation*.
[2] *Adjusted Revenue represents the Group's reported revenue adjusted for the Deferred Revenue Haircut Reversal. Under IFRS 3, Business Combinations, an acquirer must recognise assets acquired and liabilities assumed at fair value as of the acquisition date. The process of determining the fair value of deferred revenues acquired often results in a significant downward adjustment to the target's book value of deferred revenues. The reversal of the downward adjustment to the book value of deferred revenues of companies the Group has acquired during the periods under review is referred to as the "Deferred Revenue Haircut Reversal".*
[3] *Adjusted EBITDA margin percentage is defined as Adjusted EBITDA divided by Adjusted Revenue.*
[4] *Cash conversion is defined as Unlevered Free Cash Flow divided by Adjusted Cash EBITDA.*
[5] *Total available liquidity includes cash and cash equivalents balance as at 30 June 2022 of $338.0m and revolving credit facility of $40m (not drawn at 30 June 2022).*
[6] *APPC defined as the Consumer Direct simple average valid licences or subscriptions for the period of the last twelve months divided by the simple average number of Customers during the same period.*
[7] *ARPC defined as the Consumer Direct revenue for the period of the last twelve months divided by the simple average number of Customers during the same period.*
[8] *Users who have at least one valid paid Consumer Direct subscription (or licence) at the end of the period.*
[9] *Growth rate excluding currency impact calculated by restating 2022 actual to 2021 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.*

*[10] Growth figures exclude Discontinued Business, which includes toolbar-related search distribution business and the browser clean-up, which had previously been an important contributor to AVG's revenues, and the Google Chrome Distribution business. Together these businesses are referred to above as "Discontinued Business". 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. In H1 2022 the Group suspended its activities in Russia and Belarus in response to the military conflict in Ukraine. These sales, which do not represent a discontinued operation as defined by IFRS 5, are also excluded from the growth figures. These sales didn't represent a separate segment or operation of the Group.*
*[11] On April 16, 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'). Billings and revenue until close of the transaction have been excluded in the calculation of organic growth from the baseline.*

## CHIEF EXECUTIVE OFFICER'S REVIEW

The Group has delivered a set of results with solid Billings organic growth and profitability levels. The Group's Billings of $483.7m were up 0.2% at actual rates, with organic growth of 6.9%. The Group's Revenue of $472.0m was up 0.2% at actual rates, with organic growth of 2.7%. The Consumer and SMB segments contributed $446.7m and $25.3m respectively to the Group's Revenue. The Adjusted EBITDA margin decreased as a result of significant investment, but remained strong at 52.9% (FY2021: 55.0%). As previously mentioned, the margin is impacted by high levels of investment into customer acquisition and retention, DTS and the acquisition of SecureKey.

Consumer

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Billings | 458.5 | 456.3 | 0.5 | 4.9 |
| Acquisitions | 5.8 | - | n/a | n/a |
| Discontinued Russia and Belarus | - | 3.2 | n/a | n/a |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| **Billings excl. Acquisitions, Disposals and Discontinued business** | **446.3** | **434.7** | **2.7** | **7.3** |

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Adjusted Revenue | 446.7 | 445.4 | 0.3 | 1.4 |
| Acquisitions | 6.6 | - | n/a | n/a |
| Discontinued Russia and Belarus | - | 1.0 | n/a | n/a |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| **Adjusted Revenue excl. Acquisitions, Disposals and Discontinued business** | **433.7** | **425.9** | **1.8** | **2.9** |

SMB

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Billings | 25.2 | 26.4 | (4.4) | 0.6 |
| Revenue | 25.3 | 25.9 | (2.2) | (1.0) |

## Business Unit Performance

### Consumer Direct

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Billings | 419.3 | 412.5 | 1.6 | 6.5 |
| Acquisitions | - | - | n/a | n/a |
| Discontinued Russia and Belarus | - | 3.1 | n/a | n/a |
| **Billings excl. Acquisitions and Discontinued** | **419.3** | **409.4** | **2.4** | **7.3** |

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Revenue | 407.1 | 401.6 | 1.4 | 2.4 |
| Acquisitions | - | - | n/a | n/a |
| Discontinued Russia and Belarus | - | 1.0 | n/a | n/a |
| **Revenue excl. Acquisitions and Discontinued** | **407.1** | **400.6** | **1.6** | **2.7** |

### Operational KPIs

| | 30 June 2022 | 31 December 2021 | Change % |
|---|---|---|---|
| Number of customers | 15.64m | 16.36m | (4.4) |
| Average Products Per Customer | 1.45 | 1.43 | 1.2 |
| Average Revenue Per Customer | $50.54 | $49.44 | 2.2 |

### Trading performance

- The Consumer Direct business, which comprises desktop, mobile and Avast Secure Browser PRO subscriptions, performed broadly in line with expectations. Adjusted Revenue of $407.1m grew 1.4% in actual rates or 2.7% on an organic basis
- Market conditions remain challenging, as expected, with increased competition in the fast evolving anti-virus market and from freely distributed security solutions on new PCs. We continue to observe the ongoing decrease of search volumes for security brands. These headwinds result in a decrease in the number of users with whom we can communicate
- These trends are further compounded by
    - a higher churn rate of newly acquired customers from the COVID-19 pandemic,
    - the withdrawal of our products from Russia and Belarus, and
    - the impact of the weakened macroeconomic environment, which resulted in softening demand and fewer new customers
- Avast has been working on optimising renewals and the customer journey and diversifying its offering, in order to mitigate the increased pressure from the market
- Our commercial effort in the retention area has been threefold:
    - building intelligence through investing in developing customer understanding through various formats (from speaking with customers to machine learning of churn propensity), which helped us achieve successful initiatives relating to, for example, renewal pricing and increasing channel capability and reach, particularly enabling My Avast and Customer Care to save significantly more customers;
    - protecting and growing the value of our paid customer base by improving customer journey to drive engagement and better enabling renewal opportunities; and
    - undertaking a customer communications transformation to reach our customers more effectively, through personalising the messaging journey and consistency in content strategy
- These mitigating actions ensured that 2 out of 3 key Consumer Direct operating KPIs improved in the six months to June 2022:
    - Average Products Per Customer increased 1.2% to 1.45 demonstrating successful cross-sell into the existing customer base
    - Average Revenue Per Customer was up 2.2% to $50.54

    - Number of Customers was down 4.4% to 15.64m
- The downward trend in Customer numbers includes the impact of a higher churn rate of customers acquired during the COVID-19 pandemic. The impact of this is expected to reduce over time. However, Avast's business model ensures that a large part of our paid customers is highly likely to stay within the Avast family, even if they choose to not renew their paid subscriptions and move to a free product. This enables us to keep the communication channel open and the potential to win back the customers at a later date
- CCleaner Direct desktop billings delivered double-digit growth driven by renewals and pricing optimisation initiatives taken over the past year

Avast One

- Released in September 2021, Avast One is the company's award-winning first integrated consumer security and privacy platform
- The Avast One team have introduced packages of features to support making Privacy easy (Private Mode, Smart VPN, VPN Kill Switch) and providing advanced Scam Protection (Email Guardian, Scam Protection for Android) and introduced a new Online Safety Score to drive customer engagement
- Compared to our core portfolio, Avast One has delivered a higher level of customer satisfaction, as measured by Net Promoter Score
- Avast One will continue to be rolled out to our global customer base over the coming months

Enhanced service offering

- Avast has released a beta version of our SecureLine VPN product with the WireGuard VPN protocol. WireGuard is considered by many experts to be the fastest and most secure VPN protocol available, and Avast will continue its roll out to VPN users in H2 2022
- Monthly subscription sales of the premium version of the Browser launched in October last year (Avast Secure Browser PRO) have tripled since the launch with growth projected to continue
- The privacy segment continues to view privacy protection as a viable proposition to attract new users to the top of the CRM funnel. To that end, the privacy team is experimenting with intelligent "scan lander" web pages that quickly show users a variety of privacy-related threats they may be vulnerable to. From there, the user may be offered Avast privacy-centric products (AntiTrack, VPN, BreachGuard), or directed to messaging about the privacy enhancing features of Avast One. In time, the aim is to provide a personalised end-to-end experience for users seeking privacy protection

Consumer Indirect

This business unit comprises the indirectly monetised part of Avast Secure Browser (ASB), the distribution of third-party software and other partnerships, advertising within mobile applications and DTS.

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Billings | 39.2 | 43.8 | (10.6) | (9.2) |
| Acquisitions | 5.8 | - | n/a | n/a |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Russia - indirect | - | 0.1 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| **Billings excl. Acquisitions, Disposal and Discontinued business** | **26.9** | **25.2** | **6.8** | **8.3** |

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Adjusted Revenue | 39.7 | 43.8 | (9.4) | (8.2) |
| Acquisitions | 6.6 | - | n/a | n/a |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Russia - indirect | - | 0.0 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| **Adjusted Revenue excl. Acquisitions, Disposal and Discontinued business** | **26.6** | **25.3** | **5.2** | **6.7** |

- In the Consumer Indirect unit, Billings excluding acquisitions and discontinued businesses of $26.9m were up 8.3% on an organic basis and up 6.8% at actual rates. Adjusted Revenue excluding discontinued businesses of $26.6m increased 6.7% on an organic basis, with actual rates up 5.2%
- Launched in the second half of 2021, Direct Carrier Billings shows growth in Brazil and Mexico, with further launches planned in Latin America in Q4
- Avast continued its effort to expand marketing support for Avast Secure Browser and raise its product brand awareness
- In a study performed by AV-Comparatives, Avast Secure Browser has been ranked first with a 97% block rate (a two percent increase on the previous test in January). The study, which ran from 21 March to 5 April 2022, tested all browser and antivirus products in parallel, exposing each to 250 valid and independently-selected phishing URLs, and 250 clean URLs for false alarm detection
- In December 2021, Avast expanded into a new area, with the acquisition of Evernym, a recognised industry leader in self-sovereign identity. In March 2022, Avast announced the acquisition of SecureKey, a global provider of digital identity and authentication solutions. Together with Evernym, this provides the foundation for Avast's vision for the Digital Trust Services business (DTS), which is to deliver a customer-centric, digital identity solution that will serve all customers in an increasingly digital world. The revenue and billings of SecureKey and Evernym have been excluded from calculation of organic growth in H1 2022

SMB

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| Billings | 25.2 | 26.4 | (4.4) | 0.6 |
| Revenue | 25.3 | 25.9 | (2.2) | (1.0) |

- SMB maintained stable performance owing to the introduction of a new product tier structure to simplify the buying experience for security products and effective execution of the revised sales strategy. Billings of $25.2m up 0.6% on an organic basis and down 4.4% at actual rates. Revenue of $25.3m decreased 1.0% on an organic basis, with actual rates down 2.2%
- In the first part of the year, Avast introduced three new product suites: Essential, Premium, and Ultimate Business Security, to simplify the buying experience and deliver our award-winning security services in an easy and convenient way for SMBs that have limited time, IT knowledge and resources. We also made improvements to the website to optimise our conversion rate and improve our key metrics. All legacy antivirus customers were upgraded to one of these new product suites, giving them access to more security services and Mobile Protection for Android and iOS devices, all for the same price
- Avast continued to enhance the product suites and introduced USB Protection, a new service included in the Avast Business Premium and Avast Ultimate Business Security products. USB Protection safeguards company data by preventing employees from using unauthorised removable storage devices, including flash drives, external drives, smartphones, and more. The new feature allows IT admins to block, control, and monitor USB ports to stop data theft, data loss, and malware infections
- Avast Business Antivirus Pro Plus was ranked 'Top Product' by AV-TEST, earning top scores on protection, performance, and usability

**Outlook**

Avast is not providing any forward guidance at this time.

## FINANCIAL REVIEW

### Billings, Revenue and EBITDA

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

The Group's Billings increased by $1.0m, or 0.2% at actual rates, to $483.7m in the half year ended 30 June 2022, mostly driven by the core Consumer Direct business. Absolute growth was impacted by the unfavourable FX impact, disposal of Family Safety mobile business in 2021 and withdrawal from Russia and Belarus. Adjusted for these and excluding acquisitions and discontinued business, organic billings growth was 6.9%. Subscription billings represented 87.5% of the Group's total Billings in H1 2022 (88.8% in H1 2021).

