Avast plc

Full Year Results 2018

Avast PLC

FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Avast plc, together with its subsidiaries ('Avast', 'the Group' or 'the Company'), a leading global cybersecurity provider, announces its results for the year ended 31 December 2018.

Vincent Steckler, Chief Executive of Avast, said:

"I'm pleased to report a successful year for Avast. The business delivered a strong financial performance in line with expectations. Group Adjusted Revenue increased 8.3% on a like-for-like basis, driven by double-digit growth in our Consumer Desktop business. We also sustained high levels of profitability with full year Adjusted EBITDA margin at 54.1%.

"In November, Avast hit the milestone of 12 million paying customers for our PC products, enabled by the success of our monetisation platform, and up-sell and cross-sell campaigns. Alongside continued good growth in traditional markets, we achieved strong momentum in new target countries through our localisation strategy. In 2018 we continued to invest in the breadth and quality of our offerings. We have another healthy pipeline of product launches for 2019, including our new Smart Home security solution.

"Looking ahead, we are confident of another good year. Underlying market dynamics remain supportive of Avast's strategy and growth outlook. For the full year 2019 our expectation is high single digit growth for Group Adjusted Revenue, excluding Discontinued Business and FX, and a stable EBITDA margin percentage."

FINANCIAL HIGHLIGHTS

- Good full year performance in line with expectations
- Adjusted Billings excluding FX[1] and Discontinued Business[2] up 8.6%, 9.6% in actual rates to $846.7m
- Adjusted Revenue excluding FX and Discontinued Business up 8.3%, 9.5% in actual rates to $811.5m
- Adjusted Revenue in Consumer Desktop excluding FX up 12.0%, 13.5% in actual rates to $580.0m
- Adjusted EBITDA up 6.7% to $447.7m; Adjusted EBITDA margin[3] at 54.1%, up 33bps
- Adjusted fully diluted earnings per share ("EPS") flat at $0.28
- Proposed ordinary dividend for the period 15 May 2018 to 31 December 2018 of 8.6 cents per share, in line with the dividend policy articulated at IPO
- Continued strong cash generation with Unlevered Free Cash Flow up 14.0% to $394.0m and Levered Free Cash Flow up 21.4% to $324.9m
- Net debt / LTM ('last twelve months') Adjusted Cash EBITDA at 2.4x at year end and 2.5x on net debt to Adjusted EBITDA basis
- On a statutory basis, Revenue up from $652.9m to $808.3m, Operating profit up from $124.3m to $248.3m, Net Income up from $(33.8)m to $241.2m and statutory fully diluted EPS up to $0.25

OPERATIONAL HIGHLIGHTS

- Continued strong performance in the core Consumer Desktop business, driven by growth in Utilities and VPN. Since year end FY17, KPIs have tracked either in line or ahead of guidance with the number of customers[4] up 7.2% to 12.19m, an increase of 823k; Average Products Per Customer (APPC[5]) up 6.0% to 1.40; Average Revenue Per Customer (ARPC[6]) up 8.6% to $49.24
- Expansion of the Group's consumer product portfolio with successful launch under both Avast and AVG brands of Secure Browser, AntiTrack and Driver Updater, plus release of Avast Hack Check and AVG Secure VPN
- Launch of three new integrated family safety products with mobile carrier partners, Verizon, AT&T and Wind
- Good execution on strategy of localisation, delivering strong customer growth in target markets including Japan +56%, Russia +23% and Argentina +22%
- Development of Smart Home initiative continues to progress well. Launch of mobile carrier solution expected around 1H 2019
- In the SMB business, the first of our new Network Security Solutions, Avast Secure Web Gateway (SWG), was soft launched in late FY 2018 and fully released in March 2019

($'m)	FY 2018	FY 2017[7]	Change %	Change % (excluding FX)
Adjusted Billings	862.1	811.4	6.3	5.3
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Billings excl. Discontinued Business	**846.7**	**772.8**	**9.6**	**8.6**

($'m)	FY 2018	FY 2017[7]	Change %	Change % (excluding FX)
Adjusted Revenue	827.0	779.5	6.1	4.9
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Revenue excl. Discontinued Business	**811.5**	**741.0**	**9.5**	**8.3**

($'m)	FY 2018	FY 2017[7]	Change %
Adjusted EBITDA	447.7	419.5	6.7
Adjusted Cash EBITDA	476.8	451.5	5.6
Adjusted Net Income	270.8	255.1	6.2
Net Debt	1,138.2	1,639.2	(30.6)

Statutory Results:

($'m)	FY 2018	FY 2017	Change %[8]
Revenue	808.3	652.9	23.8
Operating profit	248.3	124.3	Fav
Net Income	241.2	(33.8)	Fav
Net Cash Flows from operating activities	376.0	306.5	22.7

PRESENTATION OF RESULTS

A presentation for analysts and investors will be held at 9:00 AM GMT today (13 March 2019) at UBS, 5 Broadgate, London, EC2M 2QS. To register your attendance please contact avast@tavistock.co.uk. The presentation will also be accessible via a conference call and live webcast. Please register for the call or webcast on the Company website at https://investors.avast.com.

PUBLICATION OF ANNUAL REPORT

The Company intends to publish its Annual Report and Accounts 2018 on 4 April 2019. This document will be available to view on the Company website at https://investors.avast.com and is also being submitted to the National Storage Mechanism for inspection at www.morningstar.co.uk/uk/nsm.

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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 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 Full Year Report we use a number of alternative performance measures 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] Growth rate excluding currency impact calculated by restating 2018 actual to 2017 FX rates (see "Principal exchange rates applied"). Deferred revenue is translated to USD at date of invoice and is therefore excluded when calculating the impact of FX on revenue.
[2] As the company is exiting its toolbar-related search distribution business, which had previously been an important contributor to AVG's revenues (referred to above and throughout the Full Year Report, with the Group's browser clean-up business, as "Discontinued Business"), the growth figures exclude Discontinued Business, which the Group expects to be negligible by the end of 2019. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5 since it has not been disposed of but rather it is being continuously scaled down and is considered to be neither a separate major line of business, nor geographical area of operations.
[3] Adjusted EBITDA margin percentage is defined as Adjusted EBITDA divided by Adjusted Revenue.
[4] Users who have at least one valid paid Consumer Direct Desktop subscription (or licence) at the end of the period.
[5] APPC defined as the Consumer Direct Desktop simple average valid licences or subscriptions for the financial period presented divided by the simple average number of Customers during the same period.
[6] ARPC defined as the Consumer Direct Desktop revenue for the financial period divided by the simple average number of Customers during the same period.
[7] Growth figures exclude the impact of prior year Piriform acquisition through the inclusion of Piriform pre-acquisition results in 2017. Had Piriform, acquired on 18 July 2017, always been a part of the Group, it would have contributed an additional $10.9m to Adjusted Billings, $15.6m to Adjusted Revenue and $10.9m to Adjusted EBITDA in 2017. These amounts are included in the Group's 2017 baseline figures.
[8] "Fav" in change % represents favorable growth rate figure over 100 per cent, "Unf" represents unfavorable decline greater than negative 100 per cent.

CHIEF EXECUTIVE OFFICER'S REVIEW

2018 was a milestone year for Avast. In May, we transitioned from a private to a publicly listed company, and delivered against guided growth in revenue and the customer base. On a like-for-like basis, the Group's Adjusted Revenue increased year-on-year 8.3% excluding currency impact, and 9.5% in actual rates, from $741.0 to $811.5m. The Consumer and SMB segments contributed $748.3m and $63.3m respectively. Our debut on the Main Market of the London Stock Exchange was underscored by our inclusion in the FTSE 250 following our maiden half-year earnings results.

Consumer

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	801.7	746.5	7.4	6.4
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Billings excl. Discontinued Business	**786.2**	**708.0**	**11.1**	**10.1**

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Revenue	763.7	711.1	7.4	6.2
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Revenue excl. Discontinued Business	**748.3**	**672.6**	**11.3**	**10.0**

SMB

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	60.5	64.9	(6.8)	(7.6)
Adjusted Revenue	63.3	68.4	(7.5)	(8.2)

Our strong financial performance was reflected in our operational KPIs, as well as in the development of our product portfolio and partnerships. In November, we hit the milestone of 12 million paying desktop customers, rising to 12.19 million by the end of the year, proving the success of our monetisation platform and illustrating how our strategic up-sell business model delivers value to the customer while growing revenue. Over the year, there was also good growth in Average Revenue Per Customer and Average Products Per Customer.

Consumer Direct Desktop Operational KPIs

	31 December 2018	31 December 2017	Change %
Number of customers	12.19m	11.37m	7.2
Average Products Per Customer	1.40	1.32	6.0
Average Revenue Per Customer	$49.24	$45.35	8.6

In 2018 Avast demonstrated ongoing innovation with the release of multiple products. We expanded our platform real estate by launching Avast Secure Browser and AVG Secure Browser, which are available free to our respective user bases and offer a strong brand message on privacy. In up-sell, we introduced new features in our subscription protection products including anti-phishing protection, sensitive data shield and a Do Not Disturb mode to encourage user upgrade and satisfaction. There was the launch of premium privacy products, Avast AntiTrack and AVG AntiTrack, to help consumers manage tracking cookies for greater online privacy. Importantly, we also continued to fine-tune our cross-selling success through targeted offerings of our performance utility and privacy VPN products.

Business Unit Performance

Consumer Direct Desktop

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	613.9	542.8	13.1	11.9
Adjusted Revenue	580.0	510.8	13.5	12.0

- The largest component of the Avast business, Consumer Direct Desktop, performed strongly in the year. Excluding FX, Adjusted Billings were up 11.9% to $613.9m, while Adjusted Revenue grew 12.0% to $580.0m, in line with guidance of low double-digit growth
- The consumer monetisation platform remains a key driver, effectively promoting up-sells and cross-sells of products, in particular Utilities and VPN. Over the year, c.2m new licences across all products were issued. Performance has been buoyed by the further development of the ecommerce engine and subsequent conversion rates, and expansion of the Avast product portfolio, which includes AntiTrack
- There has also been good implementation on our strategy to smartly target users in different countries, with localisation of more products, sales flows and partnerships. In the second half of the year we added more focus regions to the program, including Mexico
- Reflecting the success in executing to plan, our three key operating metrics scored strongly. End of Period Customers were up 7.2% to 12.19m, Average Revenue Per Customer was up 8.6% to $49.24, and Average Products Per Customer were up 6.0% to 1.40
- In FY 2019 we expect Consumer Direct Desktop to deliver high single-digit revenue growth excluding the impact of FX

Consumer Direct Mobile

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	84.6	85.9	(1.5)	(1.9)
Adjusted Revenue	82.5	82.6	(0.2)	(0.6)

- The Consumer Direct Mobile business delivered broadly flat revenue growth excluding FX, in line with our expectations. This was driven by strong double-digit growth in the direct-to-consumer subscription business, offset by a year-on-year decline in the carrier business primarily due to the loss in 2017 of the Sprint contract
- Performance in the direct-to-consumer business was underpinned by good renewal rates, and bolstered by the introduction of new security functionality and product bundles to attract more uptake
- In the period, three new integrated family safety products were launched with existing mobile carrier partners, Verizon, AT&T and Wind
- Looking forward, future performance is set to benefit incrementally from these and additional product launches including mobile security and VPN solutions with carrier partners in Europe and Asia, as well as increased carrier marketing support. These new launches will partially offset the carry-over impact from the 2017 Sprint loss. With the anticipated benefit of continued good growth in our direct-to-consumer subscription business, we expect revenue in the mobile business overall to be broadly flat for the full year excluding the impact of FX

Consumer Indirect

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

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	103.2	117.8	(12.4)	(12.9)
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Billings excl. Discontinued Business	**87.8**	**79.3**	**10.7**	**10.2**

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Revenue	101.2	117.7	(14.0)	(14.5)
Discontinued Business	15.5	38.5	(59.9)	(60.5)
Adjusted Revenue excl. Discontinued Business	**85.8**	**79.2**	**8.4**	**7.9**

- Ahead of guidance of mid-single digit growth, in 2018 Consumer Indirect excluding Discontinued Business grew revenue to $85.8m, up 7.9% excluding the impact of FX. Growth in Consumer Indirect was driven by Avast Secure Browser and Jumpshot
- Avast Secure Browser (ASB), developed in-house, was launched in March 2018 and delivers important privacy and security features. The conversion of legacy SafeZone Browser users has largely been completed and ASB has also benefited from organic demand including from beyond the Avast and AVG user base. We have experienced excellent overall growth in monthly users and initial trends in monetisation have been positive
- Jumpshot, Avast's data analytics business, delivered strong growth in line with historic rates. It has continued in its diversification, launching a new user interface to provide on-demand analytics to its varied customer based. The business realised strong retention rates above industry standards, and cemented partnerships with several leading consumer brands and agencies
- Google Chrome distribution continued to soften in line with expectations. In March 2018 Avast successfully signed a two-year renewal to March 2020 of the larger of Avast's two Google Chrome distribution contracts, covering Chrome offers to users of the Avast-branded and AVG-branded product sets. Avast's second Google Chrome distribution contract, covering Chrome offers to users of CCleaner, continues to run under its existing term to the end of the first quarter in FY 2019, and we currently expect that this contract should be renewed for a further term, subject to negotiation and acceptable terms
- While Mobile Advertising was adversely affected by GDPR for much of the year, improved Cost per thousand impressions (CPM) and ad formats optimisation supported a positive uplift in advertising toward year end
- The legacy AVG toolbar business, as well as the legacy Avast browser clean-up business, are decreasing as expected. This business line is expected to disappear towards the end of 2019
- In FY 2019 we expect Consumer Indirect excluding Discontinued Business to grow revenue high-single digit, excluding the impact of FX.

SMB

($'m)	FY 2018	FY 2017	Change %	Change % (excluding FX)
Adjusted Billings	60.5	64.9	(6.8)	(7.6)
Adjusted Revenue	63.3	68.4	(7.5)	(8.2)

- SMB Adjusted Revenue excluding FX declined 8.2% year on year, in line with 1H 2018 guidance of high single digit decline, as a result of disruption from the integration of AVG SMB businesses with Avast. Restructuring efforts have advanced and performance indicators are progressing
- The migration of users of endpoint security protection to the new integrated technology is on track. As planned, we have commenced the initial launch phase of our new ordering and billing system to further improve the ease of doing business with our partner community
- We have continued to develop and refine our Network Security solutions teams and are now focused on the phased worldwide rollout of these services to our partners and customers. In the second half of FY 2018 we soft launched Secure Web Gateway (SWG) in the US. SWG was fully released in March 2019. Our Secure Internet Gateway (SIG) solution was released to an internal beta before year end and is scheduled for market launch around half-year 2019
- In the first quarter of FY 2019 Avast will be adding to its layered security solutions with the introduction of a patch management product that helps SMBs effectively monitor and manage the deployment of software patches
- While 2018 was challenging from a performance standpoint, we are encouraged by signs of modest improvement in the business. Largely as a result of the decline in billings during 2018, in FY 2019 we expect mid single-digit revenue decline, excluding the impact of FX and the recent disposal of the Managed Workplace business (see Note 38 on Subsequent events).

Group Strategy

Historically, Avast built its reputation on having the best antivirus solution – free or paid. Today, AV is still a strong foundational product, and we are proud that we continue to lead the market. However, our revenues are now significantly more diversified. We have the largest user base globally of any digital security company at more than 435 million users which has enabled us to evolve our product into a platform which delivers services including e-commerce, browsing, advertising and distribution, and analytics. Our strategy focuses on further development of our product portfolio, increased cross-platform convergence, and expansion in new geographical markets. We already have a robust and diverse portfolio of offerings and our innovation pipeline is focused on new fields of development such as privacy and digital wellness, as users become more educated about the implications of connectivity.

In an increasingly connected world, antivirus on the PC or Mac alone may not be sufficient. The explosion of Internet of Things (IoT) devices opens new opportunities for malicious hackers to violate consumer security. Our vision is to extend security cross-platform, and across multiple devices, including the router in the home. We consider this to be ‘layered security’. Avast will be at the forefront of solving the challenges of securing IoT devices through our Smart Home solutions.

Avast developed its Go Local programme to expand products and services to new markets. This adaptive model considers the market forces of any single country including brand preference, key user behaviours, payment options and cultural dynamics. Our approach to localise rather than apply a ‘one size fits all’ model has helped us build our business and brand in growing markets like Brazil, Russia, and Japan. It will continue to play an important role in capturing growth opportunity outside our traditional markets.

In 2018, we completed the integration of the AVG Technologies and Piriform acquisitions from 2016 and 2017 respectively. These provided more products on the Avast e-commerce platform and offered opportunities to grow Average Revenue Per Customer and Average Products Per Customer through pricing and cross-selling, which we began to implement through in-product messaging during 2018. We also acquired a mobile development team, InLoopX, to support our ambitious growth plans in mobile. Mergers & Acquisition activity can enable scale, access to new users, new products and technologies. Whilst M&A is not a core strategy for 2019, we are a naturally acquisitive company open to the right opportunities.

Group Outlook

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

FINANCIAL REVIEW

Billings, Revenue and EBITDA

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

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

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

Adjusted Revnue in the period of $827.0m included $344.6m from the release of prior-period deferred revenue. The Adjusted Deferred Revenue[9] balance at the end of the period was $439.0m, comprising $387.6m that will be recognized within 12 months of the balance sheet date. This compares to $401.0m, comprising of $344.6m respectively, at the same time last year. The average subscription length in the year ended 31 December 2018 was 14 months (15 months in FY 2017).

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

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

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

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

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

Costs

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

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

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

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

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

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

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

Exceptional items

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

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

Finance income and expense

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

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

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

Income tax

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

The Group recognized an additional deferred tax benefit of $5.6m as a result of the Piriform IP transfer into the UK. The current tax expense related to the transaction was $0.7m. The net tax effect of the transaction is a tax benefit of $4.9m and is treated as an exceptional item.
The gain from the Piriform IP transfer was offset by income tax costs, arising from the write-down of a deferred tax asset. When reviewing previously recognised tax losses across the Group it was determined that it was not probable that the full amount of these losses will be recoverable against future taxable profits in relevant jurisdictions. As a result, $5.6m was recorded as income tax costs, treated as exceptional item as it relates to prior periods.

