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Darktrace PLC
06 September 2023

6th September 2023

**Darktrace plc**

**Results for the Financial Year Ended 30th June 2023**

***Strong operating and financial performance amidst challenging macro headwinds***

**31.3% year-over-year revenue growth**
**18.3% year-over-year growth in customer base**
**Confirming FY 2024 ARR and revenue expectations; increase to underlying FY 2024 margin**

Darktrace plc (DARK.L) (together with its subsidiaries, "Darktrace" or "the Group") a global leader in cyber security AI, today provides its results for the year ended 30th June 2023.

**FY 2023 Financial Performance**

| **$'000** | **FY 2023** | **FY 2022** | **%** |
|---|---|---|---|
| Revenue | 545,430 | 415,482 | 31.3% |
| Gross margin (%) | 89.8% | 89.2% | n/a |
| Net profit | 58,958 | 1,457 | 3,946.5% |
| Adjusted EBIT* | 82,506 | 49,816 | 65.6% |
| Adjusted EBITDA* | 139,163 | 91,412 | 52.2% |
| Free cash flow* | 93,753 | 99,517 | (5.8)% |
| Net cash inflow from operating activities | 134,047 | 140,244 | (4.4)% |

**See "Key Performance Indicators (KPIs)" below for the meanings of non-IFRS measures and other key performance indicators*

**FY 2023 highlights**

- Resilient business model, underpinned by multi-year contracts and a flexible cost structure, supported continued revenue growth and improvements in all earnings measures.
- Strong year-over-year revenue growth across all geographic markets and customer sizes.
- Adjusted EBITDA margin improvement of 3.5 percentage points over prior year, reflects scale efficiencies, ongoing discretionary cost management and some benefit from certain late-year, largely non-cash, factors including foreign exchange movements.
- Adjusted EBIT margin improvement of 3.1 percentage points over prior year supports continued progress towards long-term steady state model with Adjusted EBIT margins in the mid-20%s.
- Free cash flow (FCF) of $93.8 million, reflecting 67.4% of Adjusted EBITDA, reflects continued strong cash generation, though somewhat reduced from prior year by net settlement of vesting equity grants for Executive Directors in the period.

**Operating Performance**

| | **FY 2023** | **FY 2022** | **%** |
|---|---|---|---|
| ARR* at 30 June ($'000) | 628,444 | 484,880 | 29.6% |
| Net ARR Added* ($'000) | 143,564 | 144,178 | (0.4)% |
| One-year ARR gross churn* at 30 June | 6.8% | 6.6% | n/a |
| Net ARR retention rate* at 30 June | 104.7% | 105.3% | n/a |
| Number of customers* at 30 June | 8,799 | 7,437 | 18.3% |
| USD Remaining performance obligation (RPO) at 30 June* ($'000) | 1,258,350 | 1,003,932 | 25.3% |

**See "Key Performance Indicators (KPIs)" below for the meanings of non-IFRS measures and other key performance indicators*

- Strong year-over-year growth in constant currency ARR supported by Darktrace's multi-year contract model, despite slower new customer additions in a challenging macro-economic environment.
- Net constant currency ARR added down only $600,000 year-over-year as a 9.5% increase in average contract ARR largely offset lower ARR from new customer additions.
- Declines in gross and net retention metrics were minimised with increased focus on customer engagement:
  - One-year gross constant currency ARR churn increased by 0.2 percentage points year-over-year, driven by higher bankruptcies and other defaults across the customer base; and
  - Net constant currency ARR retention rate decreased by 0.6 percentage points year-over-year, reflecting the impact of increased churn and customers reducing coverages to meet budget requirements.
- Remaining performance obligations (RPO), or contracted revenue backlog, expanded to over $1.2 billion through acquiring new, and expanding existing, multi-year contracts, providing continuing future revenue support and visibility.
- Significant investments made in Go-to-market (GTM) strategy and teams in the second half of FY 2023 and continuing into FY 2024, are expected to support sales, ARR and revenue expansion through FY 2024 and beyond.

**FY 2024 Outlook (Unaudited)**

Darktrace is confirming the FY 2024 constant currency ARR and revenue guidance provided in its 19th July 2023 trading update, but is updating its Adjusted EBITDA margin guidance to reflect the expected impact of changes to sales compensation structures implemented for FY 2024. These changes have accounting impacts that alter the timing of commission cost recognition, as well as accelerating cash outflows, thus changing expectations for Adjusted EBITDA and Free Cash Flow. Darktrace does not expect this to have any material impact to its long-term financial profile and its long-term steady-state economic model remains unchanged.

Darktrace reports ARR in constant currency rates established at the start of each year(1). Applying FY 2024 rates to its ARR balance for 30th June 2023 results in a rebased ARR balance of $637.3 million, the new amount against which it will measure constant currency ARR growth for FY 2024.(2) It is confirming its expectation for year-over-year constant currency ARR growth of between 21% and 23%. This implies FY 2024 net ARR additions of between $133.8 million and $146.6 million, for year-over-year growth in Net ARR added of between (8)% and 1%.

In balancing ongoing macro-economic uncertainty with early signs of recovery, and reflecting the time expected to see a benefit from recent investments in its GTM strategy and teams, Darktrace is framing FY 2024 in terms of first half stabilisation and second half re-acceleration. Reflecting this "tale of two halves", Darktrace currently expects approximately 45% of FY 2024 Net ARR added to be added in the first half and approximately 55% to be added in the second half.

Expecting ARR growth to be more second half weighted than is typical has an impact on Darktrace's revenue growth, as a larger number of contracts are likely to be generating revenue for a smaller portion of the year. Furthermore, as trends in revenue typically lag developments in ARR by 6 to 12 months, the impact of ARR trends seen in FY 2023 will have an increasing impact on Darktrace's expected FY 2024 revenue. This was considered previously and Darktrace confirms its expectation for year-over-year revenue growth of between 22.0% and 23.5%.

Of the changes made to Darktrace's commissions structures, the most financially impactful is the decision to pay 100% of sales commissions up front, a change from past practice where 50% of commission was paid up-front with the remaining 50% typically paid one year later. This change has been made to better align with market practice, better supporting Darktrace's ability to hire and retain key experienced talent.

From a cost recognition perspective, however, Darktrace will now capitalise substantially all sales commissions and recognise them over the lives of the related contracts, unlike under past plans where it capitalised the first 50% but expensed the second 50% typically over the first year. Generally, this has the effect of moving more commission cost recognition to later periods, better aligning with revenue recognition. However, Darktrace notes that FY 2024 will be a transition year as it will still be accruing remaining portions earned, and paying out mostly all, of the second 50% of commissions it owes under FY 2023 plans commissions it owes under FY 2023 plans.

In its July trading update, Darktrace guided to an expected FY 2024 Adjusted EBITDA of at or around 22%. This guidance was based on forecasts using prior period commission plans and related accounting treatments. If prior period plans had been maintained, Darktrace would expect to now be providing an updated guidance range of between 22.0% and 24.0%. If Darktrace maintained its existing definition of Adjusted EBITDA, but netted the cost recognition benefit it will see from capitalising 100% of commissions against the continued accruing of costs related to FY 2023 plans, it calculates that commission plan changes alone would have added approximately 3 percentage points to its FY 2024 Adjusted EBITDA guidance range.

However, with 100% of commissions now being capitalised, and after reviewing comparable peer practices, Darktrace has determined that to be prudent, and to better align revenue, profitability and cash flow measures for its next phase of growth, it will change its definition of Adjusted EBITDA(3) to treat all amortisation of commissions as though they were cash costs. On this basis, Darktrace is now guiding to an FY 2024 Adjusted EBITDA range of 17.0% to 19.0%. Demonstrating that while changes to commissions payout timing and its Adjusted EBITDA definition are resetting its baseline, underlying performance trajectory is not changing, a comparison of Adjusted EBITDA margin expansion between FY 2021 results and FY 2024 guidance, both before and after changes, shows the same expected margin expansion of 11.2 percentage points in each case(4).