The Group's Adjusted Revenue increased by $0.7m to $472.0m in the half year ended 30 June 2022, which represents a 0.2% increase at actual rates and organic growth of 2.7%. Adjusted Revenue included $333.4m from the release of prior-period deferred revenue (excluding SecureKey deferred revenue release). The Adjusted Deferred revenue[12] balance at the end of the period was $545.6m, comprising $485.7m that will be recognised within 12 months of the balance sheet date. This compares to $507.7m, of which $470.8m was to be recognised within 12 months, at the same time last year. The average subscription length in the half year ended 30 June 2022 was 13 months, flat YoY. On a statutory basis, revenue was down 0.2% due to unfavourable FX impact, disposal of Family Safety mobile business in 2021 and withdrawal from Russia and Belarus.

Adjusted EBITDA decreased 7.6% to $249.7m, resulting in Adjusted EBITDA margin of 52.9%. The decrease in EBITDA margin was primarily driven by investment in commercial initiatives and Digital Trust Services. Incremental levels of spend are expected to continue in H2 2022 driven also by inflationary pressures and higher costs of customer acquisition and retention.

The reported Operating Profit decreased by $54.2m to $172.6m. The decrease was driven primarily by higher exceptional items in costs of $25.3m, higher adjusted operating costs of $16.9m driven by investment described above and higher share-based payments costs of $5.2m.

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

| ($'m) | H1 2022 | H1 2021 | Change % | Change % (excluding FX) |
|---|---|---|---|---|
| **Billings** | **483.7** | **482.7** | **0.2** | **4.7** |
| Consumer | 458.5 | 456.3 | 0.5 | 4.9 |
| Acquisitions | 5.8 | - | n/a | n/a |
| Discontinued Russia - direct | - | 3.1 | n/a | n/a |
| Direct (excl. Russia) | 419.3 | 409.4 | 2.4 | 7.3 |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Russia - indirect | - | 0.1 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| Indirect (excl. Acquisitions, Disposal and Discontinued) | 26.9 | 25.2 | 6.8 | 8.3 |
| SMB | 25.2 | 26.4 | (4.4) | 0.6 |
| **Billings excl. Acquisitions, Disposals and Discontinued business** | **471.5** | **461.0** | **2.3** | **6.9** |
| **Adjusted Revenue** | **472.0** | **471.3** | **0.2** | **1.3** |
| Consumer | 446.7 | 445.4 | 0.3 | 1.4 |
| Acquisitions | 6.6 | - | n/a | n/a |
| Discontinued Russia - direct | - | 1.0 | n/a | n/a |
| Direct (excl. Russia) | 407.1 | 400.6 | 1.6 | 2.7 |
| Disposal Family Safety mobile business | - | 9.2 | n/a | n/a |
| Discontinued Russia - indirect | - | 0.0 | n/a | n/a |
| Discontinued Business | 6.4 | 9.3 | (30.6) | (30.4) |
| Indirect (excl. Acquisitions, Disposal and Discontinued) | 26.6 | 25.3 | 5.2 | 6.7 |
| SMB | 25.3 | 25.9 | (2.2) | (1.0) |
| **Adjusted Revenue excl. Acquisitions, Disposals and Discontinued business** | **458.9** | **451.8** | **1.6** | **2.7** |

## Costs

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Cost of revenues** | **(80.6)** | **(74.8)** | **(5.8)** | **(7.8)** |
| Share-based payments (incl. employer's costs) | 0.9 | 0.7 | 0.2 | 17.6 |
| Amortisation of acquisition intangible assets | 13.6 | 11.5 | 2.1 | 18.8 |
| Depreciation and amortisation (excl. amortisation of acquisition intangible assets) | 4.4 | 5.1 | (0.6) | (12.8) |
| **Adjusted Cost of revenues (excluding D&A)** | **(61.7)** | **(57.5)** | **(4.2)** | **(7.3)** |

The Group's Adjusted Cost of revenues increased by $(4.2)m to $(61.7)m. The increase was driven by investment into customer support of $(3.5)m and increase in personnel costs and other of $(0.7)m. Adjusted Cost of Revenues represent the Group's cost of revenues adjusted for depreciation and amortisation charges, share-based payments charges and exceptional items.

The Group's reported Cost of revenues increased by $(5.8)m to $(80.6)m primarily due to factors described above and the higher amortisation of acquisition intangibles of $(2.1)m driven by recognition of significant intangible assets as part of the SecureKey business combination (see Note 9). Acquisition intangibles represent intangible assets acquired through business combinations.

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Operating costs** | **(217.1)** | **(169.8)** | **(47.3)** | **(27.8)** |
| Share-based payments (incl. employer's costs) | 21.0 | 15.9 | 5.1 | 32.0 |
| Amortisation of acquisition intangible assets | 0.2 | 0.2 | 0.0 | 0.0 |
| Depreciation and amortisation (excl. amortisation of acquisition intangible assets) | 6.1 | 6.1 | (0.0) | (0.0) |
| Exceptional items | 29.3 | 4.0 | 25.3 | Fav [13] |
| **Adjusted Operating costs (excluding D&A)** | **(160.5)** | **(143.6)** | **(16.9)** | **(11.8)** |

The Group's Adjusted Operating costs increased by $(16.9)m to $(160.5)m. Excluding Family Safety disposal costs in H1 2021, the increase in costs is $(23.2)m. This increase is driven mainly by investment into DTS $(13.8)m, sales and marketing personnel and non-personnel costs of $(10.3)m and other savings including YoY FX impact of $0.9m. 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 $(47.3)m, from $(169.8)m to $(217.1)m, reflects the increase of the Group's Adjusted Operating costs described above, exceptional items of $(25.3)m driven by exceptional costs incurred in relation to the acquisition of SecureKey, in relation to the proposed Merger and change in provisions. Remaining increase in reported operating costs is attributable to higher share-based payments costs.

## 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, acquisitions, disposals (including gain on disposal), integration or costs incurred due to discontinuation of business.

In H1 2022, the Group incurred legal and professional costs of $3.6m in relation to the acquisition of SecureKey (see Note 9) and $13.0m of personnel, legal and consultancy costs related to the proposed Merger. Personnel costs related to the proposed Merger of $6.0m comprise primarily retention bonuses, which are accrued over the retention period. The remaining $12.6m of exceptional items relates to legal fees and the change in provisions related to regulatory investigation relating to Jumpshot (see Note 15).

All exceptional items described above were included in operating cash flows, apart from $16.8m, which were not paid before the end of June 2022 and therefore included in liabilities and provisions. Out of exceptional costs included in liabilities and provisions at the end of FY 2021, $5.5m were paid during H1 2022.

In 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. ('Disposal of Family Safety mobile business') recognising a gain of $34.2m, which was treated as an exceptional item and included in the cash flows from investing activities. The Group incurred legal and professional costs of $3.2m in relation to the disposal of business operation. These transaction costs were included in the cash flow from investing activities. The Group has also recorded non-cash impairment costs of $0.8m, which were a direct consequence of this disposal and therefore treated as exceptional.

### Finance income and expense

Adjusted finance expense on a net basis was $(25.4)m in H1 2022, $18.0m higher compared to $(7.4)m in H1 2021. The increase in adjusted finance expense is related to increase of amortisation of arrangement fees of $1.8m resulting from a new USD term loan of $200m (See Note 17), one-off realised FX gain on repayment of prior loan of $5.6m realised in H1 2021 and unfavourable impact of other FX and other finance costs of $10.6m out of which $8.2m relates to a one-off realised loss resulting from a transfer of the majority of EUR cash balances into USD cash balances.

The Group's reported net finance income decreased by $7.1m resulting in income of $1.3m in H1 2022 caused by the increase in adjusted finance costs described above, partially offset by higher unrealised foreign exchange gains from the Euro denominated debt.

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Finance income and expenses, net** | **1.3** | **8.4** | **(7.1)** | **(84.1)** |
| Unrealized FX gain on EUR tranche of bank loan | (26.7) | (15.8) | (10.9) | (69.3) |
| **Adjusted Finance income and expenses, net** | **(25.4)** | **(7.4)** | **(18.0)** | **Unf** |

### Income tax

In the half year ended 30 June 2022, the Group reported an income tax expense of $(32.9)m, compared to the $(63.5)m in the half year ended 30 June 2021.

Income tax was impacted by the tax benefit from the foreign exchange movements on intercompany loans arising in the statutory accounts of the subsidiary concerned of $3.1m (tax benefit of $0.9m in H1 2021).

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 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 $(35.9)m for H1 2022, resulting in an adjusted effective tax rate of 16.8% (H1 2021: 18.2%). The Adjusted effective tax rate is the Adjusted Income tax percentage of adjusted profit before tax of $213.9m (defined as adjusted net income of $178.0m before the deduction of adjusted income tax of $(35.9)m).

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Income tax** | **(32.9)** | **(63.5)** | **30.5** | **48.1** |
| Tax impact of FX difference on intercompany loans | (3.1) | (0.9) | (2.2) | Unf |
| Tax impact of IP transfer | 3.1 | 3.1 | - | - |
| Tax impact of disposal of a business operations | - | 12.7 | (12.7) | Unf |
| Tax impact on adjusted items and other | (3.0) | 2.6 | (5.7) | Unf |
| **Adjusted Income tax** | **(35.9)** | **(45.8)** | **9.9** | **21.7** |

### 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) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Adjusted Cash EBITDA** | **263.0** | **282.6** | **(19.6)** | **(6.9)** |
| Net change in working capital (excl. change in deferred revenue and deferred COGS) | 1.5 | 12.1 | (10.6) | (87.9) |
| Capex | (3.6) | (3.1) | (0.5) | (15.9) |
| Cash Tax | (43.7) | (28.6) | (15.1) | (53.0) |
| **Unlevered Free Cash Flow** | **217.1** | **263.1** | **(46.0)** | **(17.5)** |
| Cash Interest | (9.0) | (10.0) | 1.0 | 10.0 |
| Lease Repayments | (3.8) | (4.2) | 0.4 | 9.5 |
| **Levered Free Cash Flow** | **204.3** | **248.8** | **(44.5)** | **(17.9)** |
| **Cash conversion** | **83%** | **93%** | | |

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 offset the final tax liability. In H1 2022 the Group paid a final settlement related to the previous period.

Net change in working capital shows unfavourable variance compared to prior year. This is caused by positive development in trade receivables balance in prior year.

Cash interest paid included in the calculation of Unlevered Free Cash Flow of $(10.0)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.

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| Net cash flows from operating activities | 190.6 | 263.1 | (72.5) | (27.6) |
| Net cash used in investing activities | (317.0) | 44.5 | (361.5) | Unf |
| Net cash flows from financing activities | 51.8 | (128.0) | 179.8 | Fav |

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) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Adjusted Cash EBITDA** | **263.0** | **282.6** | **(19.6)** | **(6.9)** |
| Net change in working capital (excl. change in deferred revenue and deferred COGS) | 1.5 | 12.1 | (10.6) | (87.6) |
| Cash Tax | (43.7) | (28.6) | (15.1) | (52.8) |
| Movement of provisions and allowances | 0.6 | (6.8) | 7.4 | Fav |
| Exceptional items included in operating cash flows | (29.3) | - | (29.3) | Unf |
| Employer's costs on share-based payments | (1.1) | (0.4) | (0.7) | Unf |
| FX gains/losses and other non-cash items | (0.4) | 4.2 | (4.6) | Unf |
| **Net Cash Flows from operating activities** | **190.6** | **263.1** | **(72.5)** | **(27.6)** |

The Group's net cash flow from operating activities decreased by $(72.5)m primarily due to higher exceptional costs included in operating cash flows of $(29.3)m, lower Adjusted Cash EBITDA by $(19.6)m, impact of working capital movement (excl. change in deferred revenue and deferred COGS) of $(10.6)m, negative FX impact and other non-cash items of $(4.6)m, higher cash tax of $(15.1)m offset by positive impact of movement in provisions of $7.4m.

The Group's net cash outflow from investing activities of $(317.0)m included consideration paid for SecureKey Technologies acquisition of $(318.7)m (see Note 9), cash inflow from escrow of $5.0m from disposal of Family Safety business, capex investment of $(3.6)m and interest received of $0.3m. The Group's net cash outflow from investing activities in H1 2021 of $44.5m included net proceeds from disposal of Family Safety mobile business of $48.4m, capex investment of $(3.2)m, settlement of contingent consideration related to Tenta acquisition of $(0.7)m and interest received of $0.1m.