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

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

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

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

Cash Flow

Unlevered free cash flow represents the amount of cash generated by operations after allowing for capital expenditure, taxation and working capital movements. Unlevered free cash flow provides an understanding of the Group's cash generation and is a supplemental measure of liquidity in respect of the Group's operations. Levered free cash flow represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments.

($'m)	FY 2018	FY 2017	Change	Change %
Adjusted Cash EBITDA	**476.8**	**451.5**	**25.3**	**5.6**
Net change in working capital (excl. change in deferred revenue and deferred COGS)	13.8	(35.1)	48.9	Fav
Capex	(16.8)	(15.9)	(0.9)	(5.8)
Cash Tax	(79.8)	(54.8)	(25.0)	(45.6)
Unlevered Free Cash Flow	**394.0**	**345.7**	**48.3**	**14.0**
Cash Interest	(67.6)	(77.6)	10.0	12.9
Lease Payments	(1.5)	(0.5)	(1.0)	Unf
Levered Free Cash Flow	**324.9**	**267.6**	**57.3**	**21.4**
Cash conversion [10]	**83%**	**77%**		

The working capital movement in 2018 comprised a positive movement in receivables driven by the renegotiation of payment terms with payment providers, the positive impact of an increase in operating costs on payables, offset by payment of outstanding unpaid IPO expenses at the end of the 2017. Adjusted for the impact of renegotiation of payment terms with payment providers, the cash conversion[10] in FY 2018 would be 78% (cash conversion in FY 2017 was 77%).

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

The increase in cash tax is driven by the increase in taxable income and the Czech Republic true-up system, where a company is obliged to make quarterly income tax advances based on its last known tax liability. Upon filing a tax return, tax advances paid during the year for which the tax return is filed offset the final tax liability. As the taxable income for 2017 was significantly higher than the taxable income for 2016, the reported cash tax in 1H 2018 was higher. This true up occurs in 1H of each year and was as expected.

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

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

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

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

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

The Group's net cash outflow from financing activities includes net proceeds from the issue of shares of $195.8m, proceeds from exercise of options in 2H 2018 of $0.9m, offset by the voluntary repayment of borrowings of $(300.0)m, the mandatory repayment of borrowings of $(78.5)m, interest paid of $(67.6)m, transaction costs related to borrowings of $(3.1)m and lease repayments of $(1.5)m. The Group's net cash flows from financing activities in 2017 included $217.5m of proceeds from borrowings, $3.0m from the exercise of options, outflow of $(264.8)m for capital distribution, $(77.6)m of interest paid, $(67.8)m of repayment of borrowings, $(3.5)m of transaction costs related to borrowings and $(0.5)m of lease repayments.

Financing

The Group reduced its term loan from the primary proceeds arising from the IPO on 16 May 2018 and additional excess cash of $100m, reducing the USD tranche by $300m (see Note 29 Term loan). As of 31 December 2018, the total Gross debt[11] of the Group was $1,410.5m and the total Net debt[11] was $1,138.2m. The decrease in gross debt is attributable to $300.0m voluntary repayment of borrowings, $78.5m of mandatory repayments of borrowings and a positive unrealized FX gain of $26.4m on the EUR tranche of the loan.

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

Principal exchange rates applied

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

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

Earnings per share

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

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

Dividend

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

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

Notes:
[9] Adjusted deferred revenue represents the balance of deferred revenue excluding the effects of the fair value revaluation of the acquiree's pre-acquisition deferred revenues and including the impact of gross-up adjustment.
[10] Cash conversion is defined as Unlevered Free Cash Flow divided by Adjusted Cash EBITDA.
[11] Gross debt represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals). Net debt indicates gross debt netted by the company's cash and cash equivalents. Both gross debt and net debt exclude the amount of capitalized arrangement fees on the balance sheet as of 31 December 2018 of $19.1m and accrued interest of $(0.1)m (31 December 2017: $34.7m and $(0.5)m).

PRINCIPAL RISKS AND UNCERTAINTIES

The occurrence of any of the key risks below would have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects:

Risk	Impact	Mitigation
Our product and service offerings do not appeal to users.	If we do not offer products and services that appeal to users, our free user base may materially decline and/or we will fail to monetise our products and services.	Our strategy to address this risk is to invest in product innovation, product management, quality assurance, and customer care.
Talented people leave or do not join our workforce.	If we cannot attract or retain a talented workforce, we will not remain competitive in our industry.	We believe we need to create an exciting brand; provide attractive and competitive compensation; provide people with global mobility; recruit from a broad pool of candidates and promote based on diversity of backgrounds, skills, cultures, gender, and ethnicity; and provide effective training for personal and professional growth.
Our data is compromised.	Failing to protect our data could have major customer, financial, reputational, and regulatory impact in all markets in which we operate.	We strive for strong, effective, thorough data security and good data governance. We produce products designed for security and privacy, and believe this helps us maintain an ethical culture of people who are concerned about and committed to securing and protecting data.
We operate a digital business globally and the scale and complexity of new laws are increasing as the digital economy becomes the backbone of global economic growth.	New laws that challenge growth, including data protection, consumer laws, auto-billing, and digital tax.	We monitor global legal developments and participate in industry-wide lobbying.
Our products rely on our users being able to easily find and install them.	We face exposure and risks from large vendors, such as Microsoft, Google, Apple, Facebook, Digital River, and telco carriers, who may take actions that restrict our users from being able to access and use our products.	We develop deep partner relationships with these vendors; however we believe it is imperative that alternative growth strategies through organic efforts and acquisition are pursued.

PRESENTATION OF RESULTS AND DEFINITIONS

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

These non-IFRS financial measures and other metrics are not measures recognised under IFRS. The non-IFRS financial measures and other metrics, each as defined herein, may not be comparable to similarly titled measures presented by other companies as there are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. Even though the non-IFRS financial measures and other metrics are used by management to assess the Group's financial results and these types of measures are commonly used by investors, they have important limitations as analytical tools, and investors should not consider them in isolation or as substitutes for analysis of the Group's position or results as reported under IFRS. The Group considers the following metrics to be the KPIs it uses to help evaluate growth trends, establish budgets and assess operational performance and efficiencies. The definition of non-GAAP measures in the year-ended 31 December 2018 is consistent with those presented in the IPO prospectus and there have been no changes to the bases of calculation.

Adjusted Billings

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

Adjusted Revenue

Adjusted Revenue represents the Group's reported revenue (including Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Revenue for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Revenue") adjusted for the Deferred Revenue Haircut Reversal[12], the Gross-Up Adjustment[13] and the Piriform Revenue Adjustments (from pre-acquisition billings). The following is a reconciliation of the Group's statutory Revenue to the Group's Adjusted Billings, Group's statutory Revenue to the Group's Adjusted Revenue and Group's Billings to the Group's Adjusted Billings:

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

Adjusted EBITDA

Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal[12], the COGS Deferral Adjustments[14] and Piriform pre-acquisition EBITDA.

Adjusted Cash EBITDA

Cash earnings before interest, taxation, depreciation and amortisation ("Adjusted Cash EBITDA") is defined as Adjusted EBITDA plus the net deferral of revenue, the net change in deferred cost of goods sold, the reversal of the COGS Deferral Adjustments[14] and Piriform's pre-acquisition net deferral of revenue. The following is a reconciliation of the Group's statutory Operating profit to Adjusted EBITDA and Adjusted Cash EBITDA:

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

Adjusted Net income

Adjusted Net Income represents statutory net income plus the Deferred Revenue Haircut Reversal[12], share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the COGS Deferral Adjustments[14], Piriform's pre-acquisition Net Income, the tax impact from the unrealised exchange differences on intercompany loans and the tax impact of the foregoing adjusting items and IP transfers. The following is a reconciliation of the Group's statutory Net income to Adjusted Net Income:

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

Unlevered Free Cash Flow

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

Levered Free Cash Flow

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

Rounding

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

Notes:

[12] 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".

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

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the year-ended 31 December 2018

	Note	Year-ended 31 December 2018 $M (Unaudited)	Year-ended 31 December 2017 $M (restated)
REVENUE	9	808.3	652.9
Cost of revenues	12	(241.4)	(230.3)
GROSS PROFIT		**566.9**	**422.6**
Sales and marketing		(124.5)	(116.2)
Research and development		(68.9)	(68.2)
General and administrative		(125.2)	(113.9)
Total operating costs	13	**(318.6)**	**(298.3)**
OPERATING PROFIT		**248.3**	**124.3**
Analysed as:			
Underlying Operating profit		**415.3**	**299.7**
Share-based payments	34	(13.9)	(7.7)
Exceptional items	10	(25.6)	(34.8)
Amortisation of intangible assets acquired through business combinations	16	(127.5)	(132.9)
Interest income	15	0.3	-
Interest expense	15	(85.8)	(90.4)
Other finance income and expense (net)	15	19.7	(62.8)
PROFIT (LOSS) BEFORE TAX		**182.5**	**(28.9)**
Income tax	17	58.7	(4.9)
PROFIT (LOSS) FOR THE FINANCIAL YEAR		**241.2**	**(33.8)**
Earnings/(losses) per share (in $ per share):			
Basic EPS	18	0.26	(0.04)
Diluted EPS	18	0.25	(0.04)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year-ended 31 December 2018

	Year-ended 31 December 2018 $M (Unaudited)	Year-ended 31 December 2017 $M
Profit (loss) for the financial year	**241.2**	**(33.8)**
Other comprehensive gains (losses):		
Items that will not be reclassified subsequently to profit or loss (net of tax):		
- Defined benefit plan actuarial gain	-	0.1
Items that may be reclassified subsequently to profit or loss:		
- Translation differences	(1.6)	(1.6)
Total other comprehensive (losses)	**(1.6)**	**(1.5)**
Comprehensive income (loss) for the year	**239.6**	**(35.3)**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

Company registered number: 07118170	Note	31 December 2018 $M (Unaudited	31 December 2017 $M (restated)
ASSETS			
Current assets			
Cash and cash equivalents	19	272.3	176.3
Trade and other receivables	20	82.9	93.2
Capitalised contract costs	21	31.2	27.1
Prepaid expenses		8.5	8.7
Inventory		0.5	0.5
Tax receivables	17	7.3	7.5
Other financial assets	22	0.4	1.0
		403.1	314.3
Non-current assets			
Property, plant and equipment	23	29.3	29.5
Intangible assets	24	267.3	394.3
Deferred tax assets	17	204.1	66.3
Other financial assets	22	0.7	1.9
Capitalised contract costs	21	4.6	0.1
Prepaid expenses		2.0	0.4
Goodwill	25	1,993.7	1,986.7
		2,501.7	2,479.2
TOTAL ASSETS		**2,904.8**	**2,793.5**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current liabilities			
Trade payables and other liabilities	26	64.0	74.1
Lease liability		0.4	1.7
Provisions	27	9.1	6.2
Income tax liability		40.4	28.1
Deferred revenue	28	384.3	324.3
Term loan	29	73.4	92.5
		571.6	526.9
Non-current liabilities			
Lease liability		2.6	3.3
Provisions	27	0.9	1.2
Deferred revenues	28	51.2	54.5
Term loan	29	1,318.1	1,688.8
Financial liability	30	1.0	3.2
Other non-current liabilities		4.3	2.2
Deferred tax liabilities	17	54.7	78.3
		1,432.8	1,831.5
Shareholders' equity			
Share capital	32	129.0	371.7
Share premium, statutory and other reserves	32,33	275.9	3.3
Translation differences		(0.3)	1.3
Retained earnings		494.8	57.9
Equity attributable to equity holders of the parent		899.4	434.2
Non-controlling interest		1.0	0.9
		900.4	435.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2,904.8**	**2,793.5**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year-ended 31 December 2018

	Note	Share Capital	Share premium, statutory and other reserves	Translation differences	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
		$M	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**
At 31 December 2016		**565.3**	**73.1**	**2.9**	**82.5**	**723.8**	**0.7**	**724.5**
Result of the year		-	-	-	(33.8)	(33.8)	-	(33.8)
Other comprehensive income		-	0.1	(1.6)	-	(1.5)	-	(1.5)
Comprehensive income (loss) for the period		**-**	**0.1**	**(1.6)**	**(33.8)**	**(35.3)**	**-**	**(35.3)**
Transfer within equity	32	23.0	(77.9)	-	54.9	-	-	-
Capital distribution	32	(219.1)	-	-	(45.7)	(264.8)	-	(264.8)
Share-based payments	34	-	7.5	-	-	7.5	0.2	7.7
Exercise of share options	34	2.5	0.5	-	-	3.0	-	3.0
At 31 December 2017		**371.7**	**3.3**	**1.3**	**57.9**	**434.2**	**0.9**	**435.1**
Result of the year		-	-	-	241.2	241.2	-	241.2
Other comprehensive income		-	-	(1.6)	-	(1.6)	-	(1.6)
Comprehensive income (loss) for the period		-	-	(1.6)	241.2	239.6	-	239.6
Primary proceeds	32	8.0	191.8	-	-	199.8	-	199.8
Group re-organisation	32	(250.8)	250.8	-	-	-	-	-
Capital reduction	32	-	(180.6)	-	180.6	-	-	-
Other movements		-	-	-	0.3	0.3	-	0.3
Share issue expense	32	-	(4.0)	-	-	(4.0)	-	(4.0)
Share-based payments deferred tax	17	-	-	-	14.8	14.8	-	14.8
Share-based payments	34	-	13.8	-	-	13.8	0.1	13.9
Exercise of options	34	0.1	0.8	-	-	0.9	-	0.9
At 31 December 2018 (Unaudited)		**129.0**	**275.9**	**(0.3)**	**494.8**	**899.4**	**1.0**	**900.4**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year-ended 31 December 2018

	Note	For the year ended 31 December 2018 $M (Unaudited)	For the year ended 31 December 2017 $M
Cash flows from operating activities			
Profit (loss) for the financial year		241.2	(33.8)
Non-cash adj. to reconcile profit to net cash flows:			
Income tax	17	(58.7)	4.9
Depreciation	16	13.4	15.4
Amortisation	16	130.3	136.6
Loss/(gain) on disposal of property, plant and equipment		(0.2)	0.7
Movement of provisions and allowances		3.5	(17.8)
Interest income	15	(0.3)	(0.1)
Interest expense, changes of fair values of derivatives and other non-cash financial expense	15	85.5	96.3
Shares granted to employees	34	13.9	7.7
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		(2.8)	3.4
Unrealised foreign exchange gains and losses and other non-cash transactions		(32.0)	56.0
Working capital adjustments:			
(Increase)/decrease in trade and other receivables		4.1	(45.1)
Increase/(decrease) in trade and other payables		1.0	(10.6)
Increase in deferred revenues	28	56.9	147.7
Income tax paid		(79.8)	(54.8)
Net cash flows from operating activities		**376.0**	**306.5**
Cash flows from investing activities			
Acquisition of property and equipment	23	(13.5)	(10.1)
Acquisition of intangible assets	24	(3.4)	(5.8)
Investment in subsidiary, net of cash acquired		(4.2)	(157.6)
Settlement of contingent consideration	26	(8.0)	(1.0)
Restricted cash		-	0.5
Interest received		0.3	0.2
Net cash used in investing activities		**(28.8)**	**(173.8)**
Cash flows from financing activities			
Proceeds from issue shares	32	199.8	-
Transaction costs related to the issue shares	32	(4.0)	-
Capital distribution	32	-	(264.8)
Exercise of options	32, 34	0.9	3.0
Repayment of borrowings	29	(378.5)	(67.8)
Proceeds from borrowings	29	-	217.5
Transaction costs related to borrowings	29	(3.1)	(3.5)
Interest paid	29	(67.6)	(77.6)
Lease repayments		(1.5)	(0.5)
Net cash used from financing activities		**(254.0)**	**(193.7)**
Net increase/(decrease) in cash and cash equivalents		93.2	(61.0)
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies		2.8	(3.4)
Cash and cash equivalents at beginning of period	19	176.3	240.7
Cash and cash equivalents at end of period	**19**	**272.3**	**176.3**

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

1. GENERAL INFORMATION

Avast plc, together with its subsidiaries (collectively, “Avast”, “the Group” or “the Company”), is a leading global cybersecurity provider. Avast plc is a public limited company incorporated and domiciled in the UK, and registered under the laws of England & Wales under company number 07118170 with its registered address at 110 High Holborn, London WC1V 6JS. The ordinary shares of Avast plc are admitted to the premium listing segment of the Official List of the UK Financial Conduct Authority and trade on the London Stock Exchange plc’s main market for listed securities.

Prior to the Initial Public Offering (“IPO“), Avast Holding B.V. (“Avast Holding“) was the parent company of the Group for which consolidated financial statements were produced. On 10 May 2018 (the date of completion of the IPO, with 15 May 2018 representing admission to trading on the London Stock Exchange), the shareholders of Avast Holding transferred all of their shares in Avast Holding to Avast plc in exchange for ordinary shares of equal value in Avast plc (“Reorganisation“). This resulted in Avast plc becoming the new parent company of the Group. The financial information for the year ended 31 December 2018 (and comparative information for the year ended 31 December 2017) is presented as a continuation of Avast Holding.

These results do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have not been audited nor delivered to the registrar.

Prior to the Initial Public Offering (“IPO“), Avast Holding B.V. (“Avast Holding“) was the group for which consolidated financial statements were produced. On 10 May 2018 (the date of completion of the IPO, with 15 May 2018 representing admission to trading on the London Stock Exchange 2018), the shareholders of Avast Holding exchanged all their shares for Avast plc shares with Avast plc becoming the new holding company of the Avast Group (“Reorganisation“). Statutory accounts of Avast Holding for the year ended 31 December 2017 were approved by the Board of Directors on 27 April 2018 and were delivered to the Chamber of Commerce in Netherlands. The report of the independent auditor on those financial statements was unqualified and did not contain any statement as would be required under section 498 of the Companies Act 2006.