For FY 2024, transitioning to new commission payout schedules will have an impact on Free Cash Flow (FCF) as Darktrace pays out both all new commissions and second half commissions from FY 2023; this impact will be temporary and largely confined to FY 2024 and early FY 2025. Longer term, its expectation for FCF expressed in terms of a range of percentages of Adjusted EBITDA will change, almost entirely due to the change it is making to the definition of Adjusted EBITDA. Considering these factors, Darktrace expects FCF for FY 2024 to be in the range of 50% to 60% of Adjusted EBITDA and, more typically, to fall in the range of 100% of Adjusted EBITDA, plus or minus 20 percentage points. As under its prior expectations for FCF (90% plus or minus 15 percentage points), Darktrace is providing a range of normal FCF outcomes to account for variable trends in ARR, invoicing, collections, ranges of share option exercises influenced by share price, and other cash flow timings. It has, however, now expanded its range of outcomes to plus or minus 20 percentage points to reflect additional variability in paying out higher commissions in-period, as well as now factoring in assumptions for future deferred tax asset recognition and cash tax payments.

(1) The Group's primary currency exposures are the British Pound and the Euro converting to its US Dollar reporting currency. For FY 2024, its constant currency rates are 1.2682 and 1.0908 for the Pound and the Euro, respectively. For FY 2023, constant currency rates were 1.2146 and 1.0450 for the Pound and the Euro, respectively.

(2) For reference, ARR at the end of the most recent five quarters, at FY 2024 and FY 2023 constant currency rates, rebase to the following amounts:

| ($ million) | 30 Jun 2022 | 30 Sep 2022 | 31 Dec 2022 | 31 Mar 2023 | 30 Jun 2023 |
|---|---|---|---|---|---|
| FY24 CC Rates | $491.9 | $518.7 | $564.5 | $591.8 | $637.3 |
| FY23 CC Rates | $484.9 | $511.5 | $556.6 | $583.6 | $628.4 |

(3) Beginning in FY 2024, Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets.

(4) Darktrace's Adjusted EBITDA for FY 2021, FY 2022 and FY 2023, as well as FY 2024 guidance presented before and after changes to commissions plans (effective FY 2024 only) and the changes to the definition of Adjusted EBITDA (all periods):

| ($ million) | FY 2021 | FY 2022 | FY 2023 | FY 2024e* | Δ FY 21-24e |
|---|---|---|---|---|---|
| Adjusted EBITDA (pre-changes)<br>*Adjusted EBITDA margin %* | $33.5<br>*11.8%* | $91.4<br>*22.0%* | $139.2<br>*25.5%* | N/A<br>*23.0%* | <br>*11.2 ppts* |
| *Amortisation of capitalised* | $(14.1) | $(21.8) | $(22.5) | N/A | |

| | | | | | |
|---|---|---|---|---|---|
| *commission* | *$(14.1)* | *$(21.8)* | *$(32.5)* | *N/A* | |
| Adjusted EBITDA (post-changes) | $19.4 | $69.6 | $106.7 | N/A | |
| *Adjusted EBITDA margin %* | *6.8%* | *16.8%* | *19.6%* | *18.0%* | *11.2 ppts* |

** Midpoint of Darktrace's FY 2024 Adjusted EBITDA guidance range*

**Analyst and Investor Webcast**

Management will hold an analyst and investor webcast on our FY 2023 Results at 13:00 (UK time). Please register here: https://brrmedia.news/DARK_FY23

**About Darktrace**

Darktrace (DARK.L), a global leader in cyber security artificial intelligence, is on a mission to free the world of cyber disruption. Breakthrough innovations in our Cyber AI Research Centre in Cambridge, UK have resulted in over 156 patents filed and research published to contribute to the cyber security community. Rather than study attacks, Darktrace's technology continuously learns and updates its knowledge of your business data and applies that understanding to optimise your state of optimal cyber security. Darktrace's cyber AI technology provides a full lifecycle approach to cyber resilience across the entire organisation that can autonomously spot and respond to novel in progress threats within seconds. Darktrace employs over 2,200 people around the world and protects approximately 8,800 customers globally from advanced cyber threats. Darktrace was named one of TIME magazine's 'Most Influential Companies' in 2021. To learn more, visit http://www.darktrace.com.

**Cautionary Statement**

This announcement contains certain forward-looking statements, including with respect to Darktrace's current targets, expectations and projections about future performance, anticipated events or trends and other matters that are not historical facts. These forward-looking statements, which sometimes use words such as "aim", "anticipate", "believe", "intend", "plan", "estimate", "expect" and words of similar meaning, include all matters that are not historical facts and reflect the directors' beliefs and expectations, made in good faith and based on the information available to them at the time of the announcement. Such statements involve a number of risks, uncertainties and assumptions that could cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement and should be treated with caution. Any forward-looking statements made in this announcement by or on behalf of Darktrace speak only as of the date they are made. Except as required by applicable law or regulation, Darktrace expressly disclaims any obligation or undertaking to publish any updates or revisions to any forward-looking statements contained in this announcement to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

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**CEO Statement**

It is a pleasure to reflect on all that Darktrace has achieved in our second year as a publicly listed company and our 10th year since founding. We have delivered a robust set of financial results while also investing in the foundations for our future growth; strengthening our executive team, upgrading our systems, and bringing exciting new products to the market that have expressly been developed to tackle a fast-changing cyber security environment as we relentlessly pursue our mission to free the world of cyber disruption. I would like to thank our employees, partners, suppliers, and everyone else who has brought us one step closer to this mission this year.

Strong Financial and Operational Performance

Our financial performance for the year has been robust, delivering on growth and demonstrating the underlying strength of the business model, all whilst continuing to invest in the business. We added $143.6 million of net ARR in the year, resulting in 29.6% year-over-year growth in ARR at FY 2023 constant currency rates. Our adjusted EBITDA increased to $139.2 million, up from $91.4 million in FY 2022, and we delivered an operating profit margin of 6.7%. The macro-economic backdrop has been a headwind for many businesses over the past year, and we have not been immune from its impact. We now have 8,799 customers globally but have seen a slow-down in new customer additions at a rate of 13.8% below the prior year - as pressure on business budgets has meant that prospects have been more reluctant to run product trials. We are continuing to generate cash, which has enabled us to continue investing in our product pipeline and go-to-market operations, positioning us for the next phase of our growth journey.

Watershed Moment for Artificial Intelligence

FY 2023 has been a year of significant change in the world around us. At Darktrace, we have always understood that AI would eventually dramatically change the game for businesses and their data but few predicted the seismic shift that generative AI has created - for the world and for cyber security. Generative AI was a transition point - we are now living in a generative AI world that is already drastically changing the cyber sector, and it will continue to do so.

Businesses are waking up to the idea that AI is no longer the domain of early adopters with big budgets, it is a powerful technology that is accessible to many. In June we reported that 74% of our customers had employees that were interacting with publicly available generative AI tools through their corporate IT. Whilst this provides opportunities for productivity gains, businesses are also concerned about the related emerging risks; alongside data privacy issues they are questioning how generative AI models are trained and whether that data is trustworthy. Many CIOs are still developing their stance on generative AI, and where they believe it sits on the risk/opportunity spectrum. They are working out how they can use AI to benefit from their most relevant and powerful knowledge repository, their own business data, without putting it at risk through loss of IP or data leakage.

Security teams are also questioning how these advances in AI will be used against them. Many fear that the age of AI-powered attacks is here, and the speed, scale and sophistication of novel attacks is going to increase. In the first two months of 2023 - just after ChatGPT hit the mainstream - Darktrace saw an increase in social engineering email attacks. Those attacks showed growing linguistic sophistication, meaning users are having a much harder time knowing what is a legitimate message and what is a malicious phishing email. This suggests that generative AI is making the job of the attacker easier - the phishing attacks of today are more tailored and targeted and can be delivered at scale.

Darktrace is uniquely prepared for this moment. For ten years, we have been protecting our customers with Self-Learning AI. We bring our AI to the customers' data to learn their business in real time to uniquely protect them from evergreen novel attacks. This is wholly different from the rest of the industry which focuses on historical attack data. Our differentiated approach means that from ransomware to the rise of generative AI our customers are protected not only from today's threats but from the emerging threats of tomorrow.