The Group's net cash inflow from financing activities $51.8m includes $(116.5)m dividend paid, new loan drawn of $200.0m to finance the acquisition of SecureKey, quarterly loan repayment of $(20.2)m, transaction costs related to borrowing of $(2.7)m, interest paid of $(9.0)m, lease repayments of $(3.8)m and proceeds from the exercise of options of $4.0m. The Group's net cash outflow from financing activities in H1 2021 of $(128.0)m included $(115.3)m dividend paid, net loan refinancing of $6.6m (See Note 17), quarterly loan repayment of $(10.6)m, transaction costs related to borrowing of $(2.7)m, interest paid of $(5.6)m, lease repayments of $(4.2)m and proceeds from the exercise of options of $3.8m.

## Financing

On 23 March 2022, the Group borrowed a new USD term loan of $200m ("2022 Dollar Term Loan") under the existing Credit Agreement, to finance an acquisition of SecureKey (see Note 17). As of 30 June 2022, the total Gross debt[14] of the Group was $987.7m and the total Net debt[14] was $649.7m. The increase in gross debt since 31 December 2021 is attributable to the new 2022 Dollar Term loan of $200.0m, quarterly repayment of borrowings of $(20.2)m, decrease in lease liabilities of $(7.0)m and a positive unrealised FX gain of $(26.8)m on the EUR tranche of the loan.

The USD and EUR Tranches are repayable in full at the end of the 84-month term on 22 March 2028. The 2022 Dollar Term Loan matures on the earlier of 22 March 2023, or 30 days after completion of the proposed Merger. The interest rates of both USD and EUR Tranches depend on market developments of 3M LIBOR or 3M EURIBOR rates. A 5% increase in rates would result in additional c.$20m interest expense in 2022 which is not significant given that the Company is financially healthy due to strong cash management. Cash collection is strong and bad debt risk is limited as clients typically pay for services up front. Increased interest rates were partially offset by the margin step-down by 25 bps for USD and EUR tranche from the period starting 1 January 2022.

| ($'m) | 30 June 2022 | 31 December 2021 | Margin |
|---|---|---|---|
| 2021 USD tranche principal | 450.0 | 462.0 | USD LIBOR plus 1.75% |
| 2021 EUR tranche principal | 292.1 | 327.0 | EURIBOR plus 1.75% |
| 2022 Dollar Term Loan | 200.0 | - | 3M SOFR +1.50% (Apr-Jun), +1.75% (Jul-Sep) |
| Revolver/Overdraft | - | - | USD LIBOR plus 1.25% |
| Lease liabilities | 45.6 | 52.6 | |
| **Gross debt** | **987.7** | **841.6** | |
| Cash and cash equivalents | (338.0) | (429.0) | |
| **Net debt** | **649.7** | **412.5** | |
| *Net debt / LTM Adjusted EBITDA* | *1.3x* | *0.8x* | |

### Principal exchange rates applied

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

| ($:1.00) | H1 2022 average | H1 2021 average |
|---|---|---|
| AUD | 0.7226 | 0.7709 |
| BRL | 0.1972 | 0.1848 |
| CAD | 0.7882 | 0.7990 |
| CHF | 1.0676 | 1.1052 |
| CZK | 0.0446 | 0.0465 |
| EUR | 1.1005 | 1.2089 |
| GBP | 1.3095 | 1.3859 |
| ILS | 0.3099 | 0.3057 |
| NOK | 0.1110 | 0.1182 |

### 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 $0.13 (see Note 11 for the statutory earnings per share).

| ($'m) | H1 2022 | H1 2021 |
|---|---|---|
| **Adjusted Net Income attributable to equity holders** | **178.0** | **205.8** |
| Basic weighted average number of shares | 1,040,266,207 | 1,029,369,137 |
| Effects of dilution from share options and restricted share units | 7,373,632 | 10,860,023 |
| Dilutive weighted average number of shares | 1,047,639,839 | 1,040,229,160 |
| **Basic Adjusted earnings per share ($/share)** | **0.17** | **0.20** |
| **Diluted Adjusted earnings per share ($/share)** | **0.17** | **0.20** |

### Dividend

On 13 July 2022, the Directors declared a conditional interim dividend of 4.8 cents per share payable in August 2022. The interim dividend is conditional on the Merger, not having become effective before 11 August 2022 (the 'Conditional Interim Dividend'). The conditional interim dividend will be paid in US dollars on 12 August 2022 to shareholders on the register as of 22 July 2022. There will be an option for shareholders to elect to receive the dividend in pounds sterling and such an election should be made no later than 29 July 2022. Further details regarding the currency election process and payment of the dividend can be found on the Company's website at investors.avast.com.

Prior to the Company entering into the Co-Operation Agreement dated 10 August 2021, with Norton (amongst others) in connection with the Merger, 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. Pursuant to the Co-Operation Agreement and the terms of the Merger as set out in Norton's announcement of its firm intention to make an offer for the entire issued and to be issued share capital of the Company pursuant to Rule 2.7 of the City Code on Takeovers and Mergers (the **"Rule 2.7 Announcement"**), the Company is permitted to declare and pay an interim dividend of 4.8 cents per share for the six-month period ended 30 June 2022. Any such dividend will not result in a commensurate downward adjustment to the value of NortonLifeLock's offer. Accordingly, the Directors believe that it is in the best interest of the Company and its shareholders to declare a dividend of 4.8 cents per share for the six-month financial period ended 30 June 2022. Further information regarding the Company's ability to make future interim and final dividends is set out in the Rule 2.7 Announcement.

The foreign exchange rate at which dividends declared in US dollars will be converted into pounds sterling will be calculated based on the average exchange rate over the five business days prior to 2 August 2022 and announced shortly thereafter.

Proposed Dividend Timetable
Ex-dividend Date: 21 July 2022
Record Date: 22 July 2022
Last Date for Currency Election: 29 July 2022
Payment: 12 August 2022

Notes:
[12] *Adjusted Deferred Revenue represents the balance of deferred revenue excluding the effects of the fair value revaluation of the acquiree's pre-acquisition deferred revenues. There was no difference between reported deferred revenue and Adjusted Deferred Revenue in 2021.*
[13] *'Fav' in change % represents a favourable growth rate figure over 100 per cent, 'Unf' represents an unfavourable decline greater than negative 100 percent.*
[14] *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 30 June 2022 of $(0.1)m (31 December 2021: $3.2m).*

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks identified for the half year ended 30 June 2022 are:

| Description of Risk | Movement | Potential Impacts | Mitigation and Strategy |
|---|---|---|---|
| **The Macroeconomic Environment**<br><br>The global economic environment has become more uncertain due to the conflict in Ukraine; the global recovery following the COVID pandemic and the impact of the post Brexit UK-EU relationship. There is a risk of a global recession / slowing economy. Uncertainty continues to surround the global recovery following COVID and how this will be influenced by emerging global political, economic and social events. There may be unknown future political, health and environmental events that impact the macroeconomic environment. | + | ● The uncertainty and lower level of economic activity may reduce consumer demand and lead to a loss in revenue<br><br>● The Ukraine conflict has already resulted in Avast stopping new business and renewals in Russia and Belarus (https://blog.avast.com/avast-response-to-war-in-ukraine). If additional sanctions are imposed in other jurisdictions this may lead to a loss in sales and revenue | ● Avast maintains a strong balance sheet and sufficient cash to meet its obligations and is diversifying its business model, via Digital Trust Services to capture the share of a growing market and to de-risk the income streams from the core products and capitalise on the opportunities these changes bring<br><br>● Avast will continue to position itself to be able to adapt and respond as the macroeconomic environment changes<br><br>● We have developed a program of activity to maximise revenue from the core product offering |
| **Competitors**<br><br>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. Microsoft is one of the most significant competitors in this 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. | + | ● Competitors who aggressively expand their offering to customers may result in customers substituting existing Avast products with those of our competitors<br><br>● Competitors who operate platforms may message all their customers and deliver functionality that is difficult for us to compete with and lead to a reduction in customer numbers<br><br>● This increasingly competitive and complex landscape may impact the operational and financial performance of the business | ● We invest in R&D to innovate to remain competitive<br><br>● We develop products internally, partner with third parties where it is commercially sensible to do so and also acquire companies to bring their product in house<br><br>● We continue to evolve the Avast brand and invest in marketing the new brand to increase the level of recognition in the market |
| **Offering and Customers' Needs**<br><br>Failure to keep track of customers' demands and needs and adapt our products and offerings | + | ● Lower customer numbers and revenues<br><br>● Customers are becoming more discerning against strained economic circumstances especially around price. In addition, we are seeing increased credit card payment failures<br><br>● If we fail to adapt offerings to customer needs as the market matures and the free user base declines the opportunity for converting free to paid customers diminishes<br><br>● We have taken the decision to withdraw the availability of | ● We continue to develop our products and are adapting Avast One to create more personalisation and are tailoring the offering based on the needs of our customers<br><br>● We are focused on greater segmentation and more sophisticated personalisation whilst being cognisant of how we manage customer data<br><br>● We continue to diversify into the Identity (Digital Trust Services) market following the acquisition of SecureKey in H1 2022<br><br>● In Digital Trust Services there are increasing monetisation opportunities through the enterprise (B2B2C) market to support our direct to consumer offers. We may replicate this in our core business as well |

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| | | products in Russia and Belarus as a result of the conflict in Ukraine and we recognise the ‘fall’ in demand as a result | ● We have invested significantly in H1 in customer retention activities. For example, in our data strategy and machine learning to support churn reduction and in intelligence and insights to shape segmentation, competitor benchmarking and proposition development. We have also invested in our customer communications end to end, to provide more unified, consistent and personalised messaging; and investments have gone into our channel capabilities to extend our reach in the My Avast touchpoint, increase brand consideration and deliver added value to our customers. We are seeing positive results from all these activities.<br>● We will continue to pursue organic and inorganic strategic opportunities to meet customers’ needs now and in the future |
| **People and Culture**<br><br>The performance and success of the business depends on the talents and commitment of highly skilled individuals and teams in a tight talent market. Employee’s attitudes are continuing to change following the pandemic and in light of the global economic and political situation. Inflation is also putting pressure on individuals and eroding the impact of increased compensation. Competition for skilled individuals is high and setting the right culture for these individuals to operate within is key. This risk is elevated by the delays in the timetable of the proposed Merger and the uncertainty created by the Competition and Markets Authority decision to refer the transaction to a Phase 2 investigation. | + | ● The delay to the completion of the proposed Merger creates uncertainty and increases the risks around retention, attrition, culture and productivity. Depending upon the outcome of the proposed Merger, we may see this risk reduce or worsen further<br>● Our ability to reward colleagues may not sufficiently address the risks of colleagues leaving or attracting new colleagues with the right skill and mindset<br>● Inflationary pressures erode any increased compensation given to colleagues to the extent that compensation is less than inflation<br>● Failing to create and maintain the right culture may result in individuals leaving and / or making it difficult to attract talent from the market | ● We conduct an Annual Salary Review to ensure appropriate compensation levels<br>● We have committed to two week long company wide shut downs (July and December) to allow staff time off to relax and recharge their batteries<br>● We have put in place a retention programme in order to underpin retention of key talent and those in critical roles<br>● Significant investment is being made in upskilling and engaging a wider executive group and a leadership operating group in order to increase the leadership capability through the business<br>● We are investing in an employee assistance program ‘Myndup’ to provide ongoing support, coaching and assistance through these rapidly changing times<br>● We are increasing our digital learning offering for all colleagues<br>● We continue to deliver our Diversity and Inclusion strategy overseen by our D&I Committee and supported by a group of D&I Champions<br>● We have invested in a new employee engagement tool (Peakon) which will provide managers and leaders with feedback to act on a regular basis<br>● We continue to communicate widely with the whole business using a variety of methods (e.g. all hands calls, newsletters and email / slack updates) |