2. BUSINESS COMBINATIONS IN 2018

Acquisition of Inloop s.r.o (“Inloop’’)

On 1 August 2018, Avast Software s.r.o. acquired a 100% stake in Inloop s.r.o. (“Inloop”) on behalf of INLOOPX s.r.o (“INLOOPX”), a mobile engineering services firm based in Slovakia. The reason for the acquisition was to obtain the skilled team of engineers to strengthen Avast’s Mobile business.

The transaction represented a business combination with Avast Software s.r.o. being the acquirer. The acquisition date was determined to be 1 August 2018. The former shareholders of Inloop do not have ongoing involvement in the business or with the Avast Group, following the acquisition.

The fair value of the consideration at the acquisition date was determined by the Group to be EUR 7.3 million ($8.6 million) and comprised the following components:

- Initial payment – on the acquisition date EUR 4.0 million ($4.7 million) was paid in cash to the owners of Inloop ($4.2 million net of cash acquired).
- Retention Earn-out payment – the earn-out of up to EUR 3.6 million ($4.2 million) represented a contingent consideration payable in cash 18 months after the acquisition date. As of the acquisition date, the probability weighted discounted present value of the earn-out was determined to be EUR 3.0 million ($3.5 million).
- Consolidation Earn-out payment – the earn-out of up to EUR 0.4 million ($0.4 million) represented a contingent consideration payable in cash 12 months after the acquisition date. As of the acquisition date, the probability weighted discounted present value of the earn-out was determined to be EUR 0.3 million ($0.4 million).

The fair value of assets acquired and liabilities incurred on the acquisition date was determined on final basis as follows:

($ 'm)	Fair Value at 1 August 2018
Cash	0.4
Personal property	0.2
Trade and other receivables	1.5
Total Assets	**2.1**
Total Liabilities	**0.5**
Net Assets acquired	**1.6**
Consideration given	**8.6**
Goodwill	**7.0**

The business combination results in the recognition of goodwill of $7.0 million which is tested for impairment at least annually. The large proportion of goodwill to other identified assets is due to Inloop not having any significant identifiable assets other than the skilled workforce (the obtaining of which was the main purpose of the acquisition). The carrying value of goodwill is not expected to be tax deductible.

The revenues and net profit of the Group for the year ended 31 December 2018 would not have been significantly different had the acquisition occurred at the beginning of the reporting period (1 January 2018).

3. BUSINESS COMBINATIONS IN 2017

Acquisition of Piriform and FileHippo

On 18 July 2017, Avast BV acquired a 100% stake in Piriform Group Ltd. for a consideration of $121.4 million. At the same time, Avast Software s.r.o. acquired a download website, FileHippo, for a consideration of $6.0 million from Well Known Media Ltd. Shareholders of Well Known Media Ltd. also owned the Piriform Group Ltd.

Piriform Group Ltd. develops popular cleaning and optimization software for PCs and mobile devices. FileHippo is a download website that offers computer software. The primary reason for the acquisition was to obtain access to the user base of the Piriform Group Ltd. and leverage revenue synergies between the two companies and product lines.

Under IFRS 3: Business Combinations (“IFRS 3”), the transaction represents a business combination with both Avast BV and Avast Software s.r.o. being the acquirers. The acquisition date was determined to be 18 July 2017.

The fair value of the consideration at the acquisition date was determined by the Group to be $127.4 million for 100% ownership. The consideration given was paid in cash.

($'m)	Fair value at 18 July 2017
Assets	
Cash and cash equivalents	8.5
Trade and other receivables	2.3
Prepaid expenses	0.2
Tax receivables	0.1
Current assets	**11.1**
Property, plant and equipment	0.3
Intangible assets	32.6
Non-current assets	**32.9**
Total Assets	**44.0**
Shareholders' equity and liabilities	
Trade and other payables	1.4
Deferred revenues	-
Current liabilities	1.4
Deferred tax liabilities	6.1
Non-current liabilities	6.1
Total Liabilities	**7.5**
Net Assets acquired	**36.5**
Consideration given	**127.4**
Goodwill	**90.9**

The business combination resulted in the recognition of goodwill of $90.9 million which is tested for impairment at least annually. The goodwill of $90.9 million comprises of the cross-sale of Avast and Piriform products, improvements of the trial to a premium conversion rate, the move from one-off licences to recurring licences and future software upgrades. The carrying value of goodwill is not expected to be tax deductible.

The Group incurred acquisition-related transactions costs of $2.6 million, which were recorded as General and administrative expenses in the statement of comprehensive income.

The revenues of the Group for the year ended 31 December 2017 were $652.9 million, to which Piriform Group Ltd. and FileHippo contributed $6.1 million. If the business combination had occurred at the beginning of the reporting period (1 January 2017) the revenues of the Group would have been $663.6 million and the contribution of Piriform Group Ltd. and FileHippo would have been $16.8 million.

The net result of the Group for the year ended 31 December 2017 was a net loss of $33.8 million, to which Piriform Group Ltd. and FileHippo contributed a net profit of $0.4 million. If the business combination had occurred at the beginning of the reporting period (1 January 2017), the net loss of the Group would have been a net loss of $32.4 million and the contribution of Piriform Group Ltd. and FileHippo would have been a net profit of $1.8 million.

4. APPLICATION OF NEW AND REVISED IFRS STANDARDS

Newly adopted standards

IFRS 9 Financial Instruments

The standard introduces new requirements for the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting. The Group applied the standard as of 1 January 2018 using the modified retrospective approach. The adoption has not had a material impact on the recognition, classification and measurement of financial assets and liabilities. The term loan has been classified as a financial liability at amortised cost.

Based on the evaluation of the loan, the Group applied the judgement that the repricing of the margin on the loan to market terms, which is allowed for in the terms of the loan, was a change in contractual variable payments to be accounted for by altering prospectively the effective interest rate consistent with the requirements for IFRS 9.5.4.5 for floating rate loans.

The Group has adopted the expected loss model for impairment of receivables. The adoption of the model had no material impact compared to the existing reserve methodology employed by the Company on the carrying value of receivables as of 1 January 2018.

The Group applies practical expedients when measuring the expected credit loss. The Group applies simplified approach and recognises expected lifetime loss allowance to trade receivables and contract assets. Expected lifetime loss is calculated using the provision matrix, which assigns provision rates to classes of receivables based on number of days they are overdue, based on Group’s historical credit loss experience adjusted for forward-looking development. The classes of receivables are stratified per types of customers by operating segments between the Consumer and SMB receivables.

IFRS 15 Revenue from Contracts with customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Group applied the standard as of 1 January 2018.

The Group decided to apply the modified retrospective method of adoption under which IFRS 15 requires restatement of those contracts which are not completed as at the date of adoption. The Group performed an analysis of these contracts and concluded that the impact of adoption has no material impact on the Group’s consolidated financial statements other than that capitalized contract costs are now presented separately.

Following the implementation of IFRS 15, contract related fees (such as commissions to e-commerce shopping cart and online payment processes service providers) were reclassified from prepaid expenses and are now presented as current capitalised contract costs of $31.2 million (2017: $27.1 million) and as non-current capitalised contract costs of $4.6 million (2017: $0.1 million) as of 31 December 2018. There is no impact on the consolidated statement of profit and loss.

The Group also uses a practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The standard required entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group has assessed principal versus agent consideration to be a key judgement area.

The Group has revenue arrangements with resellers, payment providers, partners and other third parties. When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers’ commissions, payment provider fees and the third party costs). Otherwise revenues are recognised on a net basis.

- Management evaluated that the Group is principal in the direct sales of software licences through its E-commerce partners directly to end customers.
- The Group also sells subscription software licences through an e-shop directly to end customers in cooperation with certain payment gateway providers. Revenue from sales through the e-shop are accounted for on a gross basis before the deduction of payment gateway fees. The Group controls the promised products before transferring them to the customer.
- Revenue share on sales made by Mobile Network Operators (“MNOs”) partners of various products of Location Labs, Inc. (“Location Labs”) are recognised net of partners’ commissions as the MNOs act as principals in contracts with the end customers.
- Sales of third party solutions are accounted for net of the costs of the third party providing the product or service to the end customer. The provision of the product or service to the end customer is the responsibility of the third party. Refer to Note 7, section *Gross versus net revenue accounting* for further comments.

The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group evaluated the commissions, payment and other fees and third party licence costs related to the subscription software licences as incremental costs of obtaining a contract. As a result of IFRS 15, these capitalised contract related costs have now been classified separately in the statement of financial position, and the comparative balances have been reclassified for consistency purposes. Previously these costs were classified within prepaid expenses.

Standards issued but not yet effective
The Group has not applied the following new or revised standards and interpretations that have been issued, but are not yet effective:

IFRS 16 Leases
On 13 January 2016, IASB issued a new standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has low value. The standard applies to annual reporting periods beginning on or after 1 January 2019.

The Group applies the standard as of 1 January 2019 using the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses and assessed for impairment at the date of initial application).

The Group has used the following practical expedients permitted by the standard:
- not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the adjustment of the right-of-use asset for any recognised onerous lease provisions, instead of performing an impairment review
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As at the reporting date, the Group has non-cancellable net operating lease commitments of $87.7 million, see Note 36. Of these commitments, approximately $0.5 million relate to short-term leases which will be recognised on a straight-line basis as an operating expense in the consolidated statement of profit and loss. The Group has no low-value leases such as laptops and printers as these are purchased versus leased.

The impact of the initial recognition on 1 January 2019 is as follows:

($'m)	1 January 2019
Right-of-use assets	69.7
Prepayments	(2.0)
Accrued leased payments	4.0
Lease liabilities	(71.7)

The expected impact on the consolidated statement of profit and loss for the year 2019 (tax impact not included):

($'m)	IAS 17	Adjustment	IFRS 16
Operating costs	(8.5)	8.5	-
Depreciation	-	(7.6)	(7.6)
Interest expense	-	(2.3)	(2.3)
Net profit before tax	**(8.5)**	**(1.4)**	**(9.9)**

5. BASIS OF PREPARATION

The unaudited consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements have been prepared on a historical cost basis and are presented in US dollars. All values are rounded to the nearest 0.1 million ($'m), except where otherwise indicated.

As there was no change in control with the Reorganisation (see Note 1) involving Avast plc becoming the new holding company of the Group in a share for share exchange, the financial information for the year ended 31 December 2018 (and comparative information for the year ended 31 December 2017) is presented as a continuation of Avast Holding. A movement in share capital, share premium and other reserves is reflected in the statement of changes in equity at the date of the Reorganisation.

Under section 408 of the Companies Act 2006, the parent company is exempt from the requirement to present its own profit and loss account.

The Group uses the direct method of consolidation, under which the financial statements are translated directly into the presentation currency of the Group, the US Dollar ("USD"). The consolidation of a subsidiary begins when the Group obtains control over the subsidiary, and continues to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

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

Change in accounting policy – effect of IFRS 15 adoption

Refer to Note 4 for the description of the impact on the financial statements of the adoption of IFRS 15.

Change in accounting policy – reclassification of certain costs

From 1 January 2018, the Group presents certain overhead costs related to office leases within general and administrative costs instead of allocating them to cost of revenues, sales and marketing, research and development and general and administrative categories. Comparative balances have been adjusted for consistency purposes. This change has no overall effect on profit for the period or earnings per share ("EPS").

($'m)	31 December 2017	Change in accounting policy – reclassification of office costs	31 December 2017 (restated)
Revenues	652.9	-	652.9
Cost of revenues	(232.8)	2.5	(230.3)
Gross Profit	**420.1**	**2.5**	**422.6**
Sales and marketing	(121.4)	5.2	(116.2)
Research and development	(75.5)	7.3	(68.2)
General and administrative	(98.9)	(15.0)	(113.9)
Total Operating costs	**(295.8)**	**(2.5)**	**(298.3)**
Operating Profit	**124.3**	**-**	**124.3**

The reclassification was made to align the consolidated statement of profit and loss with the internal operating costs classification.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in preparing the historical financial information are set out below. These accounting policies have been consistently applied in all material respects to all periods presented except for the changes described in Notes 4 and 5.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with a customer and excludes taxes and duty. The Group recognizes the revenue when it transfers control over a product and service to a customer. Each contract is evaluated to determine whether the Group is the principal in the revenue arrangements.

Revenues from individual products and services are aggregated into the following categories:

Consumer

Direct
The principal revenue stream of the Group is derived from the sale of its software and related services for desktop and mobile which protect users' security, online privacy and device performance. Licence agreements with customers include a pre-defined subscription period during which the customer is entitled to the usage of the products, including updates of the software. The typical length of a subscription period is 1, 12, 24, or 36 months. Antivirus software require frequent updates to keep the software current in order for it to be beneficial to the customer and the customer is therefore required to use the updated software during the licence period. This provides evidence that the licence grants the right to access the software over time and therefore revenue is recognised over the term of the licence. The software licence, together with the unspecified updates, form a single distinct performance obligation.

The Group mainly sells software licences through direct sales (mainly through e-commerce services providers including Digital River and the Group's e-shop) to customers. However, the Group also sells a small portion through indirect sales via the Group's retailers and resellers. See Note 7 for the judgements made in determining whether the Group acts as a principal or agent.

Deferred revenue represents the contract liability arising from contracts with customers. The portion of deferred revenues that will be recognised as revenue in the 12 months following the balance sheet date is classified as current, and the remaining balance is classified as non-current. Deferred revenue also materially represents the transaction price relating to sales of software licences that is allocated to future performance obligations. Some of the Group's products can be used on a one-time basis (VPN and Utilities), in which case sales are recognised immediately as revenue.

Location Labs, Inc. ("Location Labs") provides mobile security solutions that partner with MNOs providing locator, phone controls and drive safe products to their customers. The revenues generated by these arrangements are based on revenue share percentages as stated in the MNO agreements. Revenue is recognised on a net basis, after deduction of partners` commissions, based on the delivery of monthly services to the end customers of the MNOs.

The Group also sells a limited amount of physical CDs through its distributors which then sell the Group's products (Internet Security and Antivirus Software) to retail stores. The retail revenue is recognised on a gross basis, before the deduction of distributors commissions, ratably over the subscription period.

The Group reduces revenue for estimated sales returns. End users may return the Group's products, subject to varying limitations, through resellers or to the Group directly for refund within a reasonably short period from the date of purchase. The Group estimates and records provisions for sales returns based on historical experience. The amount of such provisions is not material.

Indirect
Consumer indirect revenues arise from several products and distribution arrangements that represent the monetisation of the user base. The most significant sources of revenues are:

- Google – The Group has two distribution arrangements with Google Ireland Limited ("Google") pursuant to which the Group is paid fees in connection with the Group's offers to users of Google Chrome or Google Toolbar. The Group recognises revenue from Google in full in the month they are earned as the Group has no subsequent performance obligations after the date of sale.

- Secure Browsing – The Group's Secure browser earns the Group a share of advertising revenue generated by end user search activity. Revenue is recognised immediately as the Group has no performance obligation after the date of sale.

- Advertising – Other Consumer Indirect derived revenues are comprised of advertising fees and product fees. Advertising fees are earned through advertising arrangements the Group has with third parties whereby the third party is obligated to pay the Group a portion of the revenue they earn from advertisements to the Group's end users. Amounts earned are reflected as revenue in the month the advertisement is delivered to the end user. The Group also receives product fees earned through arrangements with third parties, whereby the Group incorporates the content and functionality of the third party into the Group's product offerings. Fees earned during a period are based on the number of active clients with the installed third-party content or functionality multiplied by the applicable client fee.

- Analytics – The Group offers big data and marketing analytics through its entity, Jumpshot Inc. ("Jumpshot"), generating mostly recurring subscription revenue. Subscriptions are recognised ratably over the subscription period covered by the contract.

Small and Medium-sized business (''SMB'')

SMB includes subscription revenue targeted at small and medium-sized businesses. Revenue is generated through the sale of security software and other IT managed solutions (including CloudCare and AVG Managed Workplace). CloudCare is a cloud-based security suite designed for SMBs and third party managed service providers who can use this tool to manage security on behalf of their clients. Managed Workplace is a remote monitoring and management platform. Licences under these management solutions are provided in conjuction with hosting services as the customers have no control over the software independently. The licence is not distinct and would be combined with the hosting service as a single performance obligation. The performance obligation is typically satisfied over the subscription term, beginning on the date that service is made available to the customer. Revenues from sales of CloudCare and AVG Managed Workplace are recognised on a gross basis, before deduction of the payment gateways fees.

Cost of revenues

Expenses directly connected with the sale of products and the provision of services, e.g. commissions, payments and other fees and third party licence costs related to the subscription software licences, are recognised as cost of revenues.

Capitalised contract costs

The Group pays commissions, third party licence costs and payment fees to resellers and payment providers for selling the subscription software licences to end customers. Capitalised contract costs are amortised over the licence period and recognised in the cost of revenues. Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss.

Taxes

Current income tax assets and liabilities recognised are the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Deferred tax is recognised for all temporary differences, except:

- where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, whereby the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date for the respective tax jurisdiction.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The Group's historical financial information is presented in US dollars ("USD" or "$"). The functional currencies of all Group entities are presented in the table below. Each entity in the Group (including branch offices not representing incorporated entities) determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. For the purposes of inclusion in the historical financial information, the statement of financial position of entities with non-USD functional currencies are translated into USD at the exchange rates prevailing at the balance sheet date and the income statements are translated at the average exchange rate for each month of the relevant year. The resulting net translation difference is recorded in other comprehensive income.

The functional currencies of the Group's main entities are as follows:

Company or branch	Functional currency
Avast plc	USD
Avast Holding B.V.	USD
Avast Operations B.V.	USD
Avast Software B.V.	USD
Avast Software s.r.o.	USD
Avast Software, Inc.	USD
Avast Corporate Services B.V.	USD
AVG Technologies Canada Inc.	CAD
Avast Deutschland GmbH	EUR
AVG Technologies UK Limited	GBP
AVG Technologies USA, Inc.	USD
FileHippo s.r.o.	CZK
InloopX s.r.o.	EUR
Location Labs, Inc	USD
Piriform Group Limited	GBP
Piriform Limited	GBP
Piriform Software Limited	GBP
Piriform, Inc.	USD
Privax Limited	USD
TACR Services, Inc.	USD
Jumpshot s.r.o.	CZK
Jumpshot, Inc.	USD

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recalculated at the functional currency spot rate of exchange valid at the reporting date. All differences are recorded in the statement of profit and loss as finance income and expenses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *IAS 39 Financial Instruments: Recognition and measurement*. Contingent consideration is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. During the measurement period, which may be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statement of Profit and Loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition.