Continuing to Innovate

We have a history of innovation at Darktrace that I am incredibly proud of. It started with the launch of DETECT in 2013, which enabled human security teams to see any and all threats inside their organisation. A few years later, we brought RESPOND to the market allowing our customers to surgically stop anomalous behaviour while allowing normal business activity to continue. At the beginning of this fiscal year, we reached another milestone with the launch of PREVENT in July 2022 which proactively hardens defences for our customers based on its unique understanding of their business. Just as we entered FY 2024, we launched HEAL which supports security teams to recover the business back to a healthy state after an attack and enhances the capabilities we already provide in PREVENT, DETECT and RESPOND.

All of this is down to the hard work of our technology team, led by our Chief Technology Officer, Jack Stockdale OBE, which has driven forward our ambitious technology vision and achieved what no other cyber security vendor has. The strong team in our Cyber AI Research Centre has continued to innovate on our existing capabilities so that every element of our offering to customers is one step ahead of the fast-moving threat landscape and delivering value to our customers. For example, during the year we announced the launch of Darktrace Newsroom, a PREVENT capability which helps security teams understand their exposure to new critical vulnerabilities, a major upgrade to Darktrace/Email and the introduction of new risk and compliance models which help our customers to monitor and respond to generative AI activity.

respond to generative AI activity.

We have been building and iterating on our product set since we set out on our mission in 2013 and will continue to do so. We trained our own large language models on proprietary Darktrace security datasets and released them as part of our product in 2021. We're already using generative AI in our attack simulation phishing product as part of PREVENT, and in our Cyber AI Analyst to perform incident investigation and analysis. Looking ahead, we're examining how this can power new chat interfaces in our products, create new and novel versions of simulated table-top exercises in HEAL, and generate, summarise and translate reports across our products. While the rest of the market is racing to keep up, Darktrace is one step ahead - because this era of AI-powered attacks is what we have been preparing for.

Delivering for our Customers

The focus of our research and development efforts, and the innovations that we bring to market, is our customers; keeping them - and their own customers, employees and other stakeholders - safe from cyber disruption. We have completed a wholesale review of our Go-To-Market organisation to ensure the teams are structured, incentivised and enabled to seize the opportunities ahead and drive our future growth. That team has worked hard to deliver not only new customers but value for our existing customers, resulting in increased product upsells across our customer base and a year-over-year increase in average customer ARR of 9.5%.

Strengthening our Management Team

We have continued to invest in our people and have been focussed on bringing in experienced top talent to help us on the next phase of our growth journey. I was delighted to welcome several new members to the executive team in the period. In July 2022, Carolyn Esser joined us from the Bill & Melinda Gates Foundation as Chief Corporate Affairs Officer, and is responsible for Darktrace's internal and external communications strategies, reputation management and stakeholder engagement. Max Heinemeyer, previously our VP of Cyber Innovation, took the position as Chief Product Officer in August 2022.

Denise Walter joined us as Chief Revenue Officer in February 2023. Denise brings a track record of driving successful sales growth at blue-chip software businesses over more than 25 years, most recently at VMWare, and is responsible for all aspects of revenue generation, including new business growth. Finally, in June 2023 Chris Kozup joined us from Zscaler as Chief Marketing Officer. Chris is an industry veteran and brings proven experience of leading high-performing marketing teams at fast-growing enterprise technology companies. We also made additional senior hires in our go-to-market and marketing teams, of people with deep experience in global partner organisations, customer success, large enterprise sales, corporate marketing and field marketing. We will continue to hire to enhance our capabilities, but we now have a brilliant team in place that brings together deep experience in running successful, high-growth, innovative technology companies and we are well-placed to leverage our unique technology and market positioning.

Looking Ahead

The market opportunity ahead of us is enormous - we believe there are over 150,000 companies that could benefit from our AI - and we have the right team and skills in place to ensure we can go after the market opportunity that they represent. All the investments we have made in FY 2023 have laid the foundations for our next phase of growth and our resilient business model means that we have the resources to support these ongoing investments as we continue to scale the business. We are prepared for this pivotal moment in the technology sector and believe that our AI-powered technology has never been as important to our customers as it is in this generative AI era. We will continue to enhance security teams as they face new and evolving threat landscapes, enabling them to focus on what they do best - delivering their own products and services to their customers.

Poppy Gustafsson OBE
Chief Executive Officer

**Key Performance Indicators (KPIs)**

KPIs are financial and non-financial measures used by Darktrace Management, its Board of Directors, its investors and other stakeholders, to assess business performance, monitor principal risks and evaluate future expectations.

One group of KPIs, including Annualised Recurring Revenue (ARR), net ARR added and Remaining Performance Obligations (RPO), provide additional insight into Darktrace's recurring revenue base, its ability to grow recurring revenue and, given Darktrace's multi-year contract model and that in the range of 80% of annual revenue is contracted before the start of each financial year, the total remaining value it has under contract.

KPIs such as Number of customers and Average contract value also provide additional understanding of how Darktrace is growing its business, and demonstrate trends in its customer base, go-to-market strategy and product penetration across its installed customers.

One-year gross ARR churn and Darktrace's Net ARR retention rate provide visibility into activity within the installed customer base, including value lost to departed customers and the ability of the business to sell additional products to existing customers for additional value and improved retention opportunities.

Management and the Board believe that Adjusted EBITDA margin is a useful measure of underlying operating performance, alongside other KPIs such as Operating profit margin (EBIT) and Adjusted EBIT margin. Adjusted EBITDA excludes certain items, such as share-based payment and related tax charges, certain depreciation and amortisation that are not indicative of, or that may impair the period-to-period comparability of, Darktrace's core operating performance. Darktrace uses Adjusted EBITDA margin as its primary profitability measure when developing its internal budgets, forecasts and strategic plan, in analysing the effectiveness of its operating performance, and in other strategic assessments and communications. In prior years, Darktrace also presented EBITDA, but has now determined that it does not add significant value beyond that provided by the combination of Adjusted EBITDA, Adjusted EBIT and core IFRS measures, including Operating profit (EBIT).

Free Cash Flow (FCF), in conjunction with IFRS measures such as net cash inflows from operating activities, provides a view into Darktrace's viability and ability to sustain its operations.

Most, but not all, KPIs are Alternative Performance Measures (APMs), which are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance; wherever appropriate and practical, Darktrace provides reconciliations of its APMs to relevant IFRS measures. APMs are developed and presented as Management and the Board consider them to be important supplemental measures to enhance stakeholders' understanding of business growth, underlying profitability, cash flows, and other business performance and trends. APMs do not have standard definitions and therefore may not be comparable to similar measures presented by other entities.

*Annualised Recurring Revenue (ARR)*

| **$'000** | **FY 2023** | **FY 2022** |
|---|---|---|
| Annualised Recurring Revenue | 628,444 | 484,880 |
| Year-over-year increase (%) | 29.6% | 42.3% |

Definition and relevance

ARR is the sum of the annualised committed subscription value of every contract for which Darktrace is entitled to recognise revenue, measured at the period's constant currency rate. In a very small number of cases where a customer has an opt-out within six months of commencing a contract, Darktrace does not recognise ARR on that contract until after that opt-out period has lapsed. Where a one-off sale of appliances is required for legal or regulatory reasons, or where training or other services are provided on a one-off basis, this non-recurring portion of the contract value is excluded from ARR.

ARR is a key indicator of future revenues. In conjunction with other KPIs and IFRS measures, it allows the growth of the business to be tracked on a more current basis than can be measured by revenue alone, the success of its go-to-market strategy to be assessed more quickly, and performance to be compared between periods.

Performance

As of 30 June 2023, Darktrace increased its ARR by 29.6% over the prior year end, driven primarily by an increase in customers from 7,437 to 8,799, and to a lesser extent by an increase in upsells to existing customers enabled by focused sales strategies and an expanded product set. Darktrace has seen ARR growth across all regions in which it operates.

At 30 June 2023, the distribution of customers by ARR value reflected 54.1% of customers with ARR over $100,000, compared to 49.5% at the prior year end. This shift reflects Management's focus on both selling to larger customers and driving product penetration while continuing to support the addition of customers across the full range of customer sizes and requirements.