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|---|---|---|---|
| **Data and Privacy**<br><br>We store and use significant amounts of data including customer data. There is a risk that Avast does not store and use data in accordance with the relevant privacy rules and regulations. The global regulatory environment is constantly changing and evolving; keeping pace with this is challenging. | + | ● The risk of potential misuse of customer data is heightened by the increasingly complex regulatory and legislative landscape and this increases the risk of reputational damage<br>● The failure to provide the products and services that our customers demand<br>● Litigation and enforcement action by regulators<br>● Increased management time in addressing any issues<br>● Recent acquisitions introduce new systems, business models and data which need to be managed in line with our data and privacy strategies | ● We mitigate and manage this risk through data management and privacy programs<br>● This is supported by employing privacy and data specialists within the Data Office and the wider business<br>● We are focused on the continual improvement of our internal controls relating to data and privacy<br>● Employees have been and will continue to be trained on data and privacy<br>● Avast has joined MyData Global to help empower individuals with their personal data |
| **Cyber Security / IT Systems and Infrastructure**<br><br>As a cybersecurity company offering services to hundreds of millions of users we are natural targets for threat actors globally. Successful attack can result from a weakness on our internal network or systems or through our external supply chain. Furthermore, the very product we deliver is a source of potential cybersecurity weakness as rapid development and testing cycles may not reveal all potential vulnerabilities. | = | ● Should our systems become compromised this may result in the leakage of data and / or the interruption of services for customers<br>● 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<br>● Furthermore, this could jeopardise the viability of future products in security or more importantly, identity | ● We strive for strong, effective, and comprehensive systems security and governance<br>● 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<br>● We follow the security lifecycle of prevent - detect-respond -verify as a continuous improvement process at Avast<br>● We try to prevent security incidents by creating policies and a defensible architecture<br>● 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<br>● 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<br>● 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<br>● We also are continuously improving the security development life cycle of our products as we introduce Dev Sec Ops for ensuring continuous security in product development |

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| **Legal and Regulatory Compliance**<br><br>We operate a digital business globally, and the scale and complexity of new laws, including 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. | = | ● The expectations of regulators and authorities are evolving and increasing and there is a risk that we do not keep pace with the increased expectations<br><br>● Failing to comply with legal and regulatory requirements could result in increased litigation (including class actions), investigations, fines and censure by governmental and regulatory bodies, resulting in negative financial consequences<br><br>● Handling such issues, diverts management time and resources from running the business | ● 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<br><br>● The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements<br><br>● A Risk Compliance and Controls program has been implemented to improve the overall framework of control, which has included an update to our policy framework<br><br>● The Internal Audit function is also being reshaped and modernised with an increased focus on non-financial controls and risks and increased use of analytics and data |

## 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.

The various announcements and changing timetable of the proposed Merger is creating a degree of uncertainty that makes planning for the future for the Company and colleagues more difficult. There is risk that the Merger does not complete due to the outstanding condition to completion not being satisfied or the long stop date having passed before the outstanding condition is satisfied. We are continuing to engage with the regulators and authorities and developing plans for the various outcomes that may emerge. We remain of the view that the proposed Merger will only benefit consumers in the UK.

## PRESENTATION OF RESULTS AND DEFINITIONS

This Half 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 monitor and manage 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, Adjusted revenue, Adjusted Deferred Revenue, Organic Growth, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted costs, Adjusted Income tax, Adjusted EPS, Adjusted Net Income, Levered Free Cash Flow 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 Revenue" was not presented in the Full Year Report for 2021 as there were no variances between Adjusted and IFRS revenue neither in 2021 nor in comparatives (2020). Since the acquisition of SecureKey in H1 2022 led to significant downward fair value adjustment of deferred revenue balance at the time of acquisition ("Deferred Revenue Haircut"), Adjusted Revenue excluding the effects of this revaluation is presented for H1 2022 to be in line with how management monitors the performance and ensure like-for-like comparison.

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 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 half year ended 30 June 2022 are consistent with those presented in the report for FY 2021 and there have been no changes to the bases of calculation.

## CONSOLIDATED STATEMENT OF ADJUSTED PROFIT AND LOSS
FOR THE SIX-MONTHS ENDED 30 JUNE 2022
($'M)

| | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| **REVENUES** | **472.0** | **471.3** |
| Cost of revenues | (61.7) | (57.5) |
| **GROSS PROFIT** | **410.3** | **413.7** |
| **Gross profit margin** | **86.9%** | **87.8%** |
| Sales and marketing | (80.3) | (71.7) |
| Research and development | (39.0) | (32.8) |
| General and administrative | (41.2) | (39.1) |
| **Total operating costs** | **(160.5)** | **(143.6)** |
| **EBITDA** | **249.7** | **270.2** |
| **EBITDA margin** | **52.9%** | **57.3%** |
| Depreciation & Amortisation [15] | (10.5) | (11.2) |
| **EBIT** | **239.2** | **258.9** |
| Finance income and expenses | (25.4) | (7.4) |
| **PROFIT BEFORE TAX** | **213.9** | **251.6** |
| Income tax | (35.9) | (45.8) |
| **NET INCOME** | **178.0** | **205.8** |
| **Net Income margin** | **37.7%** | **43.7%** |
| **Earnings per share (in $ per share):** | | |
| Basic EPS | 0.17 | 0.20 |
| Diluted EPS | 0.17 | 0.20 |

### 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.

### Adjusted Revenue and Adjusted Deferred Revenue

Adjusted Revenue represents the Group’s reported revenue adjusted for the Deferred Revenue Haircut Reversal. Under IFRS 3, Business Combinations, an acquirer must recognise assets acquired and liabilities assumed at fair value as of the acquisition date. The process of determining the fair value of deferred revenues acquired often results in a significant downward adjustment to the target’s book value of deferred revenues. The ‘Deferred Revenue Haircut Reversal‘ refers to the reversal of the downward adjustment to the book value of deferred revenues of companies the Group has acquired during the periods under review, in this case, SecureKey’s deferred revenue. Adjusted Deferred Revenue represents the balance of deferred revenue excluding the effects of the fair value revaluation of the acquiree’s pre-acquisition deferred revenues ($28.2m at 30 June 2022). There was no difference between reported deferred revenue and Adjusted Deferred Revenue in 2021.

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

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Revenue** | **470.3** | **471.3** | **(1.0)** | **(0.2)** |
| Net deferral of revenue | 13.4 | 11.4 | 2.0 | 17.2 |
| **Billings** | **483.7** | **482.7** | **1.0** | **0.2** |
| | | | | |
| **Revenue** | **470.3** | **471.3** | **(1.0)** | **(0.2)** |
| Deferred Revenue Haircut reversal | 1.7 | - | 1.7 | n/a |
| **Adjusted Revenue** | **472.0** | **471.3** | **0.7** | **0.2** |

## 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 and including Deferred Revenue Haircut Reversal.

## 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) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Operating profit** | **172.6** | **226.7** | **(54.2)** | **(23.9)** |
| Deferred Revenue Haircut Reversal | 1.7 | - | 1.7 | Fav |
| Share-based payments (incl. employer's costs) | 21.8 | 16.6 | 5.2 | 31.4 |
| Exceptional items | 29.3 | 4.0 | 25.3 | Fav |
| Amortisation of acquisition intangible assets | 13.8 | 11.7 | 2.1 | 18.4 |
| Depreciation & amortisation of non-acquisition assets | 10.5 | 11.2 | (0.7) | (6.4) |
| **Adjusted EBITDA** | **249.7** | **270.2** | **(20.4)** | **(7.6)** |
| Net change in deferred revenues | 11.7 | 11.4 | 0.3 | 2.5 |
| Net change in deferred cost of goods sold | 1.6 | 1.1 | 0.5 | 47.2 |
| **Adjusted Cash EBITDA** | **263.0** | **282.6** | **(19.6)** | **(6.9)** |

## Adjusted Net Income

Adjusted Net Income represents reported net income plus Deferred Revenue Haircut Reversal, share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the 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 and IP transfers, less gain on disposal of business operation. The following is a reconciliation of the Group's reported Net income to Adjusted Net Income:

| ($'m) | H1 2022 | H1 2021 | Change | Change % |
|---|---|---|---|---|
| **Net Income** | **141.0** | **205.8** | **(64.8)** | **(31.5)** |
| Deferred Revenue Haircut Reversal | 1.7 | - | 1.7 | n/a |
| Share-based payments | 21.8 | 16.6 | 5.2 | 31.4 |
| Exceptional items | 29.3 | 4.0 | 25.3 | Fav |
| Amortisation of acquisition intangible assets | 13.8 | 11.7 | 2.1 | 18.4 |
| Unrealised FX gain on EUR tranche of bank loan | (26.7) | (15.8) | (10.9) | (69.3) |
| Tax impact from FX difference on intercompany loans | (3.1) | (0.9) | (2.2) | Unf |
| Tax impact from disposal of business operation | - | 12.7 | (12.7) | n/a |
| Tax impact on adjusted items | (3.0) | 2.6 | (5.7) | Unf |
| Tax impact of IP transfer | 3.1 | 3.1 | - | n/a |
| Gain on disposal of business operation | - | (34.2) | 34.2 | n/a |
| **Adjusted Net Income** | **178.0** | **205.8** | **(27.8)** | **(13.5)** |

**Unlevered Free Cash Flow**

Represents Adjusted Cash EBITDA less capex 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.

**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:
[15] *Depreciation and amortisation included in Adjusted Net Income excludes amortisation of acquisition intangibles.*

**DIRECTORS' RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

The unaudited condensed consolidated financial statements have been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting

The interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report in Financial statements dated 3 March 2021 that could do so."

On behalf of the Board
Ondrej Vlcek
Chief Executive of Avast

## INDEPENDENT REVIEW REPORT TO AVAST PLC

### Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the Consolidated Statement of Profit and Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Statement of Cash Flows and the related explanatory notes 1 to 22 that have been reviewed. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

### Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

### Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the 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 company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

**Use of our report**

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Ernst & Young LLP
London
8 August 2022

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE SIX-MONTHS ENDED 30 JUNE 2022
($'M)

| | Note | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|---|
| **REVENUES** | 3 | **470.3** | **471.3** |
| Cost of revenues | | (80.6) | (74.8) |
| **GROSS PROFIT** | | **389.7** | **396.5** |
| Sales and marketing | | (88.0) | (77.4) |
| Research and development | | (46.3) | (38.4) |
| General and administrative | | (82.8) | (54.0) |
| **Total operating costs** | | **(217.1)** | **(169.8)** |
| **OPERATING PROFIT** | | **172.6** | **226.7** |
| Net gain on disposal of a business operation | 10 | - | 34.2 |
| Interest Income | 7 | 0.3 | 0.1 |
| Interest Expense | 7 | (15.3) | (14.3) |
| Other finance income and expense (net) | 7 | 16.3 | 22.6 |
| **PROFIT BEFORE TAX** | | **173.9** | **269.3** |
| Income tax | 8 | (32.9) | (63.5) |
| **PROFIT FOR THE PERIOD** | | **141.0** | **205.8** |
| **Earnings per share (in $ per share):** | | | |
| Basic EPS | 11 | 0.14 | 0.20 |
| Diluted EPS | 11 | 0.13 | 0.20 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTHS ENDED 30 JUNE 2022
($'M)

| | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| **Profit for the period** | **141.0** | **205.8** |
| Other comprehensive 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) | (2.8) | (0.6) |
| Items that may be reclassified subsequently to profit or loss: | | |
| - Translation differences | (1.0) | 0.8 |
| **Total other comprehensive gains** | **(3.8)** | **0.2** |
| **Comprehensive income for the period** | **137.2** | **206.0** |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

($'M)

| | Note | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | 338.0 | 357.6 | 429.0 |
| Trade and other receivables | | 58.3 | 48.2 | 53.4 |
| Capitalised contract costs | 12 | 32.7 | 34.1 | 34.2 |
| Prepaid expenses | | 11.1 | 9.4 | 9.9 |
| Tax receivables | 8 | 5.6 | 2.9 | 5.3 |
| Other financial assets | 18 | 0.2 | 6.5 | 5.7 |
| | | **445.9** | **458.7** | **537.5** |
| **Non-current assets** | | | | |
| Property, plant and equipment | 13 | 30.6 | 34.6 | 32.4 |
| Right-of-use assets | 14 | 44.8 | 51.1 | 48.0 |
| Intangible assets | 13 | 136.2 | 115.0 | 122.0 |
| Deferred tax asset | 8 | 140.1 | 156.2 | 141.7 |
| Other financial assets | 18 | 4.3 | 8.5 | 8.0 |
| Capitalised contract costs | 12 | 2.4 | 2.6 | 2.4 |
| Prepaid expenses | | 0.2 | 0.5 | 0.4 |
| Goodwill | | 2,300.7 | 1,966.6 | 2,003.6 |
| | | **2,659.3** | **2,335.1** | **2,358.5** |
| **TOTAL ASSETS** | | **3,105.2** | **2,793.8** | **2,896.0** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 84.4 | 61.5 | 79.8 |
| Lease liability | 14 | 6.7 | 7.1 | 7.0 |
| Provisions | 15 | 27.8 | 21.7 | 26.4 |
| Income tax liability | | 1.1 | 17.4 | 11.8 |
| Deferred revenues | 16 | 481.1 | 470.8 | 468.6 |
| Term loan | 17 | 238.7 | 41.9 | 41.0 |
| | | **839.8** | **620.4** | **634.6** |
| **Non-current liabilities** | | | | |
| Lease liability | 14 | 38.9 | 51.4 | 45.5 |
| Provisions | 15 | 0.9 | 0.3 | 1.4 |
| Deferred revenues | 16 | 36.3 | 37.0 | 35.0 |
| Term loan | 17 | 703.5 | 778.1 | 744.9 |
| Other non-current liabilities | | - | 0.7 | - |
| Deferred tax liability | 8 | 9.1 | 0.3 | 0.3 |
| | | **788.7** | **867.8** | **827.1** |
| **Shareholders' equity** | | | | |
| Share capital | | 140.3 | 139.0 | 139.8 |
| Share premium, statutory and other reserves | | 439.6 | 394.6 | 416.9 |
| Translation differences | | 1.1 | 4.0 | 2.1 |
| Retained earnings | | 895.7 | 768.0 | 875.5 |
| **Equity attributable to equity holders of the parent** | | **1,476.7** | **1,305.6** | **1,434.3** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **3,105.2** | **2,793.8** | **2,896.0** |

As described in Note 8, the deferred tax assets and liabilities at 30 June 2021 have been restated to offset deferred tax liabilities of $19.9m at 30 June 2021 against deferred tax assets.

