

Kaspersky Lab UK Limited
Strategic Report and Corporate Governance Report

FINANCIAL YEAR 2020

Kaspersky Lab UK Ltd (the “Company” or “Kaspersky”) is a limited company and its registered office is: 2 Kingdom Street, Paddington Basin, London, W2 6BD.

Kaspersky is one of the world’s largest privately-owned cybersecurity companies, with the company registered in the United Kingdom.

The principal activity of the Company is marketing and distribution of information security solutions which protect its customers from a wide range of IT threats, including viruses and other forms of malicious software, spam, hackers, intrusions, and unauthorized use or disclosure of confidential information.

The key market in which the Company operates is endpoint security. It encompasses products that are designed to protect endpoints from attack or to protect information residing on endpoints, both physical and virtual, regardless of operating system type. Endpoint security products provide security using or leveraging an endpoint agent or client as a core or fundamental component. Functionality includes client antimalware software, file/storage server antimalware, personal firewall software, host intrusion prevention software, file/disk encryption, whitelisting, patch management, desktop URL filtering and endpoint data loss prevention. The endpoint security category covers both corporate and consumer products. Global corporate and consumer markets are growing approximately at 8% and 1% per year. The other key markets where the Company is present are Web security (11% growth per year) and Messaging security (8% growth per year), Threat Intelligence Services (17% growth per year), Hybrid Cloud Security (Cloud Workload Protection) (33% growth per year).

The Company’s main objectives continue to be gaining market share – specifically in the corporate market and enhancement of profitability.

The Company measures its progress against goals using the following key performance indicators (“KPIs”): revenue, results from operating activity and net profit.

The Company’s revenues decreased from EUR 324,963 thousand in 2019 to EUR 103,253 thousand in 2020 or by 68%, which is largely due to a change in a portion of the Company’s overseas business. Prior to 2019 the Company distributed Kaspersky products to overseas customers by selling directly or through its local fellow subsidiaries of Kaspersky Labs Limited (the Company’s parent). Starting from 2019 the Company is focused exclusively on the UK & Republic of Ireland markets. With the reduction of the scope of the Company’s business, it stopped acquiring marketing and promotional services from its fellow subsidiaries of Kaspersky Labs Limited. Consequently, the Company’s operating expenses reduced in line with the reduction of its revenue, As a result, the Company’s operating profit reduced from EUR 100,703 thousand (or 31% of revenue) in 2019 to EUR 26,969 thousand (or 26% of revenue).

In 2020 the Company incurred a loss before taxation of EUR 1,428 thousand, compared to a profit in 2019 of EUR 128,556 thousand. The main factor of the profit deterioration is the foreign exchange result. The Company’s assets in USD exceed its liabilities in this currency. Also, the USD devalued against the EUR by approx. 9.6% in 2020. In 2019 the EUR appreciated against the USD by approx. 2.1%. As a result the Company incurred foreign exchange loss of EUR 34,772 thousand during 2020 compared to a gain in 2019 of 9,157 thousand.

The net result after tax in 2020 is a loss of EUR 594 thousand, compared to a profit in 2019 of EUR 107,686 thousand.

Statement by the Directors in performance of their statutory duties in accordance with s172 Companies Act 2006

The directors of Kaspersky Lab UK Limited consider the following issues, factors and stakeholders relevant in complying with section 172 (1) (a) to (f):

Regard to the likely consequences of decisions in the long term

The 2021 budget which was approved in 2020 places focus on the Company's profitability, which is meant to be achieved through a combination of revenue growth and efficient spending in strategically important directions. No dividends were declared during 2020, which is aimed at building the retained earnings for implementing the Company's strategy.

Regard to the interests of the company's employees

Employee remuneration is reviewed on an annual basis to ensure that it is at a fair market level. Employee involvement and commitment to the success of the business is an important element of the Company's culture. Management conducts regular communications and consultations with employees on key aspects of the Company's activities in the form of e-mail communications, annual meetings and informal events. A significant portion of employees bonuses depend on the financial performance of the business unit that they belong to and/or Kaspersky Group as a whole. An annual review of employee compensation is performed to support the business strategy of profitable revenue growth, which should in turn provide interesting and fulfilling work and the prospect of a higher future remuneration if the strategy is successfully achieved.

Regard to the need to foster the company's business relationships with suppliers, customers and others

The Board is committed to ensure that the Company strictly comply with its obligations to its suppliers and customers.