The calculated USD ARR for FY 2023 is $637.3 million. Refer to the RPO disclosure for a reconciliation between ARR and short term RPO.

*Net ARR added*

| $'000 | FY 2023 | FY 2022 |
|---|---|---|
| Net ARR Added | 143,564 | 144,178 |
| Year-over-year (decrease)/increase (%) | (0.4)% | 36.1% |

Definition and relevance

Net ARR Added is Darktrace's new customer ARR for a period, plus or minus the net impact of upsell, downsell, and churn activity in the existing customer base for that same period, measured in the current period's constant currency.

Net ARR Added is a key indicator of Darktrace's ability to secure future revenue and a current measure reflecting changes in its internal and external operating tactics or environment. As with ARR, it allows the growth of the business to be tracked on a more current basis than can be measured by revenue growth alone, the success of its go-to-market strategy to be assessed more quickly, and performance to be more readily compared between periods.

Performance

The macro-economic environment that existed across Darktrace's 2023 financial year had a significant impact on Net ARR Added during the period, both as a result of fewer new customer additions and small increases in churn and downsells, as prospects and customers navigated their own performance issues and spend constraints. While Darktrace drove a significant increase in upsell value year-over-year, this was unable to compensate for the decline in new business ARR, particularly in the second half of the financial year. As a result, Net ARR added declined by ($0.6 million), or (0.4)%, in FY 2023 compared to a 36.1% increase in Net ARR added in the prior year.

The hiring of a new CRO and CMO in the second half of FY2023 has led to a restructuring of the Go-to-Market team that should drive improvements in this metric in future periods, though we expect to continue to see a reduced growth rate from the impact of the pressures on the global macro-economy in the beginning of FY 2024.

*One-year gross ARR churn rate*

| | 30 June 2023 | 30 June 2022 |
|---|---|---|
| One-year gross ARR churn rate | 6.8% | 6.6% |

Definition and relevance

One-year Gross ARR Churn rate is the Constant Currency ARR value of customers lost from the existing customer cohort one year prior to the measurement date, divided by the total ARR value of that existing customer cohort one year prior to the current measurement date. This churn rate reflects only customer losses and does not reflect customer expansions or contractions.

The one-year ARR gross Churn Rate is a key indicator of Darktrace's ability to deliver value to its customers at commercially accepted terms. It is a major factor that Management, the Board and other stakeholders consider when assessing the ability to effectively capture market opportunity and continue to drive the business on a growth trajectory.

Performance

Darktrace's One-year gross ARR churn rate increased by 0.2% from the prior year, to 6.8% from 6.6%, primarily due to the impact that the macro-economic environment has had in increasing bankruptcies and defaults across Darktrace's customer base. The year-over-year increase in FY 2023 was minimised as Management continued investing in the customer success function and prioritising its significant focus on customer engagement.

*Net ARR retention rate*

| | FY 2023 | FY 2022 |
|---|---|---|
| Net ARR retention rate | 104.7% | 105.3% |

Definition and relevance

Net ARR retention rate is the current period constant currency ARR value for all customers that were customers one year prior to the measurement date, divided by their ARR, in the same constant currency, one year prior to the measurement date. This retention rate reflects the ARR impact of customer losses, expansions, and contractions.

Net ARR retention expands on the insight provided in Darktrace's measurement of churn, by also reflecting the impact of product upsells and downsells, as well as other price or coverage expansions or contractions. This provides Management, the Board and other stakeholders with information they can use to assess the net benefit or cost of activity in the existing customer base. This assessment is valuable to assumptions about future growth potential and the long-term costs associated with customer acquisition and retention.

Performance

Darktrace ended the year with a Net ARR Retention Rate of 104.7%, a 0.6 percentage point reduction on the prior year-end. The increase in churn was a significant contributor to this decline, however, an increase in downsell renewal contract value resulting from partial product non-renewal, coverage elimination or price negotiation, was also a factor.

*Adjusted EBITDA and margin*

| $'000 | FY 2023 | FY 2022 |
|---|---|---|
| Adjusted EBITDA | 139,163 | 91,412 |
| Adjusted EBITDA margin (%) | 25.5% | 22.0% |

Definition and relevance

Darktrace's Adjusted EBITDA is earnings before interest, taxes, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales, and to remove uncapitalised share-based payment (SBP) charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets. Adjusted EBITDA as a percent of revenue is the Adjusted EBITDA margin.

Due to the unpredictable nature of these non-cash charges, and that SBP related employer tax charges are driven by movements in share price and are therefore outside of Darktrace's control, these costs are excluded in the calculation of Adjusted EBITDA. Management believes that this treatment improves the ability to make period-to-period comparisons of core operating performance and is consistent with treatment applied by listed European and US software peer companies.

For the calculation of this measure, Darktrace treats the appliance depreciation reflected in Cost of sales as though it were a current period cash cost. As Darktrace is unusual in supporting on-premise software deployments with appliances that it owns, maintains and reuses over their useful lives, this treatment provides better comparability to software companies that sell hardware to support similar deployments and recognise those direct cash costs.

Performance

Year-over-year, Adjusted EBITDA increased by $47.8 million, resulting in a 3.5 percentage point increase in Adjusted EBITDA margin to 25.5%.

Reconciling Operating profit (EBIT) to Adjusted EBITDA for FY 2023, Darktrace added back $56.7 million in net non-cash depreciation and amortisation charges, an increase of $15.1 million in the period. In its calculation of Adjusted EBITDA Darktrace does not add back to operating profit the $16.7 million of appliance depreciation included in Cost of sales which relates to appliances used to deploy software at customer sites. For FY 2023, there was a $2.3 million year-over-year increase in depreciation of appliances in Cost of sales, reflecting new, on-premis1 customer deployments. Appliance depreciation attributed to Cost of sales grew more slowly than might first be expected considering Darktrace's revenue growth as more customers choose to have products deployed virtually, and as Darktrace sells more products that are only deployed virtually.

Darktrace also added back $44.2 million in net SBP and related employer tax charges, an increase of $2.0 million in the period. This increase was due to a $6.0 million increase in SBP related employer tax charges, primarily as a result of increases in the share price across the period, partially offset by a $4.0 million reduction to the underlying SBP charge as a result of a reduced impact from IPO-related equity awards in FY 2023, with these awards having fully vested in the first half of FY 2023. Darktrace also added back a right-of-use asset impairment charge of $1.8 million reflecting its current assessment of the cost it will incur to exit a lease contract on now-unused office space.

For an analysis of the net profit, a related IFRS measure, see CFO statement below.

*Reconciliation of Net Profit to Adjusted EBITDA*

| $'000 | FY 2023 | FY2022 | % Change |
|---|---|---|---|
| **Revenue** | **545,430** | **415,482** | **31.3%** |

| | | | |
|---|---|---|---|
| **Net Profit** | **58,958** | **1,457** | **3,946.5%** |
| Taxation | (17,923) | 3,856 | n/a |
| Finance income | (8,016) | (518) | 1,447.5% |
| Finance costs | 3,493 | 2,807 | 24.4% |
| **Operating profit (EBIT)** | **36,512** | **7,602** | **380.3%** |
| **Operating profit margin (%)** | **6.7%** | **1.8%** | **n/a** |
| Depreciation & amortisation | 73,378 | 56,185 | 30.6% |
| **EBITDA** | **109,890** | **63,787** | **72.3%** |
| Appliance depreciation in cost of sales | (16,721) | (14,589) | 14.6% |
| Impairment of right-of-use asset | 1,781 | - | n/a |
| Share-based payment (SBP) charges | 39,989 | 44,018 | (9.2)% |
| SBP related employer tax charges | 4,224 | (1,804) | n/a |
| **Adjusted EBITDA** | **139,163** | **91,412** | **52.2%** |
| **Adjusted EBITDA margin (%)** | **25.5%** | **22.0%** | **n/a** |