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTHS ENDED 30 JUNE 2022

($'M)

| | Share capital | Share premium | Other reserves | Translation differences | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **At 31 December 2020 (Audited)** | **138.6** | **87.6** | **287.2** | **3.2** | **678.7** | **1,195.3** |
| Result of the six-months | - | - | - | - | 205.8 | 205.8 |
| Other comprehensive income | - | - | - | 0.8 | (0.6) | 0.2 |
| ***Comprehensive income for the period*** | **-** | **-** | **-** | **0.8** | **205.2** | **206.0** |
| Other movements | - | - | - | - | (0.4) | (0.4) |
| Share-based payments | - | - | 16.2 | - | - | 16.2 |
| Exercise of options | 0.4 | 3.6 | - | - | (0.2) | 3.8 |
| Cash dividend | - | - | - | - | (115.3) | (115.3) |
| **At 30 June 2021 (Unaudited)** | **139.0** | **91.2** | **303.4** | **4.0** | **768.0** | **1,305.6** |
| Result of the six-months | - | - | - | - | 142.6 | 142.6 |
| Other comprehensive income | - | - | - | (1.9) | 0.1 | (1.8) |
| ***Comprehensive income for the period*** | **-** | **-** | **-** | **(1.9)** | **142.7** | **140.8** |
| Other movements | - | - | - | - | - | - |
| Share-based payments | - | - | 29.8 | - | - | 29.8 |
| Share-based payments tax | - | - | - | - | 0.9 | 0.9 |
| Transfer of share-based payments to retained earnings | - | - | (14.1) | - | 14.1 | - |
| Exercise of options | 0.8 | 6.6 | - | - | (0.5) | 6.9 |
| Cash dividend | - | - | - | - | (49.7) | (49.7) |
| **At 31 December 2021 (Audited)** | **139.8** | **97.8** | **319.1** | **2.1** | **875.5** | **1,434.3** |
| Result of the six-months | - | - | - | - | 141.0 | 141.0 |
| Other comprehensive income | - | - | - | (1.0) | (2.8) | (3.8) |
| ***Comprehensive income for the period*** | **-** | **-** | **-** | **(1.0)** | **138.2** | **137.2** |
| Other movements | - | - | - | - | (0.5) | (0.5) |
| Share-based payments | - | - | 18.9 | - | - | 18.9 |
| Share-based payments tax | - | - | - | - | (0.7) | (0.7) |
| Exercise of options | 0.5 | 3.8 | - | - | (0.3) | 4.0 |
| Cash dividend | - | - | - | - | (116.5) | (116.5) |
| **At 30 June 2022 (Unaudited)** | **140.3** | **101.6** | **338.0** | **1.1** | **895.7** | **1,476.7** |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTHS ENDED 30 JUNE 2022
($'M)

| | Note | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the financial period | | 141.0 | 205.8 |
| *Non-cash adjustments to reconcile profit to net cash flows:* | | | |
| Income tax | 8 | 32.9 | 63.5 |
| Depreciation | 6 | 8.8 | 10.1 |
| Amortisation | 6 | 15.5 | 12.8 |
| Impairment | | - | 1.4 |
| Gain on disposal of a business operation | 10 | - | (34.2) |
| Movement of provisions and allowances | 15 | 0.6 | (6.8) |
| Interest income | 7 | (0.3) | (0.1) |
| Interest expense, changes of fair values of derivatives and other non-cash financial expense | 7 | 15.3 | 13.8 |
| Shares granted to employees | 4 | 20.8 | 16.2 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currencies | | 16.4 | (2.5) |
| Unrealized foreign exchange gains and losses and other non-cash transactions | | (33.4) | (12.9) |
| *Working capital adjustments:* | | | |
| Decrease in trade and other receivables and inventories | | 5.4 | 11.4 |
| Increase/(decrease) in trade and other payables | | (2.1) | 1.8 |
| Increase in deferred revenues | | 13.4 | 11.4 |
| Income tax paid | | (43.7) | (28.6) |
| **Net cash flows from operating activities** | | **190.6** | **263.1** |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | (2.8) | (1.6) |
| Acquisition of intangible assets | | (0.8) | (1.6) |
| Investment in a subsidiary, net of cash acquired | 9 | (318.7) | - |
| Settlement of contingent consideration | | - | (0.7) |
| Proceeds from sale of a business operation, net of cash disposed | 10 | 5.0 | 48.4 |
| Interest received | 7 | 0.3 | 0.1 |
| **Net cash used in investing activities** | | **(317.0)** | **44.6** |
| **Cash flows from financing activities** | | | |
| Dividend paid | 19 | (116.5) | (115.3) |
| Exercise of options | | 4.0 | 3.8 |
| Repayments of borrowings | 17 | (20.2) | (10.6) |
| Proceeds from borrowings | 17 | 200.0 | 6.6 |
| Transaction costs related to borrowings | 17 | (2.7) | (2.7) |
| Interest paid | 17 | (9.0) | (5.6) |
| Lease payments interest | 14 | (0.7) | (1.0) |
| Lease payments principal | 14 | (3.1) | (3.2) |
| **Net cash flows from financing activities** | | **51.8** | **(128.0)** |
| Net increase/(decrease) in cash and cash equivalents | | (74.6) | 179.7 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currencies | | (16.4) | 2.5 |
| Cash and cash equivalents at beginning of period | | 429.0 | 175.4 |
| **Cash and cash equivalents at end of period** | | **338.0** | **357.6** |

As described in the Note 17, the presentation of the term loan has been adjusted within the cash flow from financing activities for the six-months ended 30 June 2021. In addition, $6.3m was reclassified from ‘Unrealized foreign exchange gains and losses and other non-cash transactions’ in operating activities to ‘Proceeds from sale of a business operation, net of cash disposed’ in investing activities for the six-months period ended 30 June 2021 relating to cash disposed as part of sale of business.

The accompanying notes form an integral part of these 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 domiciled in the United Kingdom and its registered address is 110 High Holborn, London WC1V 6JS. Avast plc's registered number is 07118170.

The Interim Condensed Financial Statements were approved for issue by the Board of Directors on 8 August 2022 and have been reviewed but not audited.

These Interim Condensed Financial Statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The financial information in respect of the financial year ended 31 December 2021 has been extracted from the audited financial statements for that financial year that have been delivered to the registrar and on which the auditors gave an unqualified audit opinion which did not include an emphasis of matter reference or a statement under sections 498(2) or (3) of Companies Act 2006.

## 2. Basis of preparation and changes to the accounting policies

### *2.1 Basis of preparation*

The Interim Condensed Financial Statements for the six-months ended 30 June 2022 have been prepared in accordance with UK-adopted *IAS 34 Interim Financial Reporting* and the Disclosure and Transparency Rules of the Financial Conduct Authority. The Interim Condensed Financial Statements should be read in conjunction with the Annual Report and Consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with UK-adopted International Accounting Standards (UK-adopted IFRS).

The Group uses the direct method of consolidation, under which the Interim Condensed 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 proposed Merger represents the most significant event impacting the company in the period to 31 December 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 proposed Merger does not proceed and the Group continues to operate as in prior years ('Standalone Scenario') and the scenario where the proposed Merger proceeds as expected ('Combined Company Scenario').

Standalone Scenario

The directors have reviewed management's detailed going concern review including cash flow forecasts and consider that the Group has adequate resources to continue business during the going concern period. In preparing these forecasts, the directors have considered the impact of recent acquisitions, customer churn and the macro-economic environment including the impact of inflation.

*Group's financial covenants*

The Group's Term Loan Credit Agreement includes a single financial covenant that is triggered at any time when $35 million or more is outstanding under the revolving credit agreement for a period ending on June 30 or December 31. The Group must maintain, on a consolidated basis, a leverage ratio (set as a ratio of Consolidated First Lien Net Debt to Consolidated EBITDA) less than 6.5x when $35m or more is outstanding. This covenant is tested quarterly at such time as it is in effect. The Total Net First Lien Leverage Ratio remains materially lower than 6.5x during the period under review. The ratio was 1.2x at 30 June 2022 and there is no reason to believe that the Group would have any material risk against the ceiling of 6.5x. As of 30 June 2022, $40 million committed was undrawn under the revolving credit facility.

*Reverse stress testing*

To make the going concern assessment, the Directors have reviewed the latest budget and forecast through 31 December 2023, including the projected cash flows, covenant requirements and other relevant information. The cash flow projections have been subject to reverse stress testing, which assessed the potential impact of an extreme scenario in which the billings from Desktop part of Consumer Direct segment would decline without any mitigating action taken by management. The Group would run out of available cash only if Consumer Direct desktop billings declined more than 50% YoY in the period through 31 December 2023 without any mitigating action by management.

Our business remains resilient because:

- Cash collection is strong and bad debt risk is limited as clients typically pay for services up front
- At the end of H1 2022 the Group has $378m of available liquidity including $40m available revolving credit facility not drawn, therefore the Group has sufficient funds to allow it to operate even in the event of pessimistic scenarios
- Flexible cost base – the majority of the Group's costs are discretionary in nature (personnel costs, marketing & paid search costs and sales commissions account for 75% of total costs)
- Our deferred revenue balance is stable (IFRS deferred revenue at $517m at HY 2022, up +2.7% vs YE 2021, of which $481m to unwind into revenue in next 12 months, Adjusted deferred revenue balance at $546m) supporting attractive future revenue growth and good future revenue visibility

The Directors continue to carefully monitor the impact of the military conflict in Ukraine, impact of macroeconomic climate including inflation and increasing interest rates and Covid-19 pandemic on the operations of the Group and have a range of possible mitigation actions, which could be implemented in the event of a downturn of the business.

<u>Combined Company Scenario</u>

The directors have specifically considered the impact of the proposed Merger on their going concern conclusion. The directors were engaged with Norton through the process of recommending the proposed 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 proposed Merger is expected to be complementary to both parties, with Avast benefitting from Norton'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 Quantified Financial Benefits Statement and opinions received from various advisors during the merger and have an expectation for the merger to be accretive to standalone Avast's planned performance.
- With the exception of the $200m short term loan maturing March 2023, Avast's debt facilities do not have a change of control clause which would be triggered in the event of the proposed Merger completing.
- The proposed 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 Norton 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. As at 2 April 2022, Norton had a cash balance of $1.9 billion.
- The covenant identified in relation to the Term Loans. The directors and management have made reasonable inquiries of Norton to understand whether there are risks in relation to available covenant headroom. The directors have reviewed public filings made by Norton including results for the quarter ended 2 April 2022 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 31 December 2023 and therefore continue to adopt the going concern basis in preparing the financial statements.

**Impact of military conflict in Ukraine**

Avast's initial response to the invasion of Ukraine by Russia has been a necessarily humanitarian one focused on our employees based in both countries, and those from either countries but based currently elsewhere and who may or may have loved ones in their home market. A special Crisis Tiger team was created immediately after the invasion to ensure a rapid and unified response across the Company.