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the Consolidated Statement of Profit and Loss in the expense category consistent with the function of the intangible assets.

Indefinite lived intangibles are not amortised but are tested for impairment annually and for impairment indicators on a quarterly basis. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be appropriate.

The useful economic lives of intangible assets are as follows:

	Years
Developed technology	4-5
Avast & FileHippo Trademark	Indefinite
Piriform Trademark	10
AVG Trademark	6
Customer relationships and user base	4
Other licensed intangible assets	3-5

Research and development costs
Research costs are expensed when incurred as the criteria for capitalisation are not met. Development expenditures are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Development expenditure incurred on minor or major upgrades, or other changes in software functionalities does not satisfy the criteria, as the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense in the Consolidated Statement of Profit or Loss as incurred.

Goodwill
Goodwill is assessed as having an indefinite useful life and is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The present value of the expected cost for the restoration of rented premises after the end of their use is included in the cost of construction if the recognition criteria for a provision are met.

Ordinary repairs and maintenance costs are charged to the statement of profit and loss during the accounting period during which they are incurred.

Depreciation is recorded on a straight-line basis over the estimated useful life of an asset, as follows:

	Years
Leasehold improvements	over the lease term
Machinery and equipment	2-5
Vehicles	4-5

Gains or losses arising from the de-recognition of tangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Profit and Loss when the asset is de-recognised.

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the Consolidated Statement of Profit and Loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. The reversal is limited so that the carrying amount of the asset does not exceed the lower of its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Profit and Loss.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the operating segment level, which is the smallest group of CGUs to which the Goodwill and intangible assets with indefinite useful life can be allocated. Goodwill is allocated to the groups of CGUs, that corresponds with operating segments (Consumer and SMB) according to the allocation from past business combinations – see Note 9. Intangible assets with indefinite useful lives are all allocated to the Group of CGUs that corresponds to the Consumer operating segment.

Operating leases

Leases where the lessee does not obtain substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the Consolidated Statement of Profit and Loss on a straight-line basis over the lease term.

Employee stock option plans

Employees of the Group receive remuneration in the form of share-based payment transactions whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions
The cost of equity-settled transactions is determined based on the fair value of the share-based payment award at the date when the grant is made, taking into account the market and non-vesting conditions, using an appropriate valuation model. Non-market vesting conditions, are not taken into account in determining the fair value of the award. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The Consolidated Statement of Profit and Loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in compensation expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled transaction are modified, where the modification increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification, additional expense is recognised. When an equity-settled award is cancelled other than by forfeiture, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award. The dilutive effect of outstanding options is reflected in the computation of diluted earnings per share.

Employee benefits

Pension obligations
Contributions are made to the Government health, retirement benefit and unemployment plans at statutory rates applicable during the period and are based on gross salary payments. The arrangements of the Government health, retirement benefit and unemployment plans qualify as defined contribution plans. The Group has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to profit and loss in the same period as the related salary expense. As a benefit for employees, the Group also makes contributions to defined contribution schemes operated by external (third party) pension companies. These contributions are charged to profit and loss in the period to which the contributions relate.

Defined contribution plans
The Group maintains a defined contribution 401(k) retirement savings plan for its U.S. employees. Each participant in the 401(k) retirement savings plan may elect to contribute a percentage of his or her annual compensation up to a specified maximum amount allowed under U.S. Internal Revenue Service regulations. The Group matches employee contributions to a maximum of 4% of the participant annual compensation.

Redundancy and termination benefits
Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognises redundancy and termination benefits when it is demonstrably committed to have terminated the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted

to present value. There are no redundancy and termination benefits falling due more than 12 months after the balance sheet date.

Key management personnel
The Group discloses the total remuneration of key management personnel ("KMP") as required by *IAS 24 – Related party disclosures*. The Group includes within KMP all individuals (and their family members, if applicable) who have authority and responsibility for planning, directing and controlling the activities of the Group. KMP include all members of the Board and the senior executives of the Group. See Note 35 for more details.

Financial instruments

Financial assets and liabilities are recognised on the Group's Consolidated Statement of Financial Position when the Group becomes a contractual party to the instrument. When financial instruments are recognised initially, they are measured at fair value, which is the transaction price plus, in the case of financial assets and financial liabilities not measured at fair value through profit and loss, directly attributable transaction costs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Trade and other receivables

Trade receivables are at initial recognition recorded at the original invoice amount, including value-added tax and other sales taxes. At subsequent reporting dates, the carrying amount is decreased by the expected lifetime loss allowance attributable to the receivable or group of receivables based credit assessment of the counterparty or estimate for relevant group of receivables respectively.

Bad debts are written off in the period in which they are determined to be completely unrecoverable.

Cash and cash equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

The Group´s Consolidated Statement of Cash Flows is prepared based on the indirect method from the Consolidated Statement of Financial Position and Consolidated Statement of Profit and Loss.

Pledged or restricted assets

Financial assets transferred to third parties as collateral, assets that are pledged and assets as to which the Group has otherwise restricted dispositions are classified as other long-term receivables, if the period until which the restriction ends or return of the assets in question will take place is more than 12 months from the balance sheet date.

Trade payables and other liabilities

Trade payables and other liabilities are recognised at their amortised cost which is deemed to be materially the same as the fair value.

Change in accounting policy

The Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

Loans

Loans are initially recognised at their fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial liability. Interest income is included in finance income in the Consolidated Statement of Profit and Loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at fair value at the end of each reporting period. The resulting gain and loss is recognised in profit and loss immediately.

A derivative embedded within a host contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

De-recognition of financial instruments

A financial asset or liability is generally de-recognised when the contract that gives right to it is settled, sold, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Statement of Profit and Loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Financial income and expenses

Financial income consist of interest income. Financial expenses consist of net foreign exchange gains and losses, interest expense and net other financial expense. When a non-current liability is discounted to a net present value the unwinding of the discount is presented as an interest expense.

Exceptional items

Exceptional items are material or non-recurring items of income and expense which the Group believes should be separately disclosed to show the underlying business performance of the Group more accurately. Such items are separately disclosed on the face of the Consolidated Statement of Profit and Loss and in the notes to the consolidated financial statements. Examples of such items include legal and advisory costs related to acquisition, integration, strategic restructuring program costs and cost of impairment.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires the use of judgements, estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and expenses during reporting periods.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the historical financial information:

Gross versus net revenue accounting

The Group has revenue arrangements with resellers, payment providers, partners and other third parties. When the Group concludes that it has control over the provided product or service before that product or service is transferred to the customer, the Group acts as principal and revenues for satisfying the performance obligations are recognised on a gross basis (before deduction of resellers' commissions, payment provider fees and the third party costs). Otherwise revenues are recognised on a net basis.

The Group accounts for sales of products through E-Commerce partners on a gross basis before deduction of the E-Commerce partners's commissions and fees. The Group's e-commerce service providers fulfil administrative functions, such as collecting payment and remitting any required sales tax. The Group's e-commerce service providers collect the fees and transfer cash payments to the Group on a monthly basis within 30 days after the end of the month with respect to which payment is being made. The Group sets the retail list prices and has control over the licences before transferring them to the customer.

The Group also sells subscription software licences through an e-shop directly to end customers in cooperation with certain payment gateways providers. Revenue from sales through the e-shop are accounted for on a gross basis before the deduction of payment gateways fees. The Group sets the final retail prices and fully controls the revenue arrangement with the end customers.

Consumer Indirect monetisations such as the Google Chrome and other similar distribution arrangements are accounted for on a net basis in an amount corresponding to the fee the Group receives from the monetisation arrangement. The contracted partner in the arrangement is the customer rather than the end customer.

Sales of third-party solutions are accounted for net of the costs from the third party providing the product or service to the end customer. The factors supporting the net principle of recording revenues include:

- the third party suggests to the Group a final retail price; however, individual resellers of the Group have the discretion to set final prices;
- provision of the service or product to the end customer is primarily the responsibility of the third party, and the third party provides the actual service or product purchased by the end customer; and
- the Group has no material incremental costs from the provision of the service or product to the end customer after the moment of sale.

The Group partnered with Mobile Network Operators ("MNOs") providing various products of Location Labs. The revenues generated by these arrangements are based on revenue share percentages as stated in the MNO agreements. Once the product is developed by Avast based on the MNO's requirements, the product is then sold to the end customer via the MNO's subscription plans. Revenue is recognised on a net basis, after deduction of partners commissions, as Avast has no control of the product and no discretion to set the final prices.

Analytics subscription sales generated by Jumphot are accounted for net of resellers' commissions and costs. Jumpshot does not determine the final resale price as it is set by resellers for the end user. In addition, Jumpshot does not have a contractual relationship with the end user, nor any financial contact with the end user.

Interest payments
Fees paid in connection with the arrangement of the term loan are being amortised to profit and loss over the term of the facility using the effective interest method. The Group made estimates about voluntary and mandatory repayments of the term loan and the future development of market interest rates (see Note 6 for a description of the method). Due to the floating rate nature of the loan, changes in the effective interest rate are accounted for prospectively from the moment the change in estimate takes place.

Impairment testing
Significant management judgment and estimates are required to determine the individual cash generating units ("CGUs") of the Group, the allocation of assets to these CGUs and the determination of the value in use or fair value less cost to sell of these individual assets. Management has concluded that the operating segments used for segment reporting represents the lowest level within the Group at which the Goodwill is monitored. Therefore, the operating segments correspond to groups of CGUs at which goodwill is tested for impairment. To determine the value in use management has used the discounted cash flow model which requires estimating the future financial results and an appropriate discount rate (see Note 25 for details of impairment test parameters).

Trademarks
Avast trademarks and domains were assessed by the Group as having indefinite useful economic lives, as the trademark has no expiration date. The Group is considered a going concern and the trademarks and domains are linked to the flagship product of the Group. The AVG trademark was assessed as having a definite useful economic life. The Group has the intention and ability to prolong the registered AVG trademark upon the expiration. Management performed an impairment test and no impairment was recognized as of 31 December 2018 as described in Note 25.

Deferred tax
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

In order to calculate the deferred tax impact from the fair value adjustments as part of the AVG acquisition, the management analysed the most likely development of tax regulations, the distribution of taxable profits within the Group (assumed to be primarily in the Czech Republic and the Netherlands) and the timing of tax credit utilisation and determined that 20% is the most suitable tax rate for the years 2018-2022 (to be re-assessed at each balance sheet date as new information becomes available). The expiration of tax losses is considered, as is the impact of business combinations.

8. ALTERNATIVE PERFORMANCE MEASURES (“APM”)

Underlying operating profit, Underlying EBITDA, Underlying Net Income and Cash EBITDA

To supplement its historical financial information, which is prepared and presented in accordance with IFRS, the Group uses the following non-GAAP financial measures that are not defined or recognised under IFRS: Underlying operating profit, Underlying earnings before interest, taxation, depreciation and amortisation (“Underlying EBITDA”), Underlying Net Income and Underlying Cash EBITDA.

Underlying operating profit, Underlying EBITDA, Underlying Net Income and Underlying Cash EBITDA provide supplemental measures of earnings that facilitates a review of operating performance on a period-over-period basis by excluding non-recurring and other items that are not indicative of the Group's underlying operating performance. These measures are consistent with the presentation within IPO prospectus.

Underlying operating profit is defined as the Group’s operating loss/profit before: (i) amortisation charges of intangible assets recognised as part of a business combinations; (ii) stock-based compensation expenses; and (iii) exceptional items.

Underlying EBITDA is defined as the Group’s operating profit/loss before: (i) depreciation and amortisation charges; (ii) deferred revenue haircut reversal; (iii) share-based payments expenses; and (iv) exceptional items.

($’m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Operating profit	**248.3**	**124.3**
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Underlying operating profit	**415.3**	**299.7**
Deferred revenue haircut reversal	15.5	98.0
Depreciation	13.4	15.0
Amortisation of non-acquisition intangible assets	2.8	3.7
Underlying EBITDA	**447.0**	**416.4**

Underlying Net Income represents profit for the financial period before the effect of business combination accounting (deferred revenue haircut reversal), share-based payments, exceptional items, amortisation of acquisition intangible assets, the unrealised foreign exchange gain/(loss) on the EUR tranche of the bank loan (see Note 29), the tax impact from the unrealised exchange differences on intercompany loans (see Note 17) and the tax impact of the foregoing adjusting items and IP sale. The Group believes that Underlying Net Income is an appropriate supplemental measure that provides useful information to the Group and investors about the Group’s underlying business performance.

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Profit/(loss) for the year	**241.2**	**(33.8)**
Deferred revenue haircut reversal	15.5	98.0
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Unrealised FX gain/(loss) on EUR tranche of bank loan	(26.4)	63.0
Tax impact from foreign exchange difference on intercompany Loans	(9.8)	19.0
Tax impact of IP transfer	(99.2)	-
Tax impact on adjusted items	(18.5)	(71.5)
Underlying Net Income	**269.8**	**250.1**

The tax impact of the adjusted items has been calculated by applying the tax rate that the Group determined to be applicable to the relevant item.

Cash earnings before interest, taxation, depreciation and amortisation ("Cash EBITDA") is defined as Underlying EBITDA plus the increase in deferred revenue (net of impact from foreign exchange and business combination accounting) less the net increase in prepaid expenses related to cost of goods sold.

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Underlying EBITDA	**447.0**	**416.4**
Net change in deferred revenue	38.5	49.5
Change in prepaid expenses - cost of revenue	(8.7)	(20.6)
Underlying Cash EBITDA	**476.8**	**445.3**

9. SEGMENT INFORMATION AND OTHER DISCLOSURES

The management monitors revenues in two customer segments: consumer products (which generate direct and indirect revenue streams) and products for the SMB market. For management reporting purposes, the operating segments are determined to be Consumer and Small and Medium-sized business (''SMB''). This is the level on which the Chief Operating Decision Maker decides about the allocation of the Group's resources.

The principal products and services offered by each segment are summarised below:

Consumer –The Group's consumer products include direct revenue streams through its offerings for desktop security and mobile device protection and consist of free and premium paid products for the individual consumer market. The Group also has several value-added solutions for performance, privacy and other tools. The Group also focuses on monetising the user base indirectly, via dynamic secure search solution, including the browser toolbar, which gives users a convenient way to access a search engine at any time. In addition, the Group offers big data and marketing analytics through its entity Jumpshot. Jumpshot aggregates anonymised data from users' full internet usage, not just the data of a user's usage on a single company's website.

SMB – The Group's SMB segment focuses on delivering high-level security and protection solutions for Small and Medium sized business customers.

Billings is one of the important metrics used to evaluate and manage operating segments. Billings represent the full value of products and services being delivered under subscription and other agreements and include sales to new end customers plus renewals and additional sales to existing end customers. Under the subscription model, end customers pay the Group for the entire amount of the subscription in cash upfront upon initial delivery of the applicable products. Although the cash is paid up front, under IFRS, subscription revenue is deferred and recognised rateably over the life of the subscription agreement, whereas non-subscription revenue is typically recognised immediately.

Billings are not defined or recognised under IFRS and considered as a non-IFRS financial measure used to evaluate current business performance.
The Group evaluates the performance of its segments based primarily on Revenue, Underlying revenue and Segment underlying operating profit. Total segment underlying operating profit is derived from underlying revenues and decreased by the cost of revenues and operating costs directly attributable to the relevant segment. Underlying revenues are adjusted for the effects of the fair value revaluation of the acquiree's pre-acquisition deferred revenues ("Deferred revenue haircut reversal").

Certain costs that are not directly applicable to the segments are identified as "Corporate Overhead" costs and represent general corporate costs that are applicable to the consolidated group. In addition, costs relating to share-based payments and exceptional items are not allocated to the segments since these costs are not directly applicable to the segments, and therefore not included in the evaluation of performance of the segments.

The following tables present summarised information by segment reconciled from the underlying operating profit of the segment to the consolidated operating profit:

For the year ended 31 December 2018 ($'m)	*Consumer*	*SMB*	*Total*
Billings	**801.6**	**60.5**	**862.1**
Deferral of revenue	(50.7)	(3.1)	(53.8)
Revenues	**750.9**	**57.4**	**808.3**
Deferred revenue haircut reversal	10.0	5.5	15.5
Segment underlying revenue	**760.9**	**62.9**	**823.8**
Segment cost of revenues	(74.0)	(7.2)	(81.2)
Segment sales and marketing costs	(70.6)	(23.5)	(94.1)
Segment research and development costs	(44.0)	(6.6)	(50.6)
Segment general and administrative costs	(4.7)	-	(4.7)
Total Segment underlying operating profit	**567.6**	**25.6**	**593.2**
Corporate overhead			(146.2)
Deferred revenue haircut reversal			(15.5)
Depreciation and amortization			(143.7)
Exceptional items			(25.6)
Share-based payments			(13.9)
Consolidated operating profit			**248.3**

For the year ended 31 December 2017 ($'m)	*Consumer*	*SMB*	*Total*
Billings	**736.3**	**64.1**	**800.4**
Deferral of revenue	(131.5)	(16.0)	(147.5)
Revenues	**604.8**	**48.1**	**652.9**
Deferred revenue haircut reversal	79.3	18.7	98.0
Segment underlying revenue	**684.1**	**66.8**	**750.9**
Segment cost of revenues*	(52.9)	(8.4)	(61.3)
Segment sales and marketing costs*	(61.8)	(24.4)	(86.2)
Segment research and development costs*	(38.6)	(8.9)	(47.5)
Segment general and administrative costs*	(3.4)		(3.4)
Total Segment underlying operating profit	**527.4**	**25.1**	**552.5**
Corporate overhead*			(135.7)
Deferred revenue haircut reversal			(98.0)
Depreciation and amortisation			(152.0)
Exceptional items			(34.8)
Share-based payments			(7.7)
Consolidated operating profit			**124.3**

*As described in Note 5, the Group reclassified office costs. Comparative information for the year ended 31 December 2017 was adjusted accordingly.