*Adjusted EBITDA reconciliation by function*

| | FY 2023 | Adjustments to EBITDA | FY 2023 | FY 2022 | Adjustments to EBITDA | FY 2022 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue | 545,430 | - | 545,430 | 415,482 | - | 415,482 |
| Cost of Sales (COS) | (38,921) | - | (38,921) | (30,259) | - | (30,259) |
| COS-related depreciation and amortisation | (16,721) | - | (16,721) | (14,589) | - | (14,589) |
| **Total COS** | **(55,642)** | **-** | **(55,642)** | **(44,848)** | **-** | **(44,848)** |
| **Gross Profit** | **489,788** | **-** | **489,788** | **370,634** | **-** | **370,634** |
| Sales and marketing (S&M) costs | (228,204) | - | (228,204) | (186,693) | - | (186,693) |
| S&M related SBP charges | (17,506) | 17,506 | - | (15,347) | 15,347 | - |
| S&M-related depreciation and amortisation | (43,993) | 43,993 | - | (30,732) | 30,732 | - |
| **Total S&M costs** | **(289,703)** | **61,499** | **(228,204)** | **(232,772)** | **46,079** | **(186,693)** |
| Research and development (R&D) costs | (31,307) | - | (31,307) | (24,634) | - | (24,634) |
| R&D related SBP charges | (8,228) | 8,228 | - | (11,647) | 11,647 | - |
| R&D related D&A | (8,359) | 8,359 | - | (7,981) | 7,981 | - |
| **Total R&D costs** | **(47,894)** | **16,587** | **(31,307)** | **(44,262)** | **19,628** | **(24,634)** |
| General and administrative (G&A) costs | (91,653) | - | (91,653) | (63,064) | - | (63,064) |
| G&A related SBP charge | (18,479) | 18,479 | - | (15,220) | 15,220 | - |
| G&A-related depreciation, amortisation and impairment | (6,086) | 6,086 | - | (2,883) | 2,883 | - |
| **Total G&A costs** | **(116,218)** | **24,564** | **(91,653)** | **(81,167)** | **18,103** | **(63,064)** |
| Foreign exchange differences | (2,127) | - | (2,127) | (6,502) | - | (6,502) |
| Other operating income | 2,666 | - | 2,666 | 1,671 | - | 1,671 |
| **Operating profit (EBIT)** | **36,512** | | **36,512** | **7,602** | | **7,602** |
| **Operating profit margin** | | | **6.7%** | | | **1.8%** |
| **Adjusted EBITDA** | | | **139,163** | | | **91,412** |
| **Adjusted EBITDA margin** | | | **25.5%** | | | **22.0%** |

*Adjusted EBIT and margin*

| **$'000** | **FY 2023** | **FY 2022** |
|---|---|---|
| Adjusted EBIT | 82,506 | 49,816 |
| Adjusted EBIT margin (%) | 15.1% | 12.0% |

Definition and relevance

Darktrace's Adjusted EBIT is its earnings before interest and taxes, adjusted to remove uncapitalised share-based payment (SBP) charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets. Adjusted EBIT as a percentage of revenue is the Adjusted EBIT margin.

Adjusted EBIT considers both cash and non-cash charges incurred by Darktrace in the period, demonstrating what underlying operating profit would have been without the impact of certain charges that are both unpredictable and outside of Darktrace's control. This includes SBP related employer tax charges which are driven by movements in share price. Management believes this treatment aids period-to-period comparison of operating performance with Darktrace's peers, and by excluding the impact of these unpredictable or uncontrollable charges, further enhances

Darktrace's peers, and by excluding the impact of these unpredictable or uncontrollable charges, further enhances Management's ability to predict and communicate Darktrace's longer-term expected 'steady-state' economic model.

Performance

Year-over-year, Adjusted EBIT increased by $32.7 million to $82.5 million, resulting in a 3.1 percentage point increase in Adjusted EBIT margin to 15.1%.

Reconciling Operating profit (EBIT) to adjusted EBIT, Darktrace added back $44.2 million in net SBP and related employer tax charges, an increase of $2.0 million in the period. This increase was due to a $6.0 million increase in SBP related employer tax charges, primarily as a result of increases in the share price across the period, partially offset by a $4.0 million reduction to the underlying SBP charge as a result of a reduced impact from IPO-related equity awards that fully vested in the first half of FY 2023. Darktrace also added back a right-of-use asset impairment charge of $1.8 million reflecting its current assessment of the cost it will incur to exit a lease contract on now unused space.

*Reconciliation of Operating profit (EBIT) to Adjusted EBIT*

| $'000 | FY 2023 | FY2022 | % Change |
|---|---|---|---|
| **Operating profit (EBIT)** | **36,512** | **7,602** | **380.3%** |
| Impairment of right-of-use asset | 1,781 | - | n/a |
| Share-based payment (SBP) charges | 39,989 | 44,018 | (9.2)% |
| SBP related employer tax charges | 4,224 | (1,804) | n/a |
| **Adjusted EBIT** | **82,506** | **49,816** | **65.6%** |
| **Adjusted EBIT margin (%)** | **15.1%** | **12.0%** | **n/a** |

*Number of customers*

| | 30 June 2023 | 30 June 2022 | % Change |
|---|---|---|---|
| Number of customers | 8,799 | 7,437 | 18.3% |

Definition and relevance

This is a count of total end-user entities that are generating ARR at the measurement date.

Performance

Darktrace added 1,362 net new customers in FY 2023, a year-over-year growth rate of 18.3%. New customer additions slowed during the year as a challenging macro-economic environment made prospects more reluctant to trial software they did not believe they would have budget for and extended sales cycles for purchases. Growth in new customers is a key driver of net ARR added and the 13.8 percentage point reduction in year-over-year growth of net new customers was a key factor in the decline of Net ARR added to (0.4)% below the amount added in the prior year.

*Average contract ARR*

| $ | 30 June 2023 | 30 June 2022 | % Change |
|---|---|---|---|
| Average contract ARR | 71,422 | 65,198 | 9.5% |

Definition and relevance

Average contract ARR is the total ARR at the measurement date, divided by the number of customers at that measurement date. In combination with other measures, including shifts in the value distribution of ARR, metrics such as Average contract ARR are key to assessing whether go-to-market strategies, such as sales team segmentation and changing in pricing or packaging, are being reflected in Darktrace's performance.

Performance

Average contract ARR at 30 June 2023 increased by 9.5% year-over-year to $71,422. This expansion was driven by the larger average value of new customer contracts added during the period, in combination with an increase in upsells across Darktrace's existing customer base.

*Customer distribution by ARR*

Parallel to the year-over-year increase in average contract ARR, and the underlying increases in both new and existing contract ARR values, the distribution of customer contracts above and below $100,000 in ARR also shifted towards larger contract sizes.

| | 30 June 2023 | 30 June 2022 |
|---|---|---|
| ARR from customers with ARR greater than $100,000 | 54.1% | 49.5% |
| ARR from customers with ARR less than $100,000 | 45.9% | 50.5% |

The number of customers with ARR greater than $100,000 represent 17.9% of total customers, a 2.7 percentage point increase from 15.2% at 30 June 2022.

*Remaining Performance Obligation (RPO)*

| $'000 | 30 June 2023 | 30 June 2022 | % Change |
|---|---|---|---|
| RPO | 1,258,350 | 1,003,932 | 25.3% |

Definition and relevance

RPO represents committed revenue backlog and is calculated by summing all committed customer contract ARR values that have not yet been recognised as revenue, valued at the exchange rates on the last day of the reporting period rather than at constant currency (as for example with ARR). For clarity, any contracted amounts that are subject to opt-out or other cancellation provisions are not included in RPO.

RPO is a common KPI used by software and Software-as-a-Service ("SaaS") companies to provide stakeholders with an indication of future recurring revenue and baseline revenue growth. It includes only future recurring contract value - more than 99% of Darktrace's contract value is subscription-based - with all one-time future contract values excluded. RPO reflects actual contract status so unrenewed contract values cease to be reflected at their termination dates and future-dated contract values only become included at their start dates.