As of 10 March, Avast suspended activities in Russia and Belarus and bolstered offerings in Ukraine. Trading sanctions have been applied to two regions in Ukraine (Donetsk and Luhansk) and we have correspondingly withdrawn our business. We are monitoring for further restrictions on an ongoing basis as the situation remains very unstable.

The impact on the sustainability of the company's operations is not material as total Billings in Russia represented only 1% of total Billings in 2021, while Belarus was negligible. We also do not expect any material negative impact arising from volatility of RUB due to our very limited operations in Russia. The special crisis team continues to monitor the situation to develop an immediate response in case of deterioration of the situation.

### *2.2 New standards, interpretations and amendments adopted by the Group*

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. There were no new standards issued since 1 January 2022 that would have impacted the consolidated financial statements. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

***Amendment to IFRS 3 Business Combinations***
The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. No significant impact from the implementation of this standard is expected by the Group.

***Proceeds before Intended Use - Amendment to IAS 16 Property, Plant and Equipment***
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. No significant impact from the implementation of this standard is expected by the Group.

***Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37***
The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has reviewed the costs in the onerous contract provision and concluded that the costs relate mostly to the unavoidable costs of maintenance of data servers necessary to remain in operating condition due to an on-going regulatory investigation (Note 15).

## 3. SEGMENT INFORMATION AND OTHER DISCLOSURES

For management reporting purposes, two operating segments of Consumer and Small and Medium-sized business (‘SMB’) have been identified based on the nature of the business and how the business is managed.

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 up front, 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 billings, revenue and operating profit. Billings is 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.

The following tables present summarised information by segment:

| Six-months ended 30 June 2022 (Unaudited) ($’m) | *Consumer* | *SMB* | *Total* |
|---|---|---|---|
| **Billings** | **458.5** | **25.2** | **483.7** |
| Deferral of revenue | (13.4) | - | (13.4) |
| **Revenues** | **445.1** | **25.2** | **470.3** |
| Deferred revenue haircut reversal | 1.7 | - | 1.7 |
| **Segment revenue** | **446.8** | **25.2** | **472.0** |
| Segment cost of revenues | (44.0) | (2.1) | (46.1) |
| Segment sales and marketing costs | (57.0) | (10.0) | (67.0) |
| Segment research and development costs | (15.4) | (1.9) | (17.3) |
| Segment general and administrative costs | (0.8) | (0.1) | (0.9) |
| **Total segment operating profit** | **329.6** | **11.1** | **340.7** |
| Corporate overhead | | | (90.9) |
| Depreciation and amortisation | | | (24.3) |
| Exceptional items | | | (29.3) |
| Deferred revenue haircut reversal | | | (1.7) |
| Share-based payments | | | (20.8) |
| Employer’s taxes on share-based payments | | | (1.1) |
| **Consolidated operating profit** | | | **172.6** |

| Six-months ended 30 June 2021 (Unaudited) ($'m) | *Consumer* | *SMB* | *Total* |
|---|---|---|---|
| **Billings** | **456.3** | **26.4** | **482.7** |
| Deferral of revenue | (10.9) | (0.5) | (11.4) |
| **Segment revenue** | **445.4** | **25.9** | **471.3** |
| Segment cost of revenues | (43.1) | (2.2) | (45.3) |
| Segment sales and marketing costs | (49.8) | (8.4) | (58.2) |
| Segment research and development costs | (21.1) | (1.6) | (22.7) |
| Segment general and administrative costs | (1.4) | (0.3) | (1.7) |
| **Total segment operating profit** | **330.0** | **13.4** | **343.4** |
| Corporate overhead | | | (73.2) |
| Depreciation and amortisation | | | (22.9) |
| Exceptional items | | | (4.0) |
| Share-based payments | | | (16.2) |
| Employer's taxes on share-based payments | | | (0.4) |
| **Consolidated operating profit** | | | **226.7** |

Corporate overhead costs primarily include the costs of the Group's IT, HR, Finance and central marketing functions and legal and rent costs, which are not allocated to the individual segments.

The following table presents depreciation and amortisation by segment:

| ($'m) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Consumer | 11.2 | 12.1 |
| SMB | - | 0.1 |
| Corporate overhead | 13.1 | 10.7 |
| **Total depreciation and amortisation** | **24.3** | **22.9** |

The following table presents further disaggregation of revenue:

| ($'m) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Consumer Direct | 407.1 | 401.6 |
| Consumer Indirect | 37.2 | 42.5 |
| SMB | 25.3 | 25.9 |
| Consumer Other | 0.7 | 1.3 |
| **Total** | **470.3** | **471.3** |

The following table presents revenue attributed to countries based on the location of the customer:

| | Six-months ended 30 June 2022 (Unaudited) | | Six-months ended 30 June 2021 (Unaudited) | |
|---|---|---|---|---|
| | ($'m) | (in %) | ($'m) | (in %) |
| United States | 171.6 | 36.5% | 176.0 | 37.3% |
| United Kingdom | 45.6 | 9.7% | 44.7 | 9.5% |
| France | 35.1 | 7.5% | 36.8 | 7.8% |
| Germany | 34.6 | 7.3% | 33.4 | 7.1% |
| Other countries* | 183.4 | 39.0% | 180.4 | 38.3% |
| **Total** | **470.3** | **100%** | **471.3** | **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:

| ($'m) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Revenues realised through online resellers: | | |
| Digital River | 358.4 | 351.1 |

## 4. SHARE-BASED PAYMENTS

The total expense that mostly relates to the equity-settled share-based payment transactions during the period is as follows:

| ($ 'm) | Six months ended 30 June 2022 (Unaudited) | Six months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Avast Option Plan | - | 0.1 |
| Long Term Incentive Plan ("LTIP") | 20.3 | 16.2 |
| Share Matching Plan ("SMP") | 0.5 | (0.1) |
| **Total share-based payment expense** | **20.8** | **16.2** |

The Group also recognised additional $1.0m (H1 2021: $0.4m) of employer's costs related to the share-based payments exercise included in operating costs. Total costs related to share-based payments adjusted out of the adjusted operating profit amounted to $21.8m (H1 2021: $16.6m).

The share-based payment charge reflects new information received through change in estimation of the merger date from April 2022 to September 2022.

The Group has made awards under its share-based payments plans with a weighted average share price ('WASP') on the grant date as follows:

| ($ 'm) | Six-months ended 30 June 2022 Number (Unaudited) | Six-months ended 30 June 2022 WASP (£ pence) (Unaudited) | Six-months ended 30 June 2021 Number (Unaudited) | Six-months ended 30 June 2021 WASP (£ pence) (Unaudited) |
|---|---|---|---|---|
| RSU | 278,906 | 612.0 | 5,897,350 | 521.1 |
| PSU | - | - | 965,053 | 483.4 |
| **Total** | **278,906** | **612.0** | **6,862,403** | **515.8** |

## 5. EXCEPTIONAL ITEMS

The following table presents the exceptional items by activities:

| ($'m) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Exceptional items in operating profit | (29.3) | (4.0) |
| Net gain on disposal of business operation | - | 34.2 |

*Exceptional items in operating profit*

During the six-months ended 30 June 2022, the Group incurred legal and professional costs of $3.6m in relation to the acquisition of SecureKey (see Note 9) and $13.0m of personnel, legal and consultancy costs related to the proposed Merger. Personnel costs related to the proposed Merger of $6.0m comprise primarily retention bonuses, which are accrued over the retention period. The remaining $12.6m of exceptional items relates to legal fees and the change in provisions related to regulatory investigation relating to Jumpshot (see Note 15). The tax benefit from these exceptional items amounted to $1.6m.

All exceptional items described above were included in operating cash flows, apart from $16.8m, which were not paid before the end of June 2022 and therefore included in liabilities and provisions. Out of exceptional costs included in liabilities and provisions at the end of FY 2021, $5.5m were paid during H1 2022.

During the six-months ended 30 June 2021, the Group incurred legal and professional costs of $3.2m in relation to the disposal of business operation (described further below and in the Note 10). These transaction costs are included in the cash flow from investing activities. In addition, the Group has also recorded exceptional non-cash impairment costs of $0.8m, which resulted from this disposal (see Note 14). The tax benefit from these exceptional items amounted to $1.0m.

*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"). The Group recognised a gain of $34.2m as an exceptional item for the period ended 30 June 2021. Subsequently, due to the remeasurement of the disposal proceeds, the Group recognized a gain of $47m for the period ended 31 December 2021 (Note 10). 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 $13.7m for the period ended 30 June 2021 and $16.7m for the period ended 31 December 2021. Majority of the gain is taxable in the USA and will be offset against tax loss carryforward (Note 8), thus does not significantly impact income tax paid.

All exceptional items incurred during the six-months ended 30 June 2022 and 2021 relate to the Consumer segment.

## 6. DEPRECIATION AND AMORTISATION

Amortisation by function:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Cost of revenues | 13.8 | 11.7 |
| **Total amortisation of acquisition intangible assets** | **13.8** | **11.7** |
| Cost of revenues | 0.4 | 0.2 |
| Sales and marketing | 0.3 | 0.2 |
| Research and development | 0.2 | 0.2 |
| General and administration | 0.8 | 0.5 |
| **Total amortisation of non-acquisition intangible assets** | **1.7** | **1.1** |
| **Total amortisation** | **15.5** | **12.8** |

Depreciation by function:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Cost of revenues | 4.0 | 4.9 |
| Research and development | 0.2 | 0.1 |
| General and administration* | 4.6 | 5.1 |
| **Total depreciation** | **8.8** | **10.1** |

*$3.3 million (H1 2021: $3.5 million) is attributable to the depreciation of right-of-use assets (see Note 14)

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.

## 7. FINANCE INCOME AND EXPENSES

Interest income:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Interest on bank deposits | 0.3 | 0.1 |
| **Total finance income** | **0.3** | **0.1** |

Interest expense:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Term loan interest expense | (14.6) | (13.3) |
| Lease interest expense | (0.7) | (1.0) |
| **Total interest expense** | **(15.3)** | **(14.3)** |

Other finance income and expense (net):

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Changes of fair values of derivatives | - | 0.4 |
| Revolving loan - commitment fee and other fees | - | (0.2) |
| Foreign currency gains and losses, net | (10.0) | 6.3 |
| Unrealised foreign exchange gains and losses on borrowings, net | 26.7 | 15.8 |
| Other financial expense and income (net) | (0.4) | 0.3 |
| **Total other finance income and expense (net)** | **16.3** | **22.6** |

## 8. INCOME TAX

In the Consolidated statement of financial position, the corporate income tax receivable of $4.1m ($0.3m as at 30 June 2021 and $1.9m as at 31 December 2021) is part of the caption tax receivables.

The major components of the income tax in the consolidated statement of comprehensive income are:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Current income tax | (30.2) | (45.1) |
| Deferred tax | (2.7) | (18.4) |
| **Total income tax** | **(32.9)** | **(63.5)** |

Income tax expense is recognised based on the Group's estimate of the weighted average annual effective income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. The estimated average annual effective income tax rate used for the six-months ended 30 June 2022 is 19%, compared to 18% for the six-months ended 30 June 2021.

The reconciliation of income tax benefit applicable to accounting profit before income tax at the statutory income tax rate to income tax expenses at the Group's effective income tax rate is as follows:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| **Profit before tax** | **173.9** | **269.3** |
| Group effective income tax rate (20%* in 2022 and 2021) | (34.8) | (53.9) |
| *Recurring adjustments* | | |
| Non-deductible expenses | (3.9) | (1.0) |
| Share-based payments | (3.0) | (2.3) |
| FX effect on Intercompany loans | 3.1 | 0.9 |
| *Non recurring adjustments* | | |
| Current year deferred tax assets not recognised | (0.9) | (0.2) |
| Effect of changes in tax rates on deferred taxes | 0.2 | 0.3 |
| Taxable gain on Family Safety Mobile business disposal | - | (6.8) |
| Recognition of previously unrecognised deferred tax assets | 3.7 | 5.5 |
| Derecognition of deferred tax assets | - | (6.7) |
| Remaining impact of tax rate variance and other effects | 2.7 | 0.7 |
| **Total income tax** | **(32.9)** | **(63.5)** |

*Estimated as a Group's blended rate across the jurisdictions where the Group operates.