Corporate overhead costs primarily include the costs of the Group's IT, Technology (R&D), HR, Finance and Central Marketing functions and legal, rent and office related costs, which are not allocated to the individual segments.

The following table presents depreciation and amortisation by segment, these costs are excluded in the total Segment underlying operating profit above:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Consumer	130.5	142.0
SMB	0.4	4.0
Corporate overhead	12.8	6.0
Total depreciation and amortization	**143.7**	**152.0**

The following table presents revenue of subsegments:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Consumer Direct Desktop	568.4	420.1
Consumer Direct Mobile	81.2	71.0
Consumer Indirect	85.8	75.2
SMB	57.4	48.1
Other	15.5	38.5
Total	**808.3**	**652.9**

The following table presents goodwill by segment:

($'m)	31 December 2018	31 December 2017
Consumer	1,969.8	1,962.8
SMB	23.9	23.9
Total goodwill	**1,993.7**	**1,986.7**

The following table presents the Group´s non-current assets, net of accumulated depreciation and amortisation, by country. Non-current assets for this purpose consist of property and equipment and intangible assets.

	31 December 2018		31 December 2017	
	($'m)	(in %)	($'m)	(in %)
Czech Republic	263.5	88.9%	156.0	36.8%
UK	22.2	7.5%	3.8	0.9%
Netherlands	0.4	0.1%	227.2	53.6%
Other countries*	10.5	3.5%	36.8	8.7%
Total	**296.6**	**100.0%**	**423.8**	**100.0%**

*No individual country represented more than 5% of the respective totals.

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

	Year–ended 31 December 2018		Year–ended 31 December 2017	
	($'m)	(in %)	($'m)	(in %)
United States	349.6	43.3%	297.3	45.5%
United Kingdom	68.6	8.5%	53.6	8.2%
France	61.1	7.6%	48.4	7.4%
Germany	50.7	6.3%	36.1	5.5%
Other countries*	278.3	34.3%	217.5	33.4%
Total	**808.3**	**100.0%**	**652.9**	**100.0%**

*No individual country represented more than 5% of the respective totals.

Revenues from relationships with certain third parties exceeding 10% of the Group's total revenues were as follows:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Revenues realised through online resellers:		
Digital River	370.1	212.1

Revenues of Digital River significantly increased by $158.0 million due to the move of part of the business from in-house payment processing to the external vendor.

10. EXCEPTIONAL ITEMS

The following table presents the exceptional items by account:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
Cost of revenues	0.6	1.7
Operating costs (excl. depreciation and amortisation)	25.0	32.7
Depreciation	-	0.4
Total	**25.6**	**34.8**

The following table presents the exceptional items by activity:

($'m)	Year–ended 31 December 2018	Year–ended 31 December 2017
IPO related costs	18.8	4.1
Acquisition, Integration and Restructuring costs	6.8	30.7
Total	**25.6**	**34.8**

IPO related costs

The costs include one-time advisory, legal and other professional service fees related to the IPO. The majority of these costs were tax non-deductible. Total IPO costs comprise of $18.8 million recorded to the Consolidated Statement of Profit and Loss in 2018, $4.1 million already accrued in trade payables in 2017 and additional $4.0 million direct share issue expenses recorded to equity, which gives total IPO costs of $26.8 million. The full cash impact of the IPO costs was recorded in 2018 showing $(4.0) million under the cash flows from financing activities as directly linked to the share issue and the remaining $(22.8) million is included in the cash flows from operating activities.

Acquisition, Integration and Restructuring costs

The costs include one-time payments directly related to business combinations of AVG in 2016 and Piriform in 2017. Remaining costs relate to AVG integration and other programs implemented in prior years that were completed in 2018. Tax impact on these exceptional items amounted to $1.5 million (2017: $6.3 million).

11. AUDITOR´S REMUNERATION

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other non-audit services provided to the Group.

($ 'm)	Year–ended 31 December 2018	Year–ended 31 December 2017
Audit of the financial statements	1.1	1.6
Audit of the financial statements of subsidiaries	0.2	0.4
Total audit fees	**1.3**	**2.0**
Other assurance services	2.5	-
Corporate finance services	2.2	0.5
Tax services	0.2	0.3
Total non-audit fees	**4.9**	**0.8**
Total fees	**6.2**	**2.8**

The majority of other services related to the Company's IPO, including work as a reporting accountant, and related tax and other advisory work, which is an exceptional cost. See Note 10.

12. COST OF REVENUES

Cost of revenues consist of the following:

($ 'm)	Year–ended 31 December 2018	Year–ended 31 December 2017 (restated)
Amortisation	129.4	135.0
Depreciation	7.4	7.8
Personnel costs of product support and virus updates	17.3	17.2
Digital content distribution costs	15.4	17.0
Third party licence costs	5.2	7.6
Other product support and virus update costs	13.9	19.9
Commissions, payment and other fees	52.8	25.8
Total	**241.4**	**230.3**

13. OPERATING COSTS

Operating costs are internally monitored by function; their allocation by nature is as follows:

($ 'm)	Year–ended 31 December 2018	Year–ended 31 December 2017 (restated)
Depreciation	6.0	7.6
Amortisation	0.9	1.6
Personnel expenses	168.3	160.1
Purchases of services from third party vendors (legal, advisory and other services)	135.8	120.6
Gifts and charities	5.0	3.8
Other operating expenses	2.6	4.6
Total	**318.6**	**298.3**

14. PERSONNEL EXPENSES

Personnel expenses consist of the following:

($ 'm)	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Employees	Non-executive directors	Employees	Non-executive directors
Wages and salaries	135.2	0.8	133.9	0.2
Social security and health insurance*	23.5	0.1	22.4	-
Pension costs	0.5	-	0.5	-
Social costs	6.7	-	7.5	-
Severance payments and termination benefits	4.9	-	5.1	-
Share-based payments	13.7	0.2	7.2	0.5
Total personnel expense	**184.5**	**1.1**	**176.6**	**0.7**

*State and Government pension costs of Czech employees are also included in the social security and health insurance costs.

The average number of employees by category during the period was as follows:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Technical	1,111	1,139
Sales and marketing	266	281
Administration	204	235
Total average number of employees	**1,581**	**1,655**

15. FINANCE INCOME AND EXPENSES

Interest income:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Interest on bank deposits	0.3	-
Total finance income	**0.3**	**-**

Interest expense:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Term loan interest expense	(85.8)	(90.4)
Total interest expense	**(85.8)**	**(90.4)**

Other finance income and expense (net):

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Changes of fair values of derivatives	1.9	(3.2)
Revolving loan - commitment fee	(1.3)	(0.4)
Foreign currency gains/(losses)	(7.1)	6.2
Unrealised foreign exchange gains/(losses) on borrowings	26.4	(63.0)
Other financial expense	(0.2)	(2.4)
Total other finance income and expense (net)	**19.7**	**(62.8)**

16. DEPRECIATION AND AMORTISATION

Amortisation by function:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Cost of revenues	127.5	132.9
Total amortisation of acquisition intangible assets	**127.5**	**132.9**
Cost of revenues	1.9	2.1
Sales and marketing	0.1	0.8
Research and development	0.1	0.1
General and administration	0.7	0.7
Total amortisation of non-acquisition intangible assets	**2.8**	**3.7**
Total amortization	**130.3**	**136.6**

Depreciation by function:

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Cost of revenues	7.4	7.8
Sales and marketing	0.3	0.7
Research and development	1.1	1.5
General and administration	4.6	5.4
Total depreciation	**13.4**	**15.4**

*****Total depreciation of $15.4 million in 2017 includes $0.4 million of exceptional depreciation classified under exceptional costs.

Tangible and intangible assets are allocated to each department of the Group. The depreciation and amortisation of these assets is reported as part of operating costs and cost of revenues.

17. INCOME TAX

In the Consolidated Statement of Financial Position, the Corporate Income tax receivable of $5.8 million (2017: $0.5 million) is part of the caption Tax receivables.

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

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Current income tax		
Related to current year	(86.7)	(55.8)
Related to prior year	(0.6)	(3.1)
Current income tax total	**(87.3)**	**(58.9)**
Deferred tax		
Related to current year	145.9	54.0
Related to prior year	0.1	0.0
Deferred tax total	**146.0**	**54.0**
Total income tax through P&L	**58.7**	**(4.9)**

On 1 May 2018, AVG E-comm web shop was transferred to Avast Software B.V. (“Avast BV“) and subsequently, the former Dutch AVG business (including the web shop) from Avast BV was sold to Avast Software s.r.o. As a result, the deferred tax asset was increased by $143.8 million. In addition, an exit charge of $49.4 million has been agreed upon with the Dutch tax authorities. The net tax effect of the transaction is a tax benefit of $94.4 million.

On 1 August 2018, intangible assets of Piriform IP were sold to Piriform UK. As a result, a deferred tax asset of $5.6 million was recognized by the Group. The current tax expense related to the transaction was $0.7 million. The net tax effect of the transaction is a tax benefit of $4.8 million.

The Group did not recognise a potential deferred tax asset related to certain tax losses and non-deductible interest expenses respectively, for which the Group considers future recoverability to be uncertain. The total impact was $7.5 million for tax losses, of which $5.6 million relates to prior periods, and $6.3 million for non-deductible interests. Tax losses above, for which the deferred tax asset was not recognized, were generated during the years 2014-2018 and the expiration period is 20 years.

From 2018, the Group generates a temporary difference relating to an intragroup loan denominated in USD received by Avast Software s.r.o., a subsidiary with a USD functional currency (but with a tax currency of CZK). This loan is subject to hedging in its local statutory books (with the effect that current tax relief does not cover the full period exchange differences). The tax impact related to the loan is a deferred tax benefit of $9.8 million. In 2017, the loan was not part of statutory hedging relationship (thus exchange differences were taxable) and generated current income tax charge of $19.0 million.

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

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Profit/(loss) before tax	**182.5**	**(28.9)**
Group effective income tax rate (20%* in 2017 and 2018)	(36.5)	5.8
Recurring adjustments		
Non-deductible expenses	(3.2)	(2.9)
Share-based payments	(2.8)	(1.5)
FX effect on Intercompany loans	9.8	(19.0)
Non recurring adjustments		
Non-deductible expenses (IPO related)	(3.8)	-
AVG IP transfer net tax benefit	94.4	-
Piriform IP transfer net tax benefit	4.8	-
Current year deferred tax assets not recognised	(4.9)	(1.2)
Derecognition of previously recognized deferred tax assets	(8.9)	(4.5)
Usage of previously not recognized deferred tax assets	1.6	-
Effect of enacted changes in tax rates on deferred taxes	(2.5)	-
Remaining impact of tax rate variance and other effects	10.7	18.4
Total income tax	**58.7**	**(4.9)**

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

The deferred tax relates to following temporary differences:

($ 'm)	31 December 2018	31 December 2017
Temporary differences	Asset / (Liability)	Asset / (Liability)
Fixed assets	(53.1)	(76.2)
IP transfer tax benefit	142.9	-
Deferred revenue and unbilled receivables	15.9	31.2
Tax loss carryforward	16.6	6.9
Tax credits carryforward	3.7	3.6
Loans and derivatives	11.0	14.0
Carryforward of unutilised interest	-	3.4
Provisions	1.8	1.5
Tax impact from FX difference on intercompany loans	9.8	-
Other	0.8	3.6
Net	**149.4**	**(12.0)**

As a result of the IPO option exercise, there was a $70.0 million tax deduction in Avast Software Inc., Jumpshot Inc. and AVG UK that created a deferred tax benefit of $14.8 million, that was recognized directly in equity.

The movement in deferred tax balances:

($ 'm)	31 December 2018	31 December 2017
	Asset / (Liability)	Asset / (Liability)
Deferred tax as at 1 January	**(12.0)**	**(59.9)**
Effect of business combination (Note 3)	-	(6.1)
Deferred tax recognised in the profit & loss	146.0	54.0
Deferred tax recognised in the equity	14.8	-
Translation difference	0.6	-
Deferred tax as at 31 December	**149.4**	**(12.0)**

18. EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of shares of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit for the period attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued if all dilutive potential ordinary shares were converted into ordinary shares.

Underlying EPS is calculated by dividing the underlying net profit for the period attributable to equity holders by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in calculating EPS:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Net profit (loss) attributable to equity holders ($ 'm)	**241.2**	**(33.8)**
Basic weighted average number of shares	914,567,949	836,413,568
Effects of dilution from share options and restricted share units	62,120,397	83,835,481
Total number of antidilutive shares not used in computing diluted earnings per share*	-	(83,835,481)
Total number of shares used in computing dilutive earnings per share	976,688,346	836,413,568
Basic earnings/(losses) per share ($/share)	**0.26**	**(0.04)**
Diluted earnings/(losses) per share ($/share)	**0.25**	**(0.04)**

*if the result of the Group is a loss for the relevant period such options are considered antidilutive and are not included in calculating diluted earnings per share.

The weighted average number of shares for the year ended 31 December 2017 of 836,413,568 has been determined as a weighted average that adjusts for options to purchase shares in Avast Holding exercised during 2017 multiplied by the ratio at which these shares were exchanged for shares in Avast plc on 10 May 2018.

Supplementary earnings per share measures:

	Year-ended 31 December 2018	Year-ended 31 December 2017
Net profit (loss) attributable to equity holders ($ 'm)	**241.2**	**(33.8)**
Deferred revenue haircut reversal	15.5	98.0
Share-based payments	13.9	7.7
Exceptional items	25.6	34.8
Amortisation of acquisition intangible assets	127.5	132.9
Unrealised FX gain/loss on EUR tranche of bank loan	(26.4)	63.0
Tax impact from foreign exchange difference on intercompany loans	(9.8)	19.0
Tax impact of IP transfer	(99.2)	-
Tax impact on adjusted items	(18.5)	(71.5)
Underlying net profit attributable to equity holders ($ 'm)	**269.8**	**250.1**
Basic weighted average number of shares	914,567,949	836,413,568
Underlying basic earnings per share ($/share)	**0.30**	**0.30**
Diluted weighted average number of shares	976,688,346	920,249,049
Underlying diluted earnings per share ($/share)	**0.28**	**0.27**

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

Dividend Proposed

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

19. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash and cash equivalents comprise of the following**:**

($ 'm)	31 December 2018	31 December 2017
Cash on hand and cash equivalents	2.0	-
Cash in bank	270.3	176.3
Total	**272.3**	**176.3**

20. TRADE AND OTHER RECEIVABLES

($ 'm)	31 December 2018	31 December 2017
Trade receivables	35.7	54.1
Unbilled revenues	49.2	40.3
Other receivables	4.0	4.1
Trade receivables, gross	**88.9**	**98.5**
Less: Expected loss allowance on trade receivables, unbilled revenues and other receivables	(6.0)	(5.3)
Trade receivables, net	**82.9**	**93.2**

Trade receivables are non-interest bearing and are generally payable on 30-day terms. The fair value of receivables approximates their carrying value due to their short term maturities. The expected loss allowance relates to trade receivables (with only insignificant amounts relating to other classes of receivable).

Unbilled revenues represent sold products (for which the revenue has been deferred over the term of the product licence) but for which an invoice has not yet been issued.

Other receivables represent mainly advances to and receivables from employees.

($ 'm)	Amount
Allowances at 31 December 2016	**2.7**
Charged	5.3
Utilised	(2.7)
Allowances at 31 December 2017	**5.3**
Charged	6.0
Utilised	(5.3)
Allowances at 31 December 2018	**6.0**

Movements in allowances above relate mainly to trade receivables.

As of 31 December 2017 and 2018, the nominal value of receivables overdue for more than 360 days are $2.8 million (carrying value: nil) and $2.0 million (carrying value: $0.1 million), respectively.

The ageing analysis of trade receivables, unbilled receivables and other receivables was as follows (carrying amounts after valuation allowance):

($ 'm)	Not past due	Past due 1 - 90 days	Past due more than 90 days	Past due more than 180 days	Past due more than 360 days	Total
31 December 2017	85.2	8.0	-	-	-	**93.2**
31 December 2018	74.6	7.2	0.9	0.1	0.1	**82.9**

21. CAPITALISED CONTRACT COSTS

($ 'm)		31 December 2018		31 December 2017 (restated)
Capitalised contract costs at 1 January		**27.2**		**5.5**
Additions		66.1		54.2
Sales commissions and fees	*59.8*		*45.1*	
Licence fees	*6.3*		*9.1*	
Amortization		(57.5)		(32.5)
Sales commissions and fees	*(52.1)*		*(24.9)*	
Licence fees	*(5.4)*		*(7.6)*	
Capitalised contract costs at 31 December		**35.8**		**27.2**
Total current		**31.2**		**27.1**
Total non-current		**4.6**		**0.1**

Capitalised contract costs include commissions and fees and third party licence costs related to the subscription software licences that are amortised on a straight-line basis over the licence period, consistent with the pattern of recognition of the associated revenue. Capitalised contract costs are reviewed for impairment annually. All costs are expected to be recovered.