RPO and the 'Future contracted revenue' amount reported in the financial statements under the requirements of paragraph 120 of IFRS 15 are both measures of future revenue and differ for various reasons including:

- the assumptions made about, and the application of, foreign exchange rates differ between the two calculations;
- one-time revenue is included for the purpose of IFRS 15 reporting but is not included in RPO; and
- future contracted revenue recognises future values rateably over the term of the contracts, in line with Darktrace's revenue recognition principles, whereas RPO, aligning with ARR, considers the status of the contract on the last day of the reporting period.

Performance

At 30 June 2023, RPO was 25.3% higher than it was at 30 June 2022, driven primarily by the acquisition of new customers with multi-year contracts.

Darktrace's multi-year contract strategy, and the resulting RPO, creates significant revenue visibility.

| $'000 | 30 June 2023 | 30 June 2022 |
|---|---|---|
| Within 12 months | 574,184 | 438,043 |
| Between 1 - 2 years | 397,063 | 316,752 |
| Between 2 - 3 years | 214,018 | 187,844 |
| Between 3 - 4 years | 69,894 | 57,193 |
| Over 4 years | 3,191 | 4,100 |
| **Total** | **1,258,350** | **1,003,932** |

The difference between USD ARR ($637.3 million at 30 June 2023) and RPO within 12 months is that not all of the ARR at 30 June 2023 will contribute to revenue for a full 12 months.

*Free cash flow (FCF)*

| $'000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Free cash flow | 93,753 | 99,517 | (5.8)% |

Definition and relevance

Free cash flow (FCF) is the net cash from operating activities less purchases (other than purchases made in connection with business combinations) of intangible assets and property plant and equipment (PPE), and payments for leases. Darktrace presents this measure only at year-end as seasonality in its business would make comparisons between interim periods difficult and potentially misleading.

While Adjusted EBITDA continues to be effective for measuring underlying profitability trends within the business, Management believes that stakeholder understanding of its profitability can be enhanced by also providing a market-comparable cash-based profit measure as a tool to better assess Darktrace's potential for cash generation and the comparable cash-based profit measure as a tool to better assess Darktrace's potential for cash generation and the related implications for reinvestment and returns.

Performance

During FY 2023, Darktrace generated FCF of $93.8 million compared to $99.5 million in the prior year. This represents approximately 67.4% of Adjusted EBITDA, slightly below the 75% to 105% range that Darktrace considers typical, reflecting the high variability in invoicing, collections and other cash flow and working capital timings. This level of FCF in FY 2023 was slightly lower than its typical range due to the impact of the decision to net settle a significant equity vesting for its two Executive Directors in the period.

*Reconciliation of Adjusted EBITDA to FCF*

| $'000 | FY 2023 | FY2022 | % Change |
|---|---|---|---|
| **Adjusted EBITDA** | **139,163** | **91,412** | **52.2%** |
| Appliance depreciation in cost of sales | 16,721 | 14,589 | 14.6% |
| SBP related employer tax charges | (13,920) | 1,526 | n/a |
| Loss on disposal or impairment | 2,961 | 3,117 | -5.0% |
| Other non-cash movements | (952) | 9,612 | n/a |
| Working capital movements | (6,384) | 26,498 | n/a |
| Tax related payments | (3,542) | (6,510) | -45.6% |
| **Net cash inflow from operating activities** | **134,047** | **140,244** | **(4.4)%** |
| Capitalised research and development | (1,813) | (1,292) | 40.3% |
| Property, plant and equipment purchased | (24,306) | (31,863) | -23.7% |
| Lease costs capitalised | (14,175) | (7,572) | 87.2% |
| **Free Cash Flow (FCF)** | **93,753** | **99,517** | **-5.8%** |
| **FCF conversion (as % of Adjusted EBITDA)** | **67.4%** | **108.9%** | **n/a** |

**CFO Statement**

Leveraging its multi-year contract model, Darktrace delivered strong revenue growth and operating performance against a challenging macro-economic backdrop. Despite a 13.8 percentage point reduction in year-over-year customer growth, significant contracted revenue backlog (Remaining performance obligations or RPO) supported 31.3% year-over-year revenue growth for FY 2023.

A high variable cost operating model, along with strong continuing controls around discretionary spend, underpinned a 380.3% year-over-year increase in operating profit, despite making significant investments in Darktrace's Go-to-Market strategy and teams in the second half of the financial year. Darktrace continues to generate cash to fund these investments and believes that having had, and still having, the ability to do so through an economic period testing many businesses, will put it in the best possible position to capitalise on what remains a large available market opportunity.

*Income Statement Analysis*

| $'000 | FY 2023 | FY 2022 | %Change |
|---|---|---|---|
| Revenue | 545,430 | 415,482 | 31.3% |
| Gross profit | 489,788 | 370,634 | 32.1% |
| Gross margin (%) | 89.8% | 89.2% | n/a |
| Operating profit (EBIT) | 36,512 | 7,602 | 380.3% |
| Net Profit | 58,958 | 1,457 | 3,946.5% |

Revenue

Revenue increased by $129.9 million, or 31.3%, to $545.4 million for the year. This increase was primarily attributable to an 18.3% net increase in new customers since 30 June 2022 and, to a lesser extent, a 9.5% year-over-year increase in average contract ARR in the same period.

99.6% of all revenue came from recurring subscription contracts with customers, with new contracts typically averaging over 36 months. These multi-year contracts result in significant contracted revenue expected to convert to revenue in future years (see note 4 in the Financial statements). Subscription revenue is recognised in accordance with IFRS 15 on a straight-line basis over the service period, from commencement date to termination date.

Cost of sales (COS)

| $'000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Employment and other related costs | (18,593) | (13,490) | 37.8% |
| Hosting costs | (16,887) | (10,653) | 58.5% |
| Appliance depreciation | (16,721) | (14,589) | 14.6% |
| Shipping & other direct costs | (3,441) | (6,115) | -43.7% |
| **Total COS** | **(55,642)** | **(44,848)** | **24.1%** |

Cost of sales includes all costs relating to the deployment of Darktrace's software to customers, whether through physical appliances or in the cloud, and for providing both customer technical support and supplementary monitoring and response capabilities.

Cost of sales increased by $10.8 million, or 24.1%, to $55.6 million in the year. This increase was due to a $6.2 million increase in hosting fees in the period to $16.9 million, driven by additional virtual deployments for new and existing customers, which reflected a decrease in per unit hosting costs from volume-based discount plans with providers. It was also due to an increase in employment and other related costs of $5.1 million to $18.6 million. Correspondingly, appliance depreciation attributed to cost of sales grew $2.1 million to $16.7 million for the year; the lower growth in physical deployment costs is offsetting higher growth in hosting costs as more customers chose to have products deployed virtually, and as Darktrace offers more products that are only deployed virtually.

On a percentage of revenue basis, the decrease in appliance depreciation attributed to cost of sales, along with a decrease in shipping and other carriage costs related to fewer physical deployments, more than offset the increase in hosting fees. This resulted in a 0.6 percentage point improvement in gross margin to 89.8% for the period. The remaining components of cost of sales, such as salary-related costs for customer technical support and monitoring services, largely scaled in line with revenue growth.

Sales and marketing (S&M) costs

| $'000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Employment and other related costs | (157,831) | (119,102) | 32.5% |
| Other operating costs | (47,183) | (50,856) | -7.2% |
| Facilities costs | (16,071) | (12,498) | 28.6% |
| Travel and Entertainment | (7,119) | (4,165) | 70.9% |
| Depreciation and amortisation | (43,993) | (30,804) | 42.8% |
| Share-based payment (SBP) charges | (16,525) | (20,084) | -17.7% |
| SBP related employer tax charges | (981) | 4,737 | n/a |
| **Total S&M costs** | **(289,703)** | **(232,772)** | **24.5%** |

S&M costs increased by $56.9 million, or 24.5%, to $289.7 million for the year. This increase was largely attributable to a $38.7 million, or 32.5%, increase in employment costs (excluding share-based compensation) to $157.8 million. This was primarily as a result of a 25.0% increase in average headcount during the period, although increased average cost per head as we hired more experienced staff and recruited in a competitive job market, was also a factor. This headcount included, for the first time, full time equivalent (FTE) headcount of Customer Success Managers (CSMs), reflecting this team's new commercial renewal and upsell responsibilities from 1 July 2022. Given this change, Darktrace now apportions CSM headcount on an FTE basis, as well as the pro rata costs associated with these new commercial responsibilities, to S&M, where in prior periods, all CSM employees and related costs were reflected in the general and administrative category.