As of 30 June 2022, the Group recognised a deferred tax liability of $9.1m ($0.3m as of 30 June 2021 and $0.3m as of 31 December 2021) which relates mainly to taxable differences recognized during purchase price allocations in the current period.

As of 30 June 2022, the Group recognised a deferred tax asset of $140.1m ($156.2m as of 30 June 2021 and $141.7m as of 31 December 2021) of which the major part relates to deductible temporary differences in the Czech Republic in the amount of $92.7m as at 30 June 2022 ($102.6m as at 30 June 2021, $96.3m as at 31 December 2021) and carry forward of unused tax losses and other temporary differences in the United States in the amount of $37.4m as at 30 June 2022 ($44.8m as at 30 June 2021, $35.8m as at 31 December 2021).

Following the transactions of IP transfer in 2018, the major part of deductible temporary differences in the Czech Republic 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.

In the 2021 consolidated financial statements, the Group changed the presentation in the Consolidated Statement of Financial Position of the deferred tax liability related to Group purchase price allocations in the amount of $21.7m at 31 December 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. The comparative information for 30 June 2021 were adjusted accordingly to offset deferred tax liabilities in the amount of $19.9m against the recognised deferred tax assets. There is no impact on profit or earnings per share of this adjustment.

Based on expectations of future profitability, management expects to recover the deferred tax asset in the United States over an approximately 31-year period. Tax losses in the United States can be carried forward for an indefinite period of time.

The 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. The potential impacts of the proposed Merger on the recoverability of this deferred tax asset have not been analysed yet. It is uncertain if the tax loss carryforward can be utilised in full amount after the proposed Merger and (potential) changes in the group and tax structure.

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 $21.5m as at 30 June 2022 ($59.5m as at 30 June 2021 and $56.5m as at 31 December 2021). The differences related 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.

The (gross) deductible temporary differences for which a deferred tax asset has not been recognised in the period presented, aggregate to $278.2m as at 30 June 2022 ($209.1m as at 30 June 2021 and $201.8m as at 31 December 2021). The temporary differences mainly include tax loss carry forward of SecureKey and Jumpshot. The Group expects further losses of SecureKey that cannot be offset against future taxable profits in the foreseeable future.

## 9. BUSINESS COMBINATIONS

*Acquisition of SecureKey Technologies Inc. ("SecureKey")*

On 24 March 2022, Avast Group announced that it would acquire SecureKey Technologies, a global provider of digital identity and authentication solutions headquartered in Canada. SecureKey's next generation privacy-enhancing services are focused on simplifying access to online services while giving control back to consumers by ensuring the information they share with others is only ever with their explicit consent. SecureKey is highly complementary to Avast's prior work in Identity and the reason for the acquisition was therefore to take Avast's digital identity offer to the next level, accelerating innovation and working to establish a user-focused, global approach that aligns user, business, and government propositions.

The transaction closed on 1 April 2022 which is considered the acquisition date. The transaction represents a business combination with Avast Software B.V. being the acquirer. The fair value of the consideration at the acquisition date was determined by the Group to be $325.9 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. This will be finalised within the 12 month measurement period for the annual accounts when full information necessary to determine, amongst other things, the valuation of the intangible assets, related deferred tax and allocation of goodwill (including foreign currency denomination) has been received.

| ($'m) | Fair value recognised on 1 April 2022 |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 7.2 |
| Trade and other receivables | 6.0 |
| Prepaid expenses | 0.6 |
| Tax receivables | 0.2 |
| | 14.0 |
| **Non-current assets** | |
| Property, plant & equipment | 1.3 |
| Right-of-use assets | 0.6 |
| Intangible assets | 30.0 |
| Prepaid expenses | 0.1 |
| | 32.0 |
| **TOTAL ASSETS** | **46.0** |
| **Current liabilities** | |
| Trade and other payables | 6.7 |
| Lease liability | 0.2 |
| Provisions | 0.1 |
| | 7.0 |
| **Non-current liabilities** | |
| Lease liability | 0.6 |
| Deferred tax liability | 8.0 |
| | 8.6 |
| **TOTAL LIABILITIES** | **15.6** |
| **Net assets acquired** | **30.4** |
| **Consideration paid** | **325.9** |
| **Goodwill** | **295.5** |

The business combination resulted in the recognition of goodwill of $295.5m, which is allocated to the Consumer CGU and is tested for impairment at least annually. The goodwill 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.

Reconciliation of the goodwill at the beginning and end of the reporting period is presented below:

| ($'m) | **Goodwill** |
|---|---|
| **At 1 January 2022** | **2,003.6** |
| Business combination - Acquisition of SecureKey | 295.5 |
| Other | 1.6 |
| **At 30 June 2022** | **2,300.7** |

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 13 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 $8.0m was recognised in respect of the above intangible assets.

Analysis of cash flow on acquisition:

| ($'m) | |
|---|---|
| Cash consideration | (325.9) |
| Net cash acquired with the business (included in cash flow from investing activities) | 7.2 |
| **Net cash flow on acquisition** | **(318.7)** |

The Group incurred acquisition-related transaction costs of $3.6m which were recorded as General and administrative expenses in the Consolidated Statement of Profit and Loss and treated as exceptional items.

From the date of acquisition, SecureKey has contributed $4.3m of revenue and a loss of $3.8m to the net profit of the Group. If the business combination had occurred at the beginning of the reporting period (1 January 2022), the revenues of the Group would have been $474.3m and the contribution of SecureKey would have been $8.3m. The profit of the Group would have been $135.0m and the contribution of SecureKey would have been a loss of $9.8m.

## 10. DISPOSAL OF A BUSINESS OPERATION

There were no disposals of business operation in 2022.

*Disposal of Family Safety mobile business*

On 8 March 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. As of 30 June 2022, this amount was received;
- 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 derecognised 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.

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 | (24.7) |
| Intangible assets write-off (Note 13) | (1.3) |
| **Net gain on disposal of a business operation** | **47.0** |

Analysis of cash flows on disposal:

| ($'m) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) | Year-ended 31 December 2021 (Audited) |
|---|---|---|---|
| Cash received | 5.0 | 57.9 | 57.9 |
| Net cash sold of the business (included in cash flow from investing activities) | - | (6.3) | (6.3) |
| Transaction costs paid | - | (3.2) | (3.2) |
| Earn-out received | - | - | 14.0 |
| **Net cash flow on disposal for the period ended** | **5.0** | **48.4** | **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.

## 11. Earnings per share

Basic earnings per share amounts are 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 earnings per share is calculated by dividing the profit for the period attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the period plus 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:

| | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Net profit attributable to equity holders ($ 'm) | 141.0 | 205.8 |
| Basic weighted average number of shares | 1,040,266,207 | 1,029,369,137 |
| Effect of stock options and restricted stock units | 7,373,632 | 10,860,023 |
| Total number of shares used in computing dilutive earnings per share | 1,047,639,839 | 1,040,229,160 |
| **Basic earnings per share ($/share)** | **0.14** | **0.20** |
| **Diluted earnings per share ($/share)** | **0.13** | **0.20** |

Adjusted earnings per share measures:

| | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Net profit attributable to equity holders ($ 'm) | 141.0 | 205.8 |
| Deferred revenue haircut reversal | 1.7 | - |
| Share-based payments (including employer's costs) | 21.8 | 16.6 |
| Exceptional items | 29.3 | 4.0 |
| Amortisation of acquisition intangible assets | 13.8 | 11.7 |
| Net gain on disposal of business operation | - | (34.2) |
| Unrealised FX gain/loss on EUR tranche of bank loan | (26.7) | (15.8) |
| Tax impact of IP transfer | 3.1 | 3.1 |
| Tax impact from foreign exchange difference on intercompany loans | (3.1) | (0.9) |
| Tax impact on disposal of business operation | - | 12.7 |
| Tax impact on adjusted items | (3.0) | 2.6 |
| **Adjusted net profit attributable to equity holders ($ 'm)** | **178.0** | **205.8** |
| Basic weighted average number of shares | 1,040,266,207 | 1,029,369,137 |
| Diluted weighted average number of shares | 1,047,639,838 | 1,040,229,160 |
| **Adjusted Basic earnings per share ($/share)** | **0.17** | **0.20** |
| **Adjusted Diluted earnings per share ($/share)** | **0.17** | **0.20** |

Management regards the above adjustments necessary to give a fair picture of the adjusted results of the Group for the period.

## 12. CAPITALISED CONTRACT COSTS

| ($ 'm) | | 30 June 2022 (Unaudited) | | 30 June 2021 (Unaudited) | | 31 December 2021 (Audited) |
|---|---|---|---|---|---|---|
| **Capitalised contract costs at 1 January** | | **36.6** | | **37.8** | | **37.8** |
| Additions | | 30.8 | | 32.5 | | 65.6 |
| *Sales commissions and fees* | *29.6* | | *30.5* | | *61.7* | |
| *Licence fees* | *1.2* | | *2.0* | | *3.9* | |
| Amortisation | | (32.3) | | (33.6) | | (66.8) |
| *Sales commissions and fees* | *(30.5)* | | *(31.2)* | | *(62.2)* | |
| *Licence fees* | *(1.8)* | | *(2.4)* | | *(4.6)* | |
| **Capitalised contract costs at end of period** | | **35.1** | | **36.7** | | **36.6** |
| **Total current** | | **32.7** | | **34.1** | | **34.2** |
| **Total non-current** | | **2.4** | | **2.6** | | **2.4** |

Capitalised contract costs include commissions, 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.

## 13. NON-CURRENT ASSETS

### Intangible assets

As part of the SecureKey business combination (see Note 9), the Group recognized significant intangible assets as of the acquisition date of 1 April 2022. These assets consist of core technology of $26.3m which represents the main code or algorithm of the identification technology in use and application technology of $3.7m which is built on top of the core technology. The fair value of the technology was determined by an independent external valuer. The useful economic life of core and application technology were determined to be 7 and 5 years, respectively.

The amortisation expense of total intangible assets was $15.5m and $12.8m for the six-months ended 30 June 2022 and 2021, respectively.

The Group has tested the goodwill, trademarks, domains and intangibles with an indefinite useful life for impairment as at 31 December 2021. As at 30 June 2022, the Group had not identified any indicators of impairment. The key assumptions used to determine the recoverable amount were disclosed in the annual consolidated financial statements for the period ended 31 December 2021.

### Property, plant and equipment

As part of the SecureKey business combination (see Note 9), the Group recognized tangible assets of $1.3m as of the acquisition date of 1 April 2022. The fair value was determined to correspond to the book value.

The depreciation expense of total property, plant and equipment was $5.5m and $6.6m for the six-months ended 30 June 2022 and 2021, respectively.

In relation to the sale of the business operation in 2021, the Group sold $0.9m of property, plant and equipment, $0.2m of other intangible assets and wrote off $1.3m of trademark (Note 10).

## 14. 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) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| **At 1 January** | **48.0** | **56.4** | **56.4** |
| Additions | - | - | 0.2 |
| Business combinations (Note 9) | 0.6 | - | - |
| Remeasurements | - | (0.7) | (0.8) |
| Impairment | - | (0.8) | (0.8) |
| Disposals | (0.5) | (0.3) | (0.3) |
| Depreciation of right-of-use assets | (3.3) | (3.5) | (6.7) |
| **At end of period** | **44.8** | **51.1** | **48.0** |

During the period ended 30 June 2021, the Group recognised an impairment of $0.8m for the unused office space as a result of disposal of business operation. The impairment charge was included in the exceptional items.

### Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

| ($ 'm) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| **At 1 January** | **52.5** | **64.5** | **64.5** |
| Additions | - | - | 0.2 |
| Business combinations (Note 9) | 0.8 | - | - |
| Remeasurements | - | (0.9) | (1.0) |
| Terminations | (0.5) | (0.3) | (0.3) |
| Lease interest expense | 0.7 | 1.0 | 1.8 |
| Payments of lease liabilities | (3.8) | (4.2) | (8.6) |
| Foreign currency exchange difference | (4.1) | (1.6) | (4.1) |
| **At end of period** | **45.6** | **58.5** | **52.5** |
| | | | |
| **Total current** | **6.7** | **7.1** | **7.0** |
| **Total non-current** | **38.9** | **51.4** | **45.5** |

The lease term will be reassessed after the proposed Merger, once completed.