22. OTHER FINANCIAL ASSETS

($ 'm)	31 December 2018	31 December 2017
Restricted cash		
- acquisition agreements	-	0.6
- office lease agreements	0.2	1.3
- other	0.4	0.3
Total	0.6	2.2
Derivatives – foreign currency contracts	-	0.1
Investment in equity securities	0.5	0.6
Total	**1.1**	**2.9**
Total current	**0.4**	**1.0**
Total non-current	**0.7**	**1.9**

23. PROPERTY, PLANT AND EQUIPMENT

($ 'm)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Cost at 31 December 2016	**28.1**	**0.2**	**10.6**	**2.9**	**41.8**
Additions	5.9	0.1	1.4	2.7	10.1
Transfers	2.4	-	-	(2.4)	-
Net foreign currency exchange difference	0.4	-	-	-	0.4
Disposals	(0.3)	-	-	-	(0.3)
Cost at 31 December 2017	**36.5**	**0.3**	**12.0**	**3.2**	**52.0**
Additions	11.5	0.1	0.6	1.3	13.5
Transfers	2.0	-	-	(2.0)	-
Net foreign currency exchange difference	(0.8)	0.1	0.4	-	(0.3)
Disposals	(3.3)	(0.1)	(2.7)	-	(6.1)
Cost at 31 December 2018	**45.9**	**0.4**	**10.3**	**2.5**	**59.1**

($ 'm)	Equipment, furniture and fixtures	Vehicles	Leasehold improvements	In progress	Total
Acc. depreciation at 31 December 2016	**(6.7)**	**(0.1)**	**(0.3)**	**-**	**(7.1)**
Depreciation	(13.2)	(0.1)	(2.1)	-	(15.4)
Acc. depreciation at 31 December 2017	**(19.9)**	**(0.2)**	**(2.4)**	**-**	**(22.5)**
Depreciation	(11.6)	(0.1)	(1.7)	-	(13.4)
Disposals	3.3	0.1	2.7	-	6.1
Acc. depreciation at 31 December 2018	**(28.2)**	**(0.2)**	**(1.4)**	**-**	**(29.8)**
NBV at 31 December 2017	**16.6**	**0.1**	**9.6**	**3.2**	**29.5**
NBV at 31 December 2018	**17.7**	**0.2**	**8.9**	**2.5**	**29.3**

There has been no impairment to the property, plant and equipment held by the Group during the year.

There has been no individually significant addition to the property, plant and equipment during the year.

For the information about items of property, plant and equipment pledged as security refer to Note 29.

24. INTANGIBLE ASSETS

($ 'm)	Developed Technology	Trade marks	Software	Customer relationship and user base	Other	In progress	Total
Cost at 31 December 2016	**250.5**	**159.3**	**15.5**	**243.3**	**10.5**	**0.5**	**679.6**
Business combination	-	4.8	24.5	3.3	-	-	32.6
Additions	-	-	-	-	4.3	1.5	5.8
Net foreign currency exchange difference	-	-	-	-	0.2	-	0.2
Cost at 31 December 2017	**250.5**	**164.1**	**40.0**	**246.6**	**15.0**	**2.0**	**718.2**
Additions	-	-	-	-	2.4	1.0	3.4
Transfers	-	-	-	-	1.5	(1.5)	-
Net foreign currency exchange difference	-	-	-	-	(0.1)	-	(0.1)
Cost at 31 December 2018	**250.5**	**164.1**	**40.0**	**246.6**	**18.8**	**1.5**	**721.5**

($ 'm)	Developed Technology	Trade marks	Software	Customer relationship and user base	Other	In progress	Total
Acc. amortisation at 31 December 2016	**(125.7)**	**(3.7)**	**(8.9)**	**(44.5)**	**(4.5)**	**-**	**(187.3)**
Amortisation	(51.5)	(15.0)	(5.3)	(61.2)	(3.6)	-	(136.6)
Acc. amortisation at 31 December 2017	**(177.2)**	**(18.7)**	**(14.2)**	**(105.7)**	**(8.1)**	**-**	**(323.9)**
Amortisation	(51.5)	(15.0)	(8.1)	(52.6)	(3.1)	-	(130.3)
Acc. amortisation at 31 December 2018	**(228.7)**	**(33.7)**	**(22.3)**	**(158.3)**	**(11.2)**	**-**	**(454.2)**
NBV at 31 December 2017	**73.3**	**145.4**	**25.8**	**140.9**	**6.9**	**2.0**	**394.3**
NBV at 31 December 2018	**21.8**	**130.4**	**17.7**	**88.3**	**7.6**	**1.5**	**267.3**

Avast and FileHippo trademarks, with a gross value of $71.5 million, have indefinite useful lives. AVG trademark, with a gross value of $89.3 million, has a remaining useful life of 3.8 years. Piriform trademark, with a gross value of $3.7 million, has a remaining useful life of 8.6 years.

Avast developed technology, with a gross value of $223.2 million, has a remaining useful life of 0.3 years. AVG developed technology, with a gross value of $27.3 million, has a remaining useful life of 1.8 years.

Piriform and FileHippo software, with a gross value of $24.5 million, has a remaining useful life of 3.6 years.

AVG customer relationship, with a gross value of $197.1 million, has remaining useful life of 1.8 years.

For the information about intangible assets pledged as securities, refer to Note 29.

The major additions are primarily through business combinations in the year ended 31 December 2017 (Note 3). There have been no individually significant additions to the intangible assets during the year ended 31 December 2018.

The Group has not capitalised development costs in the year ended 31 December 2018 (2017: nil) as the Company believe the criteria set out in IAS 38 has not been met. See Note 7.

25. GOODWILL AND IMPAIRMENT

($ 'm)	31 December 2018	31 December 2017
1 January	**1,986.7**	**1,911.7**
Acquisitions	7.0	90.9
Impairment	-	(15.9)
31 December	**1,993.7**	**1,986.7**

Goodwill was calculated as the difference between the acquisition date fair value of consideration transferred less the fair value of acquired net assets. See Note 2 and 3 for further details and Note 9 for the details of the allocation to individual business segments.

Goodwill & Intangible assets impairment tests

Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. The impairment test as of 31 December 2018 is performed on the basis of two groups of cash generating units that correspond to the two operating segments, refer to Note 9.

In determining the value in use as of 31 December 2018, the Group used the following parameters:

- Projected 2019-2021 free cash flows based on the most current financial plan of the Group and the perpetuity growth rate of 3% p.a. after 2021 allocated to individual operating segments; and
- An after-tax discount interest rate representing the WACC of the Group. The WACC was calculated from the cost of equity and cost of debt at a ratio typical for an industry of 70% equity and 30% debt.

The recoverable amount of tested assets exceeds their carrying value. As the Group's management is not aware of any other indications of impairment and given the results of the impairment tests, no impairment was recorded.

Changes to the individual parameters used by the Group would impact the value in use to varying degrees:

- An increase in the WACC of 100 basis points would decrease the value in use by 7%;
- A decrease in the projected free cash flows by 10% in each of the projected periods would decrease the value in use also by 10%;
- A decrease in the perpetuity growth rate from 3% p.a. to 1.5% p.a. would decrease the value in use by 7%;
- Part of the income and expenses of the Group are in other currencies. The impairment tests performed by the Group are carried out in USD and are not significantly sensitive to foreign exchange volatilities.

No reasonable possible change in the assumptions would lead to an impairment.

In determining the value in use as of 31 December 2017, the Group used the following parameters:

- Projected 2018-2020 free cash flows ("FCF") based on the most current financial plan of the Group and a perpetuity growth rate of 3% p.a. after 2020 allocated to individual operating segments; and
- An after-tax discount interest rate representing the weighted average cost of capital ("WACC") of the Group; The WACC was calculated from a cost of equity and cost of debt at a ratio typical for an industry of 70% equity and 30% debt.

The recoverable amount of tested assets exceeded their carrying value. As the Group's management was not aware of any other indications of impairment and given the results of the impairment tests, no impairment was recorded. No reasonable possible change in the assumptions would lead to an impairment.

26. TRADE PAYABLES AND OTHER LIABILITIES

($ 'm)	31 December 2018	31 December 2017
Trade payables	8.5	6.8
Accruals	30.5	28.4
Amounts owed to employees	19.3	15.2
Social security and other taxes	1.5	10.2
Other payables and liabilities	4.2	13.5
Total trade payables and other liabilities	**64.0**	**74.1**

As described in Note 6, the Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

On 3 August 2018, the Company paid the remaining portion of the consideration for the acquisition of AVG Technologies B.V. of $8.0 million.

27. PROVISIONS

The movements in the provision accounts were as follows:

($ 'm)	Accrued vacation provision	Provision for restructuring	Legal provision	Other	Total
As at 31 December 2016	**3.7**	**15.6**	**7.7**	**2.5**	**29.5**
Additions	2.0	-	-	-	2.0
Utilisation	(3.7)	(11.4)	(7.7)	(1.3)	(24.1)
As at 31 December 2017	**2.0**	**4.2**	**-**	**1.2**	**7.4**
Additions	1.4	5.6	-	2.8	9.8
Utilisation	(2.0)	(4.2)	-	(1.0)	(7.2)
As at 31 December 2018	**1.4**	**5.6**	**-**	**3.0**	**10.0**

Total current	**1.4**	**4.9**	**-**	**2.8**	**9.1**
Total non-current	**-**	**0.7**	**-**	**0.2**	**0.9**

28. DEFERRED REVENUE

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

The movements in the deferred revenue were as follows:

($ 'm)	31 December 2018	31 December 2017
1 January	**378.8**	**231.1**
Additions – billings	862.2	800.4
Deductions – revenue	(808.3)	(652.9)
Translation and other adjustments	2.8	0.2
31 December	**435.5**	**378.8**
Current	384.3	324.3
Non-current	51.2	54.5
Total	**435.5**	**378.8**

29. TERM LOAN

Term loan balance is as follows:

($ 'm)	31 December 2018	31 December 2017
Current term loan	73.4	92.5
Long-term term loan	1,318.1	1,688.8
Total term loans	**1,391.5**	**1,781.3**

The carrying amount of the term loan is net of the total costs incurred on the arrangement of the term loan (including repricings) which are being amortised to profit and loss over the term of the term facility using the effective interest rate method.

($ 'm)	31 December 2018	31 December 2017
USD tranche principal	864.7	1,213.8
EUR tranche principal	545.8	601.7
Total principal	**1,410.5**	**1,815.5**

The Group re-financed its bank loan from the primary proceeds arising from the IPO on 16 May 2018, reducing the USD tranche by $300 million and reducing the margin on both the USD and EUR tranche by 0.25% p.a. The fees for the reduction and repricing were $3.1 million. The Group allocated the drawing fees as of the repricing date between the $300 million repaid amount and the balance of the loan. The portion of unamortized issue costs allocated to the repaid loan of $6.9 million was released into the Consolidated Statement of Profit and Loss as a non-cash interest expenses. Avast Software B.V. may voluntarily prepay term loans in whole or in part without premium or penalty.

The bank loans are repayable as follows:

($ 'm)	31 December 2018	31 December 2017
Due within one year	73.3	91.9
Due within two years	73.3	91.9
Due between three and five years	1,263.9	275.8
Due over five years	-	1,355.9
Total term loans	**1,410.5**	**1,815.5**

Under the Repricing agreement, the following terms apply to the bank loans outstanding at 31 December 2018:

Facility	Interest	Margin	Floor	Principal ($ 'm)
USD Tranche	3-month USD LIBOR	2.50% p.a.	1.00% p.a.	864.7
EUR Tranche	3-month EURIBOR	2.75% p.a.	0.00% p.a.	545.8

The repricing details in 2017 were as follows:

	Until 31 March 2017		From 1 April 2017		From 21 November 2017	
	USD tranche	**EUR tranche**	**USD tranche**	**EUR tranche**	**USD tranche**	**EUR tranche**
Indexed-based rate	3m USD LIBOR	3m EURIBOR	3m USD LIBOR	3m EURIBOR	3m USDLIBOR	3m EURIBOR
Applicable interest rate (spread)	4.00% p.a.	3.75% p.a.	3.25% p.a.	3.50% p.a.	2.75% p.a.	3.00% p.a.
Interest rate floor	1.00% p.a.	1.00% p.a.	1.00% p.a.	0.00% p.a.	1.00% p.a.	0.00% p.a.

Both facilities are repayable in full at the end of the 84-month term on 30 September 2023. The margin payable on both facilities is dependent upon the ratio of the Group's net debt to adjusted EBITDA as defined in the facility agreement.

The Credit Agreement ("CA") requires the following mandatory repayments in addition to the quarterly amortisation payments: *Excess Cash Flow Payment Amount* ("ECF Payment Amount", defined in the CA as the consolidated net increase in cash and cash equivalents of Avast plc for the period adjusted for potential future business combinations and the results of Jumpshot, Inc., Jumpshot s.r.o. and Avast plc and other adjustments) - 50% of Excess Cash Flow (as defined, and subject to certain reductions and to the extent where ECF Payment Amount exceeds $40 million), with a reduction to 25% and elimination based upon the achievement of Total Net First Lien Leverage Ratios ("Net debt ratio") not exceeding 3.5:1 and 3.0:1, respectively. The net debt ratio is defined as the nominal value of debt less cash on hand as of the relevant date divided by adjusted operating profit for the preceding four calendar quarters. The operating profit is adjusted for amortisation and depreciation, non-cash expenses such as Share-based payments, the effects of business combination accounting and other non-cash items. The Net debt ratio was 2.5:1 as of 31 December 2018 so no mandatory repayment required.

The following pledge agreements existed as of the date of issuance of these consolidated financial statements. All of these pledge agreements were executed as of 31 December 2018.

- Avast Software B.V. pledged its 100% share in Avast Software s.r.o. and 100% share in Avast Operations B.V.
- Avast Software B.V. pledged its receivables
- Avast Software B.V. pledged its securities
- Avast Holding B.V. pledged its 100% share in Avast Software B.V.
- Avast Operations B.V. pledged its receivables from intragroup loan agreements

Avast Software s.r.o. pledged its receivables from bank accounts, trade receivables, receivables from insurance policies, trademarks, receivables from intragroup loan agreements, its movable assets, domain names, source codes and virus databases.

Term loan balance reconciliation

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

($ 'm)	31 December 2018	31 December 2017
Term loan balance at beginning of period	1,781.3	1,558.0
Additional loan drawn (gross of fees)	-	217.5
Drawing fees	(3.1)	(3.5)
Interest expense	85.8	90.4
Interest paid	(67.6)	(77.6)
Loan repayment	(378.5)	(67.8)
Unrealised foreign exchange loss/(gain)	(26.4)	63.0
Other	-	1.3
Total	**1,391.5**	**1,781.3**

Revolving facility

Avast Software B.V. also obtained a revolving credit facility of $85.0 million for operational purposes which has not been drawn as of the date of these consolidated financial statements. It is valid up to 30 September 2021. The Credit Agreement includes a financial covenant that is triggered if at any time $35.0 million or more is outstanding under the revolving credit agreement as of 31 December 2018. If the revolving credit facility exceeds this threshold, then the Group must maintain, on a consolidated basis, a leverage ratio of less than 6.50:1.00. This covenant is tested quarterly at such time as it is in effect.

30. DERIVATIVES

The carrying amount of derivative financial instruments held by the Group was as follows:

($ 'm)	Type	31 December 2018		31 December 2017	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Type of derivative					
Interest rate Cap	Level 3	-	1.0	-	3.2
Total		**-**	**1.0**	**-**	**3.2**
Classified as					
Non-current financial liability		-	1.0	-	3.2
Total		**-**	**1.0**	**-**	**3.2**

The Group has not designated the derivatives as hedging instruments, and therefore changes in the fair value during the period are recorded in the Consolidated Statement of Profit and Loss.

Interest rate cap

On 20 February 2017, Avast Software B.V. entered into an interest rate cap with an effective date from 31 March 2017 until 31 March 2021 ("Cap"). As of 31 December 2018, the 3-month USD LIBOR is capped at 2.75% p.a. for a notional amount of $798.8 million. The capped notional amount will gradually decrease to $709.0 million by 31 March 2021. The fee for the cap is $1.6 million annualy paid in quarterly installments.

During the reporting period ended 31 December 2018 there were no transfers between the Level 2 and Level 3 fair value measurements.

The movement in fair value of the derivatives was as follows:

($ 'm)	**Interest rate Cap**
31 December 2016	**0.2**
Change in fair value through profit and loss	3.0
31 December 2017	**3.2**
Change in fair value through profit and loss	(2.2)
31 December 2018	**1.0**

31. FINANCIAL RISK MANAGEMENT

The Group's classes of financial instruments correspond with the line items presented in the Consolidated Statement of Financial Position.

The management of the Group identifies the financial risks that may have an adverse impact on the business objectives and through active risk management mitigates these risks to an acceptable level.

The specific risks related to the Group's financial assets and liabilities and sales and expenses are interest rate risk, credit risk and exposure to the fluctuations of foreign currency.

Credit risk

The outstanding balances of trade and other receivables are monitored on a regular basis, and the aim of management is to minimize exposure of credit risk to any single counterparty or group of similar counterparties. The credit quality of larger customers is assessed based on the credit rating and individual credit limits are defined in accordance with the assessment.

The Group did not issue any guarantees or credit derivatives. The ageing of receivables is regularly monitored by Group management. The Group does not consider the credit risk related to cash balances held with banks to be material.

A significant portion of sales is realized through the Group's online resellers, mainly Digital River. From 2018, the Group manages its credit exposure by receiving advance payments from Digital River.

The Group evaluates the concentration of risk with respect to accounts receivable as medium, due to the relatively low balance of trade receivables that is past due. The risk is reduced by the fact that its customers are located in several jurisdictions and operate in largely independent markets and the exposure to its largest individual distributors is also medium. Sales to customers are required to be settled upfront by credit card or cash, thus further mitigating the risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in foreign currency).

At the parent company level, the functional and presentation currency is the US dollar and the Group's revenue and costs are reported in US dollars. The Group is exposed to translation risk resulting from the international sales and costs denominated in currencies other than US dollars and the resulting foreign currency balances held on the balance sheet. The Group is exposed to material transaction and translation currency risk from fluctuations in currency rates between USD, GBP, CZK and EUR.

The following table shows payments for the Group's products and services by end users (either directly to Group or paid to an e-commerce service provider) in individual currencies. Based on agreements with the Group, e-commerce service providers may convert billings collected on behalf of the Group in specific currencies to a remittance currency (usually USD and EUR) at the existing market rates which does not remove the underlying foreign exchange risk. The table below shows the original currency composition of payments made by end users to illustrate the foreign exchange risk to billings.

	Year-ended 31 December 2018	Year-ended 31 December 2017
USD	49%	52%
EUR	22%	19%
GBP	9%	8%
Other	20%	21%
Total	**100%**	**100%**

As the majority of revenues represent sales of software licences, the revenues are recognized over the duration of the licence period, despite payment being received at the start of the licence period. Because the release of deferred revenues is performed using the exchange rates valid at the start of the licence term, they are not subject to foreign currency risk.