$23.5 million of the year-over-year increase in S&M employment costs was related to the first-time inclusion of CSM salaries, commissions, and related employment costs. This included $13.3 million of a total $22.8 million increase in salary related costs and $6.5 million of a total $12.0 million in commissions costs. The remaining increases were the result of additional hiring in sales and marketing teams, in-period commissions costs and increased recruitment costs related to the hiring, or planned hiring, of senior roles in both sales and marketing.

The largest component of other operating costs is direct marketing costs, which declined by $4.4 million to $35.7 million because of ongoing and successful efforts to increase the efficiency and effectiveness of Darktrace's direct and other marketing.

The $13.2 million increase in depreciation and amortisation to $44.0 million was mostly driven by a $10.7 million increase in the amortisation of capitalised commission. Depreciation of IFRS 16 lease assets increased by $2.7 million, largely related to new offices in London, New York, and Los Angeles.

Darktrace also saw the further return of travel, facilities and other costs suppressed by the pandemic in the prior period, amplified by a high inflationary environment.

Share-based payment charges decreased by $3.6 million to $16.5 million for the year as the costs associated with the 2H FY 2022 modification of awards made at the time of IPO terminated when they vested in the first quarter of FY 2023.

SBP related tax costs of $1.0 million compared to an income of $4.7 million in FY 2022, when a reduction in the year-end share price reversed a portion of the related provision for taxes to be paid. The FY 2023 charge was driven by the timing of awards exercised and vested during the year, as well as movements in the share price.

Research and Development (R&D) Costs

| $'000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Employment and other related costs | (26,749) | (21,454) | 24.7% |
| Facilities costs | (3,729) | (2,799) | 33.2% |
| Travel and Entertainment | (829) | (363) | 128.4% |
| Depreciation and amortisation | (8,359) | (7,999) | 4.5% |
| Share-based payment (SBP) charges | (6,709) | (6,522) | 2.9% |
| SBP related employer tax charges | (1,519) | (5,125) | -70.4% |
| **Total R&D costs** | **(47,894)** | **(44,262)** | **8.2%** |

R&D costs increased by $3.6 million, or 8.2%, to $47.9 million in the year, with the total cost growth kept down by lower SBP and related employer tax costs. Employments costs increased by $5.3 million, or 24.7%, to $26.7 million, primarily driven by a 28.3% increase in average number of R&D employees as Darktrace maintained its focus on research and new product development. $3.8 million of this increase was directly attributable to having a full year of costs for former Cybersprint (acquired in March 2022) employees. The increase in employment costs also resulted from an increase in average salaries from both newly hired senior roles and salary increases to retain existing employees in a competitive job market.

Share-based payment related tax charges have decreased by $3.6 million to $1.5 million. The current year charge was driven by the timing of awards exercised and vested during the year, as well as movements in the share price.

General and administrative (G&A) costs

| $000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Employment and other related costs | (59,807) | (44,224) | 35.2% |
| Other operating costs | (25,444) | (12,365) | 105.8% |
| Facilities costs | (4,775) | (3,812) | 25.3% |
| Travel and Entertainment | (3,412) | (2,992) | 14.0% |
| Depreciation and amortisation | (4,305) | (2,553) | 68.6% |
| Share-based payment (SBP) charges | (16,753) | (17,412) | -3.8% |
| SBP related employer tax charges | (1,722) | 2,192 | n/a |
| **Total G&A costs** | **(116,218)** | **(81,166)** | **43.2%** |

G&A costs increased by $35.0 million, or 43.2%, to $116.2 million for the year. The largest portion of this increase was employment costs, which increased $15.6 million, or 35.2%, in the period, despite only having a 14.0% increase in average headcount (the FTE headcount cost of Customer Success Managers (CSMs) is attributed to G&A in proportion to their non-commercial responsibilities).

The disproportionate increase in employment costs was largely the result of bonus costs increasing by $8.5 million period-over-period, to $13.7 million. This increase was driven by increases in CSM bonus costs as a part of their transition to dual support and commercial responsibilities. All other employment costs largely increased in line with headcount growth.

The increase in other operating costs of $13.1 million or 105.8% was largely driven by a $10.6 million year-over-year increase in professional, legal, and consulting fees, to $21.0 million.

This increase was the result of consulting fees relating to the implementation of a new ERP system, a financial controls review, and the expansion of Darktrace's recently established Federal entity, as well as project specific legal, consultancy and accounting costs.

Depreciation and amortisation increased by $1.8 million to $4.3 million, primarily because of significant leasehold improvement additions during the year.

SBP related tax costs of $1.7 million, down from an income of $2.2 million in the previous year, reflected the movement in the related provision, which is estimated using the fair value of the underlying shares awarded at each reporting date, primarily driven by a lower share price. To a lesser extent, it was also driven by the timing of awards exercised and vested during the period. See note 10 to the financial statements for more details.

Foreign exchange differences

| $000 | FY 2023 | FY 2022 | % Change |
|---|---|---|---|
| Foreign exchange differences | (2,127) | (6,502) | -67.3% |

Foreign exchange differences decreased $4.4 million from the prior year, primarily because of rate volatility impacting the translation of monetary assets and liabilities denominated in currencies other than Darktrace's U.S. Dollar reporting currency, most significantly, the British Pound and the Euro.

*Financial Position Analysis*

| $'000 | 30 June 2023 | 30 June 2022 | % Change |
|---|---|---|---|
| **Total Assets** | | | |
| Goodwill | 38,164 | 38,164 | 0.0% |
| Intangible assets | | 15,649 | (19.7)% |
| property | 12,571 | | |
| Property, plant and equipment | 65,789 | 61,001 | 7.8% |
| Right-of-use assets | 44,439 | 58,160 | (23.6)% |
| Capitalised commission | 76,653 | 57,154 | 34.1% |
| Deferred tax assets | 19,849 | 1,041 | 1,806.7% |
| Deposits | 8,234 | 9,260 | (11.1)% |
| Inventory | 100 | - | n/a |
| Trade and other receivables | 123,595 | 95,481 | 29.4% |
| Tax receivables | 5,485 | 2,828 | 94.0% |
| Cash and cash equivalents | 356,986 | 390,623 | (8.6)% |
| **Total Liabilities** | | | |
| Trade and other payables | (109,342) | (81,690) | 33.8% |
| Deferred revenue | (312,117) | (251,851) | 23.9% |
| Lease liabilities | (57,608) | (63,840) | (9.8)% |
| Provisions | (8,668) | (17,292) | (49.9)% |
| **Equity** | | | |
| Share capital | 9,779 | 9,812 | (0.3)% |
| Share premium | 16,308 | 16,117 | 1.2% |
| Share capital redemption reserve | 255 | - | n/a |
| Merger reserve | 305,789 | 305,789 | 0.0% |
| Foreign currency translation reserve | (8,126) | (8,126) | 0.0% |
| Stock compensation reserve | 50,333 | 74,883 | (32.8)% |
| Treasury shares | (104,946) | (11,683) | 798.3% |
| Retained earnings | (5,879) | (72,104) | (91.8)% |

Intangible assets

Darktrace capitalised $2.5 million of development costs in the period in line with the amount capitalised in the prior year. Capitalised development costs are amortised on a straight-line basis over a three-year period, and acquired third-party software costs are amortised over a period of five years This resulted in an amortisation charge in the period of $5.6 million, also in line with amortisation in the prior period. At 30 June 2023, the Group had $12.6 million of intangible assets, a decrease of $3.0 million from $15.6 million at 30 June 2022.

Right-of-use assets

In the period, the overall net book value decreased by $13.7 million, mainly as a result of the amortisation of the assets being recognised. New York office lease amortisation began in June 2022, resulting in a $2.5 million charge, and London office amortisation started in March 2022, resulting in a charge of $1.9 million. A further $4.5 million reduction in Right-of-use assets resulted from recognition of lease incentives during the period. Amortisation of these assets is on a straight-line basis over the life of the lease, and resulted in an amortisation charge in the period of $10.3 million. This was a $3.8 million increase from previous year driven by new leases that went into service in the year.