## 15. 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 2020** | **0.8** | **7.8** | **0.5** | **19.2** | **28.3** |
| Additions | 3.8 | 1.8 | - | 5.0 | 10.7 |
| Utilisation | (0.8) | (7.5) | - | (1.6) | (9.9) |
| Release | - | - | - | (7.0) | (7.0) |
| **As at 30 June 2021** | **3.8** | **2.2** | **0.5** | **15.5** | **22.0** |
| Additions | 0.9 | 2.9 | 2.4 | 9.9 | 16.1 |
| Utilisation | (3.8) | (0.2) | (0.1) | (1.4) | (5.5) |
| Release | - | - | - | (4.8) | (4.8) |
| **As at 31 December 2021** | **0.9** | **4.9** | **2.8** | **19.2** | **27.8** |
| Additions | 2.1 | 0.4 | - | 10.5 | 13.0 |
| Utilisation | (0.9) | (4.1) | (0.6) | (6.5) | (12.1) |
| **As at 30 June 2022** | **2.1** | **1.2** | **2.2** | **23.2** | **28.7** |

| | | | | | |
|---|---|---|---|---|---|
| **Total current** | **2.1** | **1.2** | **1.5** | **22.9** | **27.8** |
| **Total non-current** | **-** | **-** | **0.7** | **0.3** | **0.9** |

Onerous contract provision relates to the unavoidable costs of maintenance of data servers necessary to remain in operating condition due to an on-going regulatory investigation.

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 complaints and proceedings relating to certain data protection matters. 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 in some of the matters. Consequently, a provision of $19.2m (31 December 2021, $10.2m) in respect of both regulatory fines received to date (which are under appeal) and ongoing settlement discussions regarding such matters has been recognised. There has been no cash outflow to date in connection with any potential fine or settlement and the timing of any potential cash outflow is not known, but could be within the next year.

Whilst 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 has 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 enquiries.

The release of certain provisions in 2021 related mainly to a provision for an alleged patent infringement claim, which has been dismissed with no costs resulting from it.

## 16. DEFERRED REVENUES

The Group sells consumer and corporate antivirus products for periods of 12, 24 or 36 months with payment received at the beginning of the license term. Revenues are recognised rateably over the subscription period covered by the agreement.

The movements in the deferred revenue were as follows:

| ($ 'm) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| **At 1 January** | **503.6** | **496.5** | **496.5** |
| Additions – billings | 483.7 | 482.7 | 948.4 |
| Deductions – revenue | (470.3) | (471.3) | (941.1) |
| Disposal of business operation | - | (0.2) | (0.2) |
| Translation adjustments | 0.4 | 0.1 | - |
| **At end of period** | **517.4** | **507.8** | **503.6** |

| | | | |
|---|---|---|---|
| Current | 481.1 | 470.8 | 468.3 |
| Non-current | 36.3 | 37.0 | 35.0 |
| **Total** | **517.4** | **507.8** | **503.6** |

## 17. TERM LOAN

Term loan balance is as follows:

| ($ 'm) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| Current term loan | 238.7 | 41.9 | 41.0 |
| Long-term term loan | 703.5 | 778.1 | 744.9 |
| **Total term loans** | **942.2** | **820.0** | **785.9** |

| ($ 'm) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| 2021 USD tranche principal | 450.0 | 474.0 | 462.0 |
| 2021 EUR tranche principal | 292.1 | 352.2 | 327.0 |
| 2022 Dollar Term Loan principal | 200.0 | - | - |
| **Total term loans** | **942.1** | **826.2** | **789.0** |

On 23 March 2022, the Group borrowed a new USD term loan of USD 200m (“2022 Dollar Term Loan”) under the existing Credit Agreement to finance the acquisition of SecureKey (see Note 9). The loan matures on the earlier of 22 March 2023, or 30 days after completion of the proposed Merger. The carrying amount of the term loan is net of the total arrangement costs of $2.7m which are being amortised to profit and loss over the period to the potential date of completion of the Merger using the effective interest rate method. Although the term loan falls under the existing Credit Agreement, it has different terms and conditions to the USD/EUR tranche negotiated in 2021 and is therefore accounted for as a separate loan.

Based on the favourable leverage ratio result, the Group applied the margin step-down by 25 bps for USD and EUR tranche from the period starting 1 January 2022. The Group therefore applied judgement that the repricing of the margin on the loan to market terms, which is allowed for in the terms of the loan, was a change in contractual variable payments to be accounted for by altering prospectively the effective interest rate consistent with the requirements for IFRS 9.5.4.5 for floating rate loans.

The following terms apply to the bank loans outstanding at 30 June 2022:

| Facility | Interest | Margin | Floor | Principal ($ 'm) |
|---|---|---|---|---|
| 2021 USD Tranche | 3-month USD LIBOR | 1.75% p.a. | 0.00% p.a. | 450.0 |
| 2021 EUR Tranche | 3-month EURIBOR | 1.75% p.a. | 0.00% p.a. | 292.1 |
| 2022 Dollar Term loan | 3-month SOFR | 1.50% p.a. (April-Jun)<br>1.75% p.a. (July- Sep) | 0.00% p.a. | 200.0 |

The USD and EUR Tranches are repayable in full at the end of the 84-month term on 22 March 2028. The Group does not intend to repay the term loan drawn in 2021 prematurely, however, the Group has made an assumption that the loan will be repaid at the time of potential Merger. The repayment is therefore reflected in the effective interest rate calculation resulting in the acceleration of arrangement fees through a potential date for completion of the proposed Merger.

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. The margin payable on both facilities (USD and EUR Tranche) is dependent upon the ratio of the Group’s net debt to adjusted EBITDA as defined in the facility agreement.

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 December 31, 2022, 50% of Excess Cash Flow (as defined and subject to certain reductions and to the extent where Excess cash flow payment exceed $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.

## Term loan balance reconciliation

The table below reconciles the movements of the balance of the term loan with the information on above and the statement of cash flows.

| ($ 'm) | 30 June 2022 (Unaudited) | 30 June 2021 (Unaudited) | 31 December 2021 (Audited) |
|---|---|---|---|
| **Term loan balance at beginning of period** | **785.9** | **834.0** | **834.0** |
| Additional loan drawn (gross of fees) | 200.0 | - | - |
| Net loan refinancing* | - | 6.6 | 6.6 |
| Drawing fees | (2.7) | (2.7) | (2.7) |
| Interest expense | 14.7 | 13.3 | 25.0 |
| Interest paid | (8.8) | (5.6) | (14.3) |
| Loan repayment | (20.2) | (10.6) | (31.3) |
| Unrealised foreign exchange gain | (26.7) | (15.8) | (32.2) |
| Other | - | 0.8 | 0.8 |
| **Total** | **942.2** | **820.0** | **785.9** |

*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.

The presentation of above items has changed since the issuance of prior year 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, the statement of cash flows for the period ended 30 June 2021 has been restated to show the proceeds of $6.6m received on refinancing, interest paid of $5.6m, drawing fees of $2.7m and loan repayments of $10.6m. In the financial statements for the period ended 30 June 2021, the Group previously presented the proceeds from borrowings/repayments of $5.4m (which included net loan proceeds and quarterly loan 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 June 30 or December 31. 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.

## 18. FINANCIAL ASSETS AND LIABILITIES

The carrying amount of other financial assets and liabilities held by the Group was as follows:

| ($ 'm) | Type | 30 June 2022 | 30 June 2021 | 31 December 2021 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Escrow | Level 2 | - | 5.0 | 5.0 |
| Earn-out | Level 3 | - | 1.2 | - |
| **Equity instruments at fair value through other comprehensive income** | | | | |
| Quoted equity instruments | Level 1 | 3.5 | 7.7 | 7.1 |
| **Financial assets at amortised cost** | | | | |
| Cash and cash equivalents | Level 2 | 338.0 | 357.6 | 429.0 |
| Trade and other receivables | Level 2 | 58.3 | 48.2 | 53.4 |
| Other financial assets | Level 2 | 1.0 | 1.1 | 1.6 |
| **Total financial assets** | | **400.8** | **420.8** | **496.1** |
| **Total current** | | **396.5** | **412.3** | **488.1** |
| **Total non-current** | | **4.3** | **8.5** | **8.0** |
| **Financial liabilities** | | | | |
| **Financial liabilities at amortised cost** | | | | |
| Trade and other payables | | 82.2 | 60.4 | 77.8 |
| Lease liabilities (Note 14) | | 45.5 | 58.5 | 52.5 |
| Term loan | | 942.2 | 820.0 | 785.9 |
| **Total financial liabilities** | | **1,069.9** | **938.9** | **916.2** |
| **Total current** | | **327.6** | **109.4** | **125.8** |
| **Total non-current** | | **742.3** | **829.5** | **790.4** |
| **Net financial liabilities** | | **669.1** | **518.1** | **420.1** |

The fair value of financial assets at amortised cost approximates their carrying value due to their short-term maturities.

## 19. ORDINARY DIVIDENDS

On 13 July 2022, the Directors declared a conditional interim dividend of 4.8 cents per share payable in August 2022. The interim dividend is conditional on the proposed Merger not having become effective before 11 August 2022. The conditional interim dividend will be paid in US dollars on 12 August 2022 to shareholders on the register as of 22 July 2022. In accordance with IFRS, no provision for the interim dividend has been made in these financial statements.

The conditional interim dividend of $11.2 cents relating to the year ended 31 December 2021 was paid on 3 March 2022.

An analysis of dividends paid is set out below:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) | Year-ended 31 December 2021 (Audited) |
|---|---|---|---|
| Conditional interim 2021 dividend of $11.2 cents per share | 116.5 | - | - |
| Interim 2021 dividend paid of $4.8 cents (2020: $4.8 cents) per share | - | - | 49.6 |
| Final 2020 dividend paid of $11.2 cents (2019: $10.3 cents) per share | - | 115.4 | 115.4 |
| **Total cash dividend paid** | **116.5** | **115.4** | **165.0** |

## 20. PRINCIPAL EXCHANGE RATES

| | Six-months ended 30 June 2022 | Six-months ended 30 June 2021 | Year-ended 31 December 2021 |
|---|---|---|---|
| Translation of Czech crown into US dollar ($:CZK1.00) | | | |
| Average | 0.0446 | 0.0465 | 0.0462 |
| Closing | 0.0420 | 0.0466 | 0.0456 |
| Translation of Sterling into US dollar ($:£1.00) | | | |
| Average | 1.3095 | 1.3859 | 1.3778 |
| Closing | 1.2103 | 1.3851 | 1.3478 |
| Translation of Euro into US dollar ($:€1.00) | | | |
| Average | 1.1005 | 1.2089 | 1.1894 |
| Closing | 1.0386 | 1.1887 | 1.1325 |

## 21. RELATED PARTY DISCLOSURES

The compensation of key management personnel for the period is as follows:

| ($ 'm) | Six-months ended 30 June 2022 (Unaudited) | Six-months ended 30 June 2021 (Unaudited) |
|---|---|---|
| Short term employee benefits (including salaries & termination benefits) | 5.9 | 6.2 |
| Share-based payments | 3.8 | 3.2 |
| **Total** | **9.7** | **9.4** |

The amounts in the table above include, 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 parties disclosures.*

*Other Related parties*

*Nadační fond Abakus ('Abakus Foundation')*

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 continues through the Abakus Foundation, the Avast Founders' foundation. The Abakus Foundation supports 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 six-months ended 30 June 2022 and 2021, Avast Software s.r.o. paid donations of CZK 15.3m (c.$0.7m) and CZK 20.4m (c.$1m) to the Abakus Foundation, respectively.

*Stichting Avast ('Avast Foundation')*

On 6 January 2021, Stichting Avast, known as Avast Foundation, was established in the Netherlands by Avast Holding. The Avast Foundation supports a new range of programs 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 six-months ended 30 June 2022 and 2021, Avast Software s.r.o paid donations of $1.8m and $1.0m to the Avast Foundation, respectively.

*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 ($3.3m) [HY 2022: €1.6m ($1.6m)]. The term of lease ends in August 2024 and offers two options to extend for another 24 months under the same conditions.

## 22. EVENTS AFTER THE REPORTING PERIOD

On 3 August 2022, the UK's Competition and Markets Authority (the "CMA") published its provisional findings that the Merger was not expected to give rise to a substantial lessening of competition in the UK and Norton and Avast published their response to the CMA's findings. As stated in that announcement, Norton intends to continue to work with the CMA and with Avast to enable the CMA's final report to be issued as soon as practicable. The statutory deadline for publication of the CMA's final report is 8 September 2022 (unless extended).