The following table shows financial assets and liabilities in individual currencies, net:

($ 'm)	31 December 2018	31 December 2017
USD	(644.0)	(712.8)
EUR	(518.8)	(404.7)
CZK	(32.6)	(217.8)
GBP	53.3	78.3
Other	44.0	15.8
Total	**(1,098.1)**	**(1,241.2)**

Financial assets and liabilities include cash and cash equivalents, trade and other receivables and trade and other payables, term loan, lease liabilities, other current liabilities and non-current financial assets and liabilities. The table below presents the sensitivity of the profit before tax to a hypothetical change in EUR, CZK and other currencies and the impact on financial assets and liabilities of the Group. The sensitivity analysis is prepared under the assumption that the other variables are constant. The analysis against USD is based solely on the net balance of cash and cash equivalents, trade and other receivables, trade and other payables and term loan.

($ 'm)	% change	31 December 2018	31 December 2017
EUR	+/-10%	(51.9)/51.9	(40.5)/40.5
CZK	+/-10%	(3.3)/3.3	(21.8)/21.8
GBP	+/-10%	5.3/(5.3)	7.8/(7.8)
Other	+/-10%	4.4/(4.4)	1.6/(1.6)

The sensitivity analysis above is based on the consolidated assets and liabilities, i.e. excluding intercompany receivables and payables. However, Avast Software s.r.o. has a significant intercompany loan from Avast Operations B.V. denominated in USD. As the functional currency of Avast Software s.r.o. is the USD but the tax basis of Avast Software s.r.o. is denominated in CZK the income tax gains or losses of Avast Software s.r.o. are exposed to significant foreign exchange volatility. If the CZK depreciates against the USD, the corporate income tax expense would decrease. Avast Operations B.V. is not exposed to any similar volatilities as its functional and tax currency is the USD.

Interest rate risk

Cash held by the Group is not subject to any material interest. The only liabilities held by the Group subject to interest rate risk are the loan and derivatives described in Note 29 and 30. The liabilities and provisions themselves are not subject to interest rate risk. The Group keeps all its available cash in current bank accounts or term deposit contracts (see Note 19) with a fixed interest rate and original maturity not exceeding three months.

As at 31 December 2018, the Group has a term loan with an interest rate of 3-month USD LIBOR plus a 2.50% p.a. mark-up for USD tranche and 3-month EURIBOR plus a 2.75% p.a. mark-up for EUR tranche. The 3-month USD LIBOR and 3-month EURIBOR is subject to a 1% interest rate floor and 0% interest rate floor, respectively. As of 31 December 2018 the 3-month USD LIBOR was 2.39% p.a. and 3-months EURIBOR was -0.32%.

To reduce the interest rate risk, Avast Software B.V. entered into an interest rate cap (“Cap”) with certain counterparties on 20 February 2017 effective from 31 March 2017. Under the Cap, 3 month USD LIBOR is limited to 2.75% p.a. for a notional amount of $844 million at the beginning to $709 million through 31 March 2021.

Interest rate sensitivity

A change of 100 basis points in market interest rates would have increased/(decreased) equity and profit and loss before tax by the amounts shown below (based on average gross debt during the year):

	Year-ended 31 December 2018	Year-ended 31 December 2017
Increase in interest rates	(15.3)	(17.6)
Decrease in interest rates	15.3	17.6

Liquidity risk

The Group performs regular monitoring of its liquidity position to maintain sufficient financial sources to settle its liabilities and commitments. The Group is dependent on a long-term credit facility and so it must ensure that it is compliant with its terms. As it generates positive cash flow from operating activities, the Group is able to cover the normal operating expenditures, pay outstanding short-term liabilities as they fall due without requiring additional financing and has sufficient funds to make meet the capital expenditure requirement. The Group considers the impact on liquidity each time it makes an acquisition in order to ensure it does not adversely affect its ability to meet the financial obligation as they fall due.

As at 31 December 2018 and 2017, the Group's current ratio (current assets divided by current liabilities including the current portion of deferred revenue) was 0.71 and 0.60. The ratio is significantly impacted by the high current deferred revenue balance due to the sales model, where subscription revenue is collected in advance from end users and deferred over the licence period. The Group's current ratio excluding deferred revenue was 2.15 and 1.55 as at 31 December 2018 and 2017, respectively.

The Group has established long-term credit ratings of Ba3 with the Moody's and BB- with Standard & Poor's. The credit ratings are subject to regular review by the credit rating agencies and may change in response to economic and commercial developments.

The following table shows the ageing structure of financial liabilities as of 31 December 2018:

($ 'm)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	18.3	55.0	1,337.2	-	**1,410.5**
Interest payment	14.9	44.8	195.3	-	**255.0**
Trade payables and other liabilities*	54.6	9.4	-	-	**64.0**
Derivative financial instruments	0.4	0.6	-	-	**1.0**
Other non-current liabilities	-	3.8	0.3	0.2	**4.3**
Total	**88.2**	**113.6**	**1,532.8**	**0.2**	**1,734.8**

* As described in Note 6, the Group combined and reclassified trade and other payables and other current liabilities. Comparative information as of 31 December 2017 was adjusted accordingly.

The following table shows the ageing structure of financial liabilities as of 31 December 2017:

($ 'm)	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due in more than 5 years	Total
Term loan	23.0	68.9	367.7	1,355.9	**1,815.5**
Interest payment	18.0	55.8	283.0	47.5	**404.3**
Finance Lease liability	1.0	1.0	2.8	0.2	**5.0**
Trade payables and other liabilities	51.2	22.9	-	-	**74.1**
Derivative financial instruments	0.4	1.2	1.6	-	**3.2**
Other non-current liabilities	-	-	1.5	0.7	**2.2**
Total	**93.6**	**149.8**	**656.6**	**1,404.3**	**2,304.3**

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in circumstances, including economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group currently expects to maintain dividend payments of approximately 40% of Group's levered free cash flow in the short to medium term.

The Group monitors capital using the net liability position and gearing ratio (the net liability position divided by the sum of the net liability position and equity). The Group includes within the net liability position all current and non-current liabilities, less cash and cash equivalents.

($ 'm)	31 December 2018	31 December 2017
Current and non-current liabilities	2,004.4	2,358.4
Less: cash and short – term deposits	(272.3)	(176.3)
Net liability position	1,732.1	2,182.1
Equity	900.4	435.1
Gearing ratio	**65.8%**	**83.4%**

32. SHARE CAPITAL

Shares issued and fully paid:	**Number of shares**	**Share Capital ($ 'm)**	**Share Premium ($ 'm)**
Share capital at 31 December 2016[1]	**94,212,768**	**565.3**	**23.4**
Exercise of options	1,302,134	2.5	0.5
Transfer within equity[2]	-	23.0	(23.0)
Capital distribution[2]	-	(219.1)	-
Share capital at 31 December 2017[3]	**95,514,902**	**371.7**	**0.9**
Exercise of options	5,345	-	-
Share capital immediately prior to IPO	**95,520,247**	**371.7**	**0.9**
Converted at IPO[4]	844,058,216	**371.7**	**0.9**
Net exercise of options at IPO[4]	49,603,491	-	7.4
Initial public offering[5]	58,977,478	8.0	191.8
Share issue expenses[5]	-	-	(4.0)
Group re-organisation[6]	-	(250.8)	(0.9)
Capital reduction[7]	-	-	(180.6)
Exercise of options	799,114	0.1	0.8
Share capital at 31 December 2018 (Ordinary shares of £0.10 each)	**953,438,299**	**129.0**	**15.4**

[1] Share capital at 31 December 2016 represented 51,075,525 common and 43,137,243 preferred shares, each with a nominal value of $6.0 per share and a share premium of $0.284 per share.

[2] On 11 October 2017, the Management Board and Shareholders of Avast Holding B.V. approved the Distribution of $264.8 million. The Distribution consisted of two sources:

- reduction in the nominal value of all Preferred Shares resulting in a Distribution of $219.1 million; and
- payment of a regular dividend to holders of all Preferred Shares of $45.7 million.

On 10 October 2017, the other reserves were decreased by $54.9 million (with a corresponding increase in retained earnings) for the purpose of dividend distribution. On 11 October 2017, the share premium was decreased by $23.0 million with a corresponding increase in share capital. The Distribution is presented as a $219.1 million reduction in share capital and $45.7 million reduction in retained earnings.

[3] Share capital at 31 December 2017 represented 52,377,659 common and 43,137,243 preferred shares. The nominal value of the 51,264,275 class A common shares is $6.24 per share with a share premium of $0.044 and nominal value of the 1,113,384 class B common shares is $1.57 with a nil share premium. The nominal value of the 43,136,243 preferred shares is $1.16 with a share premium of $0.044 and nominal value of the 1,000 management preferred shares is $6.24 per share with a share premium of $104.76 per share.

[4] Avast plc listed its shares on the London Stock exchange on 10 May 2018. As part of the IPO, holders of equity instruments in Avast Holding received 844,058,216 shares in Avast plc. In addition, holders of options in Avast Holding net-exercised at the IPO 49,603,491 shares in Avast plc and 58,977,478 new shares were issued, bringing the total amount of shares outstanding on Admission to 952,639,185. The net exercise of options resulted in the Group recording a share premium of $7.4 million.

[5] The increase in share capital and share premium of $195.8 million represents the net proceeds from the IPO, less direct share issue expenses of $4 million.

[6] $250.8 million was reclassified from share capital and $0.9 million from share premium into other reserves to reflect the nominal value of 10 pence per outstanding share.

[7] On 6 November 2018, the High Court of Justice in England and Wales has made an order confirming the reduction of the share premium account by £138 million ($180.6 million) and the cancellation of the subscriber share of the company under section 648 Companies Act 2006. The Company now will be able to apply the distributable reserves arising from the capital reduction and the subscriber share cancellation towards the payment of dividends in line with the Company's dividend policy and for the purposes of future share buybacks.

33. OTHER RESERVES

The movements in the other reserves were as follows:

($ 'm)	31 December 2018	31 December 2017
Other reserves at 31 December 2017	**2.4**	**49.7**
Defined benefit plan actuarial gain	-	0.1
Transfer within equity (see Note 32)	-	(54.9)
Group re-organisation (see Note 32)	251.7	-
Share-based payments[1]	13.8	7.5
Net exercise of options (see Note 32)	(7.4)	-
Other reserves at 31 December 2018	**260.5**	**2.4**

[1] The fair value of share awards granted to employees is recorded over the vesting periods of individual options granted as a personnel expense with a corresponding entry to other reserves. Refer to Note 34 for further details of share-based payments.

34. SHARE-BASED PAYMENTS

Existing Employee Share plan (formerly known as Avast Holding 2014 Share Option Plan "Avast Option Plan")

The Avast Option Plan was the primary share option plan of the Group prior to the IPO under which certain employees and Directors were granted options over A-Ordinary and / or B-Ordinary Shares of Avast Holding. Following the IPO, the Avast Option Plan was adjusted such that the options granted under the plan ceased to be options over shares of Avast Holdings and, instead, became options over shares of the Company of equivalent value.

No new options have been granted under the Avast Option Plan since the IPO. Furthermore, the Company does not intend to grant any further options under the Avast Option Plan.

Options generally vest over a four-year period in four equal installments. Some of the options granted to the key management personnel are performance-based. The contractual life of all options is 10 years.

Avast plc, 2018 Long Term Incentive Plan ("LTIP")

Following the IPO, the Company has adopted the LTIP for employees and Executive directors. The purpose of the LTIP is to incentivise employees and Executive Directors whose contributions are essential to the continued growth and success of the business of the Company, in order to strengthen their commitment to the Company and, in turn, further the growth, development and success of the Company. The following types of awards can be granted:

Performance Stock Units ("PSUs")
PSUs will be granted to Executive Directors and members of the Executive Management Team. Each PSU entitles a participant to receive a share in the Company upon the attainment, over a three year performance period, of challenging performance conditions determined by the Remuneration Committee.

Restricted Stock Units ("RSUs")
RSUs will be granted to key employees of the Group who are not Executive Directors or members of the Executive Management Team. Each RSU entitles a participant to receive a share in the Company upon vesting of the RSU. Each award of RSUs will ordinarily vest either in three equal proportions over a three year period or on the third anniversary of grant or over such other period as the Committee may determine, provided the participant remains in service.

Stock Options ("Options")
Options may be granted to key employees of the Group who are not Executive Directors or members of the Executive Management Team. Each option entitles a participant to the right to acquire a share of the Company upon vesting of the option. Each option will ordinarily become exercisable either in three equal proportions over a three year period or on the third anniversary of the grant, or over such other period as the Remuneration Committee may determine.

Share Matching Plan ("SMP")

The Company has adopted the Avast Share Matching Plan ("SMP") for employees and Executive Directors of the Group.The purpose of the SMP is to encourage and enable employees and Executive Directors to acquire a significant stake in the Company so that they can share in the future growth, development and success of the Company. Under this plan, employee will be granted one matched share for every three purchased shares after a two-year period. No award under SMP was granted in 2018.

Deferred Bonus Plan ("DBP")

The Company has adopted the Deferred Bonus Plan for only Executive Directors. Where a participant is required to defer a portion of their annual bonus into shares under the terms of the Company's annual bonus arrangements, the Remuneration Committee may grant an award to acquire shares under the DBP in order to facilitate such deferral. Awards will ordinarily vest on the second anniversary of the date of grant. No award under DBP was granted in 2018.

Jumpshot Inc., 2015 Share Option Plan ("Jumpshot Option Plan")

The Jumpshot Option Plan was designed in order to grant options to purchase shares of common stock of Jumpshot Inc. to certain employees and directors of Jumpshot Inc. The purpose of the Jumpshot Option Plan is to provide employees with an opportunity to participate directly in the growth of the value of Jumpshot by receiving options for shares.

Each option converts into one ordinary share of Jumpshot Inc. on exercise. Options that are forfeited are available to be granted again. Options generally vest over a four-year period in four equal installments. Some of the options granted to the key management are performance-based. The contractual life of all options is 10 years.

Share-based payment expense

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

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Avast Option Plan	8.5	7.5
LTIP	5.3	-
Jumpshot Option Plan	0.1	0.2
Total share-based payment expense	**13.9**	**7.7**

Share Options

The fair value of equity-settled share options granted is, based on the several assumptions, on the date of the grant award using the Black-Scholes option valuation model. The following table illustrates the weighted average inputs into the Black-Scholes model in the year:

Avast Option Plan	Year-ended 31 December 2018	Year-ended 31 December 2017
Number granted in year	1,810,000	3,198,398
Weighted average grant date fair value (in $ cents/per share)	6.77	2.35
Weighted average exercise price (in $ cents)	26.98	13.17
Expected volatility	31.58%	32.66%
Weighted average expected lives (years)	6.25	6.12
Risk free interest rate	2.67%	1.93%
Expected dividends	Nil	Nil

Jumpshot Option Plan	Year-ended 31 December 2018	Year-ended 31 December 2017
Number granted in year	1,049,289	861,789
Weighted average grant date fair value (in USD cents/per share)	0.35	0.26
Weighted average exercise price (in USD cents)	0.86	0.56
Expected volatility	44.88%	45.34%
Weighted average expected lives (years)	6.92	6.25
Risk free interest rate	2.71%	2.07%
Expected dividends	Nil	Nil

Expected volatility was determined by calculating the historical share price volatility of comparable listed companies over the expected life of the options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not be necessarily be the actual outcome. An increase in the expected volatility will increase the estimated fair value. The expected life is the average expected period to exercise.

The number and weighted average exercise prices of, and movements in, share options in the year is set out below:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average exercise ($ cents)	Number of shares	Weighted average exercise ($ cents)
Outstanding – 1 January	**9,383,398**	**8.99**	**6,739,000**	**6.90**
Granted	1,810,000	26.98	3,198,398	13.17
Forfeited	(74,750)	9.32	(365,250)	7.44
Exercised	-	-	(188,750)	6.48
Outstanding on Admission	11,118,648	12.13	-	-
Converted on Admission	69,905,909	1.69	-	-
Forfeited	(234,963)	1.23	-	-
Exercised	(729,114)	1.14	-	-
Outstanding – 31 December	**68,941,832**	**1.60**	**9,383,398**	**8.99**
Vested and exercisable – 31 December	**26,685,849**	**0.98**	**2,985,992**	**6.86**

The weighted average share price for options exercised during the year was £ pence 225.88.

Options outstanding at the end of the year had the following range of exercise prices and weighted average remaining contractual life:

	31 December 2018		31 December 2017	
Exercise price:	Number of shares outstanding	Weighted average remaining life (years)	Number of shares outstanding	Weighted average remaining life (years)
$6.28 - $9.27	-	-	6,974,365	7.68
$14.37 - $15.22	-	-	2,409,033	9.32
$0.77 - $0.88	23,736,711	6.14	-	-
$1.13 - $1.84	31,141,544	8.21	-	-
$2.73 – $3.41	14,063,577	9.22	-	-
Outstanding – 31 December	**68,941,832**	**7.61**	**9,383,398**	**8.10**

Replacement options

Out of 7,717,640 options that were fully vested as of 21 March 2014 as part of a business combination, 5,345 options with an exercise price of $1.57 were exercised before the IPO. The outstanding number of options on Admission was 6,598,911 which were converted into 12,336,682 options over Avast plc shares. 70,000 options with the weighted average exercise price of $0.18 were exercised after the IPO. As of 31 December 2018, the outstanding and vested number of options was 12,266,682 with the weighted average exercise price of $0.19.