The Company is a part of an international group of companies and has access to the group's financial resources. The Company sells to and buys from customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the company is well placed to manage its business risks successfully. The Company operates in a market where technology plays a key role. Maintaining industry leadership positions is subject to a number of risks. Specifically, the Company may lack financial and other resources to maintain its positions. Products in the Company's target market are technologically complex and vulnerable to defects and error. The Company's fellow subsidiaries manages this risk by investing substantial resources in research and development activities, including those, which are related to ensuring product quality, as well as in legal substantiation of its intellectual property rights. Endpoint security has historically been the core of the Company's business. But the end-point IT security market is close to maturity and the market growth is limited. This may negatively affect the Company's financial performance and position. To manage this risk the Company constantly expands its product portfolio with solutions in the non-endpoint security area, such as critical infrastructure IT protection, cybersecurity intelligence and Secure Web / E-Mail Gateway services.

Some of the fastest-growing products in the endpoint security market (especially, in the consumer segment) are free. In most cases, the free products are only providing basic antivirus but customers are looking for a complete suite of security capability. The Company believes that free endpoint security software is not a detriment to the market but recognises that it has to manage the risk of market share loss to free endpoint security solutions by ensuring the quality of its products and by introducing a freemium software model.

The Company's policy in working with customers is focused on market penetration. As such, extended credit terms may be granted to some of the Company's major distributors. In addition, the Company invests in resellers incentives offering them volume rebates and other similar discounts. This results in a credit risk which the Company incurs on its trade accounts receivable. The Company manages this risk by developing a network of long-term reliable distributors and by day-to-day monitoring of exposure to individual customers.

The Company is exposed to foreign currency risk, because it carries out sales and purchases in currencies different from the Euro, the Company's functional currency and because of USD - denominated intra-group loans. This risk is mitigated by a day-to-day monitoring of the Company's open foreign currency position, and currency structure of its financial resources.

The Company historically does not use external debt financing. The Company's net current assets as at 31 December 2020 amount to EUR 335,122 thousand (2019: EUR 345,740 thousand), which shows its ability to fulfil its financial obligations. The Company does not extensively use variable interest rate financial instruments. To manage its liquidity risks the cash position of the Company is monitored on a regular basis to ensure sufficient cash resources are available to settle liabilities as they fall due - both in aggregate and in each individual currency.

Regards to the impact of the company's operations on the community and the environment

The Company operates in the industry whose primary goal is fighting cybercrime, which benefits communities worldwide. The Company is conscious of its environmental responsibilities and aims at reducing any damage to the environment that might be caused by its activities, primarily by reducing energy consumption.

Regards to the desirability of the company maintaining a reputation for high standards of business conduct

The Board considers that the reputation for high standards of business conduct derives primarily from meeting its obligations to its customers and suppliers, involving employees in the relevant areas of its business activity and promoting cybersecurity, which is the Company's principal business.

Regards to the need to act fairly as between members of the company

The Company is a fully-owned subsidiary of Kaspersky Labs Limited. Therefore, regards to a fair or unfair treatment of the members of the Company are not applicable.

The effect of COVID-19 on the Company's business

Kaspersky based on the results to date and their knowledge of the market and continuing demand for the company's products, are satisfied that the company can meet its obligations as they fall due. The Directors of Kaspersky have considered the impact of the COVID-19 pandemic on the financial and operational functions of the Company. The Directors have commissioned market intelligence research on the potential impact of the pandemic on the sector and have assessed the business systems including the robustness of the internal and external supply chains for operational continuity. Based on these assessments and considerable financial resources of the Company together with long-standing relationships with a number of customers and suppliers across different geographic areas and industries, the Directors believe that the Company is well placed to manage its business risks successfully.

During 2020 the COVID-19 pandemic broke out around the world. As of the date of this report, the effect of the pandemic has not been significant for the Company. Management cannot currently reliably estimate the influence of COVID-19 on the Company's future performance, but are confident from a review of the current financial position that the outbreak of the virus does not raise a going concern question for it. The effect of COVID-19 on the security industry in general is complex and goes in opposite directions:

- General slow-down of economy worldwide, which negatively affects the budgets of businesses and households.
- Growth of interest to IT security because of a wider spread of working from home worldwide

Corporate Governance Report

The Company does not apply a formal corporate governance code. The Company is governed in accordance with the relevant laws and constitution and by-laws that apply in the UK. The key member of the Company's sole shareholder Kaspersky Labs Limited is in the Company's Board of Directors. The nature and functions of the Board and the manner in which it is conducted is aligned with the Articles and Memorandum of

Association of the Company. All the Company's Directors are equally involved in managing all sides of the Company's activities and interact with the Company's corporate parent in accordance with the laws of the UK. There is no governance code required because the management of the Company on the highest level is executed by the same key persons and chief managers and one of the Board members of the Company is the major ultimate beneficial owner of the Company's sole shareholder. In this respect the Company has no practical need for any special governance code or supplementary arrangements for corporate governance as the Board and the shareholders are structurally aligned.

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CAN BE FOUND AT [HTTPS://WWW.GOV.UK/GOVERNMENT/ORGANISATIONS/COMPANIES-
HOUSE](https://www.gov.uk/government/organisations/companies-house)