The following table summarises share option activity of Jumpshot Option Plan:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average exercise	Number of shares	Weighted average exercise
Outstanding – 1 January	**6,815,525**	**0.34**	**6,365,986**	**0.31**
Granted	1,049,289	0.86	861,789	0.56
Forfeited	(1,154,152)	0.50	(280,500)	0.33
Exercised	(138,371)	0.35	(131,750)	0.30
Outstanding – 31 December	**6,572,291**	**0.40**	**6,815,525**	**0.34**
Vested and exercisable – 31 December	**3,766,538**	**0.31**	**2,767,836**	**0.31**

Options outstanding of Jumpshot Option Plan at the end of the year had the following range of exercise prices and weighted average remaining contractual life:

	31 December 2018		31 December 2017	
Exercise price:	Number of shares outstanding	Weighted average remaining life (years)	Number of shares outstanding	Weighted average remaining life (years)
$0.30	4,653,252	6.18	4,703,250	7.19
$0.36	583,500	7.45	1,265,486	8.53
$0.56	358,750	8.45	846,789	9.50
$0.86	976,789	9.55	-	-
Outstanding – 31 December	**6,572,291**	**6.92**	**6,815,525**	**7.73**

Restricted Share units

The following table illustrates the number and weighted average share price on date of award, and movements in, restricted share units granted under the LTIP:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average share price *(£ pence)*	Number of shares	Weighted average share price *(£ pence)*
Outstanding – 1 January	**-**	**-**	**-**	**-**
Granted	5,188,917	234.94	-	-
Forfeited	(261,585)	234.29	-	-
Vested	-	-	-	-
Outstanding – 31 December	**4,927,332**	**234.97**	**-**	**-**

The fair value of RSUs granted is measured as at date of grant using Black-Scholes model, the outcome of which is a weighted average fair value of RSUs granted during the year was £ pence 219.07. Future dividends have been taken into account based on expected cash flow and dividend policy.

Performance Share Units

The following table illustrates the number and weighted average share price on date of award, and movements in, performance share units granted under the LTIP:

	Year-ended 31 December 2018		Year-ended 31 December 2017	
	Number of shares	Weighted average share price *(£ pence)*	Number of shares	Weighted average share price *(£ pence)*
Outstanding – 1 January	**-**	**-**	**-**	**-**
Granted	6,309,881	219.60	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Outstanding – 31 December	**6,309,881**	**219.60**	**-**	**-**

The fair value of PSUs granted is measured as at date of grant using Black-Scholes model, the outcome of which is a weighted average fair value of PSUs granted during the year was £ pence 219.60.

35. RELATED PARTY DISCLOSURES

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

Compensation of key management personnel (including Directors)

($ 'm)	Year-ended 31 December 2018	Year-ended 31 December 2017
Short term employee benefits (including salaries)	13.3	10.9
Share-based payments	9.3	6.1
Total	**22.6**	**17.0**

The amounts in the table above includes, in addition to the compensation of key management personnel of the Group, the remuneration of employees of the Group that are considered related parties under *IAS 24 Related party disclosures*.

As a part of the IPO and Reorganisation, share transactions occurred between Avast plc and key management personnel and significant shareholders, including Sybil Holdings S.a r.l.

Other Related Parties

Nadační fond AVAST ("AVAST Foundation")

The foundation was established by Avast Software s.r.o. and it distributes the gifts to other charities and foundations in the Czech Republic. The foundation is considered to be a related party as the spouses of Messrs. Kučera and Baudiš are members of the management board of the foundation.

On 13 March 2018, the Board approved that the donation for 2018 will be CZK 100 million ($5.0 million). The donation is paid in quarterly installments during the year.

During the twelve months ended 31 December 2018, Avast Software s.r.o. made donations of CZK 68.4 million ($3.1 million) [2017: CZK 117.2 million ($5 million)] to the Foundation. As of 31 December 2018, the Company recorded an accrual of CZK 41.8 million ($1.9 million) (2017: nil).

CVC Administration Services S.à r.l.

The Group's subsidiaries (Avast Software B.V., Avast Operations B.V, Avast Holding B.V., Avast Corporate Services B.V., AVG Ecommerce CY Limited, Norman Data Defense Systems B.V.) signed sub-rental agreements with CVC Administration Services S.à.r.l. for the lease of office premises which are automatically renewed every year. Total rent expenses for the year ended December 2018 amounted to $16.8 thousand (2017: $11.8 thousand).

Enterprise Office Center

On 15 November 2016, Enterprise Office Center (owned by Erste Group Immorent) where Avast Software s.r.o. resides was sold by a third party to a group of investors including co-founders of Avast Group, Eduard Kučera and Pavel Baudiš for $119.5 million (ca. €110 million). The term of lease ends in August 2028 and offers an option to extend for another 4 years under the same conditions. The annual rent is €3.1 million ($3.5 million).

36. COMMITMENTS

Operating lease commitments

The Group leased office space which incurred $12.4 million of the lease expense for the year ended 31 December 2018. The minimum future rentals on operating leases (excluding prolongation options) are as follows as of 31 December 2018:

($ 'm)	Less than 1 year	1 to 5 years	> 5 years	Total
Lease	9.5	33.6	44.6	87.7
Sublease income	(0.9)	(2.2)	-	(3.1)
Net lease	**8.6**	**31.4**	**44.6**	**84.6**

The Group incurred a lease expense of $17.3 million for the year ended 31 December 2017. The minimum future rentals on operating leases are as follows as of 31 December 2017:

($ 'm)	Less than 1 year	1 to 5 years	> 5 years	Total
Lease	12.6	40.0	23.9	76.6
Sublease income	(0.4)	(1.6)	-	(2.0)
Net lease	**12.2**	**38.4**	**23.9**	**74.6**

Finance lease commitments

The Group leased servers with a gross value $4 million; there are no associated commitments as at 31 December 2018.

The future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

($ 'm)	31 December 2018		31 December 2017	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	-	-	1.5	1.4
Total minimum lease payments	-	-	1.5	1.4
Present value of minimum lease payments	-	-	1.5	1.4

37. PRINCIPAL EXCHANGE RATES

	Year-ended 31 December 2018	Year-ended 31 December 2017
Translation of Czech crown into US dollar ($:CZK1.00)		
Average	0.0461	0.0429
Closing	0.0445	0.0470
Translation of Sterling into US dollar ($:£1.00)		
Average	1.3357	1.2882
Closing	1.2882	1.3520
Translation of Euro into US dollar ($:€1.00)		
Average	1.1814	1.1292
Closing	1.1451	1.1996

38. SUBSEQUENT EVENTS

On 1 February 2019 Avast plc sold the non-core asset of Managed Workplace, its remote monitoring and management product, to Barracuda Networks, Inc. (“Barracuda”) Managed Workplace was Avast's solution in the Remote Monitoring and Management (“RMM”) space, which is sold to Managed Service Providers (“MSPs”). This business is not core to our SMB strategy, which focuses on securing the workplace. Barracuda, which has a large existing MSP base but does not currently offer an RMM solution, provides a better long-term solution for this business. In addition, Barracuda has signed a reseller agreement, and will resell Avast's business security solutions to MSPs.

In the year ended 31 December 2018 the asset generated low teen revenue (USD million) with a materially lower margin profile than the Group. The proceeds of the sale will be used for general corporate purposes.

39. FULL LIST OF SUBSIDIARIES AS OF 31 DECEMBER 2018

Country of incorporation	Registered office	Registered address	Class of shares held	Percentage of share held
Netherlands	Avast Holding B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Software B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Operations B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Avast Corporate Services B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	Norman Data Defense Systems B.V.	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
	AVG Ecommerce CY Limited	Schiphol Boulevard 369, Tower F, 7th floor, 1118BJ Schiphol, the Netherlands	Ordinary	100%
Czech Republic	Avast Software s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
	Jumpshot s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
	FileHippo s.r.o.	Pikrtova 1737/1a, 140 00 Prague 4, Czech Republic	Ordinary	100%
Germany	Avast Deutschland GmbH	Otto-Lilienthal-Straße 6, 88046 Friedrichshafen, Germany	Ordinary	100%
United Kingdom	AVG Technologies UK Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Privax Limited	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Avast plc	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
	Privax Services (UK) Limited	Hill House, 1 Little New Street, London, England, EC4A 3TR	Ordinary	100%
	Piriform Software Ltd	7th Floor 110 High Holborn, London, England, WC1V 6JS	Ordinary	100%
USA	AVAST Software, Inc.	2625 Broadway Street, Redwood City, County of San Mateo, CA, 94063, USA	Ordinary	100%
	Remotium Inc.	2625 Broadway Street, Redwood City, County of San Mateo, CA 94063, USA	Ordinary	100%
	Avast Ancillary Services LLC	251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	TACR SERVICES, INC	Corporation Service Company 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	Fero, Inc.	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, DE 19801, USA	Ordinary	100%
	Sybil Software LLC	Corporation Service Company 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
	Jumpshot, Inc.	329 Bryant Street, Suite 3C San Francisco, CA 94107, USA	Ordinary	100%
	AVG Technologies USA, LLC	1313 N. Market Street, Suite 1500 Wilmington, DE 19801, USA	Ordinary	100%
	Location Labs, LLC	2100 Powell St, Emeryville, CA 94608, USA	Ordinary	100%
	Piriform Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, USA	Ordinary	100%
Hong Kong	AVAST Software (Asia) Limited	7/F Hong Kong Trade Centre, 161-167 Des Voeux Road Central, Hong Kong	Ordinary	100%
Israel	AVG Mobile Technologies Ltd*	2 HaShlosha Street, Tel Aviv Yaffo 6706054, Israel (PO BOX 9244)	Ordinary	100%
Cyprus	Piriform Group Ltd	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
	Piriform Limited	1 Constantinou Skokou St, Capital Chambers, 5th Floor, Agios Antonios, 1061 Nicosia, Cyprus	Ordinary	100%
Australia	AVG Technologies AU Pty Ltd	Level 7, 122 Arthur Street, 2060 Sydney - North Sydney, New South Wales, Australia	Ordinary	100%
Canada	AVG Technologies Canada Inc.	1125 Innovation Drive, Ottawa, Ontario K2K 3G6 Canada	Ordinary	100%
Brasil	AVG Distribuidora de Tecnologias do Brasil Ltda.	Conj 38, R. Amazonas, 669 - Santa Paula, São Caetano do Sul - SP, 09520-070, Brasil	Ordinary	100%
Norway	AVG Technologies Norway AS	Lysaker Torg 5, 1366 Lysaker, Bærum, Norway	Ordinary	100%
Slovak Republic	InloopX s.r.o.	Veľká Okružná 26A, 010 01 Žilina, Slovakia	Ordinary	100%
Switzerland	Avast Switzerland AG	Münchensteinerstr. 43, 4052 Basel, Switzerland	Ordinary	100%
Serbia	Privax d.o.o Beograd	Bulevar Mihaila Pupina 6, 11070 Belgrade-Novi Beograd, Serbia	Ordinary	100%
Japan	Avast Software Japan Godo Kaisha	1F and 2F Otemachi Building, 1-6-1 Otemachi, Chiyoda-ku, Tokyo, Japan	Ordinary	100%
Barbados	Piriform (Barbados) Ltd	Chancery House, High Street, Bridgetown, Barbados	Ordinary	100%

*in liquidation

The Company's directly held subsidiary is Avast Holding B.V. All other subsidiaries are indirectly held.

GLOSSARY

Adjusted Billings	Adjusted Billings ("Adjusted Billings") is comprised of the Group's Billings (including the Billings of Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Billings for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Billings"). A reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted Revenue	Adjusted Revenue represents the Group's reported revenue (including Piriform from the date of its acquisition by the Group on 18 July 2017) and adding Piriform's Revenue for the period prior to its acquisition, from 1 January 2017 to 17 July 2017 ("Piriform Pre-Acquisition Revenue") adjusted for the Deferred Revenue Haircut Reversal, the Gross-Up Adjustment and the Piriform Revenue Adjustments (from pre-acquisition billings). A reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS".
Adjusted Billings/Revenue excluding FX	Growth rate excluding currency impact calculated by restating 2018 actual to 2017 FX rates. Deferred revenue is translated to USD at date of invoice and is therefore excluded when calculating the impact of FX on revenue. For the FX rates applied, see „Principal exchange rates applied".
Adjusted Cash EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal, the COGS Deferral Adjustments and Piriform pre-acquisition EBITDA. A full reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS"
Adjusted Cost of Revenues/Operating costs	Adjusted Cost of Revenues/Operating costs represent the Group's cost of revenues/operating costs adjusted for depreciation and amortisation charges, share-based payments charges, exceptional items, COGS deferral adjustment, gross-up adjustment and Piriform pre-acquisition costs. A full reconciliation is included in the "Costs" section of the "FINANCIAL REVIEW"
Adjusted EBITDA	Adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is defined as the Group's operating profit/loss before depreciation, amortisation of non-acquisition acquisition intangible assets, share-based payments, exceptional items, amortisation of acquisition intangible assets, the Deferred Revenue Haircut Reversal, the COGS Deferral Adjustments and Piriform pre-acquisition EBITDA. A full reconciliation is included in the "PRESENTATION OF RESULTS AND DEFINITIONS"
Adjusted EBITDA margin	Adjusted EBITDA as a percentage of Adjusted Revenue
Adjusted effective tax rate	Adjusted Income tax as a percentage of Adjusted Profit before tax (defined as Adjusted Net Income before deduction of Adjusted Income tax) For Adjusted Income Tax reconciliation see "Income Tax" section of "FINANCIAL REVIEW".
Adjusted EPS	Basic Adjusted earnings per share amounts are calculated by dividing the Adjusted net income for the period by the weighted average number of shares of common stock outstanding during the year. The diluted Adjusted earnings per share amounts consider the weighted average number of shares of common stock outstanding during the year adjusted for the effect of dilutive options. For reconciliation see "Earnings per share" in the "FINANCIAL REVIEW" section.
Adjusted Net Income	Adjusted Net Income represents statutory net income plus the Deferred Revenue Haircut Reversal, share-based payments, exceptional items, amortisation of acquisition intangible assets, unrealised foreign exchange gain/loss on the EUR tranche of the bank loan, the COGS Deferral Adjustments, Piriform's pre-acquisition Net Income, the tax impact from the unrealised exchange differences on intercompany loans and the tax impact of the foregoing adjusting items and IP transfers. For reconciliation see "PRESENTATION OF RESULTS AND DEFINITIONS" section.
Amortisation of acquisition intangibles	Represents the amortisation of intangible assets acquired through business combinations which does not reflect the ongoing normal level of amortisation in the business
Average Products Per Customer (APPC)	APPC defined as the Consumer Direct Desktop simple average valid licences or subscriptions for the financial period presented divided by the simple average number of Customers during the same period. See "Consumer Direct Desktop Operational KPIs"
Average Revenue Per Customer (ARPC)	ARPC defined as the Consumer Direct Desktop revenue for the financial period divided by the average number of Customers during the same period. See "Consumer Direct Desktop Operational KPIs"
Cash conversion	Unlevered Free Cash Flow as a percentage of Adjusted Cash EBITDA. See "Cash flow" section of "FINANCIAL REVIEW"
COGS Deferral Adjustments	There was no deferred cost of goods sold ("COGS") balance consolidated by the Group in the acquisition balance sheet of AVG in 2016 and thus no subsequent expense was recorded as the revenue in respect of pre-acquisition date billings was recognised. The "COGS Deferral Adjustments" refers to an adjustment to reflect the recognition of deferred cost of goods sold expenses that would have been recorded in 2016 and 2017 in respect of pre-acquisition date AVG billings, had the AVG and the Group's businesses always been combined and had AVG always been deferring cost of goods sold. See "PRESENTATION OF RESULTS AND DEFINITIONS"
Deferred Revenue Haircut Reversal	Under IFRS 3, Business Combinations, an acquirer must recognise assets acquired and liabilities assumed at fair value as of the acquisition date. The process of determining the fair value of deferred revenues acquired often results in a significant downward adjustment to the target's book value of deferred revenues. The reversal of the downward adjustment to the book value of deferred revenues of companies the Group has acquired during the periods under review is referred to as the "Deferred Revenue Haircut Reversal". See "PRESENTATION OF RESULTS AND DEFINITIONS"
Discontinued Business	As the company is exiting its toolbar-related search distribution business, which had previously been an important contributor to AVG's revenues (referred throughout the Full Year Report, with the

	Group's browser clean-up business, as "Discontinued Business"), the growth figures for Adjusted Revenues and Adjusted Billings exclude Discontinued Business, which the Group expects to be negligible by 2019. The Discontinued Business does not represent a discontinued operation as defined by IFRS 5 since it has not been disposed of but rather it is being continuously scaled down and is considered to be neither a separate major line of business, nor geographical area of operations.
Exceptional items	Exceptional items are material and non-recurring items of income and expense which Group believes should be separately disclosed to show the underlying business performance of the Group more accurately. For details see "Exceptional items" of "FINANCIAL REVIEW" and "Note 10"
Gross debt	Represents the sum of the total book value of the Group's loan obligations (i.e. sum of loan principals). A reconciliation is included in the "Financing" section of the "FINANCIAL REVIEW".
Gross-Up Adjustment	The "Gross-Up Adjustment" refers to the estimated impact of the additional amount of 2015 and 2016 revenue and expenses and their deferral that would have been recognised by Avast had the contractual arrangements with certain customers qualified to have been recognised on a gross rather than a net basis prior to 2017 (AVG had historically recognised Billings and revenues on a gross basis, whereas Avast recognised them on a net basis). See "PRESENTATION OF RESULTS AND DEFINITIONS"
Levered Free Cash Flow	Represents amounts of incremental cash flows the Group has after it has met its financial obligations (after interest and lease repayments) and is defined as Unlevered Free Cash Flow less cash interest and lease repayments. See "Cash flow" section of "FINANCIAL REVIEW" for reconciliation.
Net debt	Net debt indicates gross debt netted by the company's cash and cash equivalents. A reconciliation is included in the "Financing" section of the "FINANCIAL REVIEW".
Number of customers	Users who have at least one valid paid Consumer Direct Desktop subscription (or license) at the end of the period
Piriform Pre-Acquisition Billings/EBITDA	Piriform's Billings/EBITDA for the period prior to its acquisition, from 1 January 2017 to 17 July 2017. See "FINANCIAL REVIEW" for details
Unlevered Free Cash Flow	Represents Adjusted Cash EBITDA less capex, plus cash flows in relation to changes in working capital (excluding change in deferred revenue and change in deferred cost of goods sold as these are already included in Adjusted Cash EBITDA) and taxation. Changes in working capital and taxation are as per the cash flow statement on an unadjusted historical basis and unadjusted for exceptional items. See "Cash flow" section of "FINANCIAL REVIEW" for reconciliation
Unrealized FX on EUR tranche of bank loan	In the reported financials, the Group retranslates into USD at each balance sheet date the Euro value of the Euro tranche of the bank debt, with the unrealised FX movement going to the income statement. This adjustment reverses this unrealised element of the FX gain/ loss