Capitalised commission

Most sales commissions are paid in two instalments, the first being when the contract is signed and the second upon the earlier of payment for the entire contract value or one year from the date of sale. For the first instalment, the

Group capitalises sales commissions and the associated payroll taxes, as required under IFRS 15, and amortises them over the related contract term. As there are continued employment and customer service obligations required for the employee to receive the second instalment, these commissions are not eligible for capitalisation under IFRS 15 and are expensed over the one-year term until they are paid. Capitalised commissions on the Group's Statement of Financial Position increased by 34.1% to $76.7 million at 30 June 2023, from $57.2 million at 30 June 2022, as a result of continuing sales.

Deferred tax asset

At 30 June 2023 the Group has significant tax losses in the UK available for offset against future taxable profits, mainly related to Darktrace Holdings Limited (note 25). Darktrace has, for the first time, recognised a deferred tax asset of approximately $19.8 million (30 June 2022: $1.0 million). It continues to have an unrecognised deferred tax asset of approximately $78.3 million (30 June 2022: $93.2 million). As there is not yet sufficient convincing evidence that the remaining unrecognised asset will be able to be used in the foreseeable future as is required under IAS 12 when there is a history of losses.

Especially in the current economic environment, evidence to support certainty of sufficient near term future taxable profits is less clear when a period longer than two years is considered; therefore $50.7 million UK deferred tax asset on losses carried forward remain unrecognised at 30 June 2023 (see note 25 to the consolidated financial statements for further details).

Trade and other receivables

Trade and other receivables increased by $28.1 million, or 29.4%, to $123.6 million at 30 June 2023. The largest portion of this increase was in trade receivables, which increased $29.8 million, or 46.7%, in the year, mainly driven by growth of revenue from increased billing. Included in this was a $4.1 million increase for indirect tax recoverable from customers that was recognised at the end of the year.

Cash and cash equivalents

The Group had cash and cash equivalents at 30 June 2023 of $357.0 million, a decrease of $33.6 million from 30 June 2022. This decline was primarily attributable to the Group repurchasing $145.2 million (£120.8 million) of its shares in the year as both purchases into the Employee Benefits Trust (EBT) and a share buy back and cancellation scheme (see equity below). This cash was generated by the operating activity for $132.5 million. See cash flow analysis below for more details.

Deferred revenue

Total deferred revenue increased by 23.9% to $312.1 million at 30 June 2023, from $251.9 million at 30 June 2022. This year-over-year growth was a result of the increases in invoicing driven by growth in contracted revenues. Darktrace has typically raised between 41 to 45% of its total invoicing in the first half of the financial year (44.1% in FY 2023) with more deferred revenue expansion being in second half. It is therefore most representative to look at year-over-year growth for underlying trends in deferred revenue rather than to compare different periods. As Darktrace rarely invoices its multi-year contracts more than a year in advance, growth in deferred revenue is typically driven by movements in current, rather than non-current, deferred revenue. Occasionally, customers will pay full contract values in advance but because this has become increasingly infrequent and represents an increasingly small proportion of total invoicing, growth in non-current deferred revenue balances will lag those of current deferred revenue.

Equity

As a result of transactions with shareholders, Darktrace reported a decrease in equity of $110.1 million during the year consisting of:

- A $94.3 million reduction in equity related to the EBT market purchase programme, for which 28,301,976 ordinary shares were purchased during the year to be used to satisfy existing, planned, and anticipated options and awards under Darktrace's employee share schemes, or as otherwise permissible under the terms of the EBT trust deed. These shares were acquired at an average price of £2.81 ($3.33) per share.
- A $50.9 million reduction in equity related to a Share Buyback Programme, which during the year purchased 15,440,726 shares on-market. The shares were acquired at an average price of £2.68 ($3.30) per share. The purpose of this Share Buyback Programme is to reduce Darktrace's issued share capital and the shares purchased pursuant to it will be cancelled. As of 30 June 2023, 13,280,100 ordinary shares had been repurchased and cancelled. Through this Share Buyback Programme, Darktrace returns value to shareholders, while still maintaining a strong cash position so it can fund continued investments in the business.
- A $37.1 million increase in equity as result of the share-based payments granted to employees in the year.
- A $1.7 million decrease in equity as result of the awards vested and options exercised in the year.

*Cash flows analysis*

%

| $'000 | FY 2023 | FY 2022 | Change |
|---|---|---|---|
| Operating cash flows before movements in working capital | 141,307 | 118,585 | 19.2% |
| **Net cash inflow from operating activities** | **134,047** | **140,244** | **(4.4)%** |
| Cash outflow from investing activities | (18,103) | (68,365) | (73.5)% |
| Cash outflow from financing activities | (151,658) | (15,513) | 877.6% |
| **Net changes in cash and cash equivalents** | **(35,714)** | **56,365** | **n/a** |
| **Cash and cash equivalents, beginning of year** | **390,623** | **342,358** | **14.1%** |
| Unrealised exchange difference on cash and cash equivalents | 2,077 | (8,100) | n/a |
| **Cash and cash equivalents, end of year** | **356,986** | **390,623** | **(8.6)%** |

Cash inflow from operating activities before working capital

Cash generated from operating activities before working capital movements increased by $22.7 million, or 19.2%, compared to the prior year, as a result of Darktrace's continued revenue growth, maintenance of its invoicing profiles and actions to control discretionary costs.

Net cash inflow from operating activities

The Group had a net cash inflow from operating activities of $134.0 million in the year, a 4.4% decrease from $140.2 million in FY 2022. This $6.2 million reduction in the net cash inflows from operating activities was primarily due to a $32.9 million decrease in cash from working capital, this was offset by an $22.7 million increase in non-cash movements.

Cash outflow from investing activities

The Group had cash outflows from investing activities of $18.1 million, a decrease of $50.3 million on the prior year. This decrease in cash outflows was primarily a result of comparing to the FY 2022 period that contains the cash outflow for the acquisition of Cybersprint. Furthermore, the overall cash outflow decrease was contributed to by a $7.5 million increase in finance income, due to increases in interest earned on cash deposits and a $4.6 million decrease in cash outflow for the purchase of appliances, reflecting a longer-term shift in product deployments to the cloud.

Cash outflow from financing activities

Darktrace had a $134.6 million increase in cash outflows from financing activities, mainly due to a net $131.9 million year-over-year increase in cash outflow for share buyback programmes.

**Going concern**

In adopting the going concern basis for preparing the financial statements, the Directors have considered the Group's principal risks and uncertainties in the current operating environment and assessed these risks via a series of scenario analyses designed to evaluate the capacity of the Group to withstand a prolonged period of adverse financial conditions.

Forecasts and sensitivities have been prepared based on a series of scenarios incorporating plausible yet severe impacts on revenue and ARR, the Group's cost base, and the Group's consolidated statement of financial position including its ability to meet financial covenants.

Throughout, the Directors have considered the viability of the Group's operations with respect to the following fundamental properties of the business:

- A high quality, fast-growth recurring revenue model with high levels of future revenues for which remaining obligations have been fulfilled;
- A variable cost structure which allows the Group to mitigate adverse financial conditions via the flexing of its major cost items; and
- The strong liquidity position of the Group arising from a highly cash-generative model.

Based on the Group's forecasts, the Directors are satisfied that the Group has adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors have prepared the financial statements on the going concern basis.

**Viability statement**

In accordance with the UK Corporate Governance Code, the Directors are required to assess Darktrace's prospects over an appropriate period and state whether they reasonably expect that it will be able to continue to operate and meet its liabilities throughout this period. In doing so, the Directors have considered Darktrace's principal risks and uncertainties in its current operating environment and have assessed those risks using a range of scenario analyses designed to evaluate its capacity to withstand a prolonged period of adverse financial conditions

The Directors first considered these fundamental properties of Darktrace's business:

- A growing business with a high quality, multi-year, recurring revenue model that results in significant amounts of committed future revenues;
- A highly variable cost structure that enables relatively rapid adjustments in material costs if necessary to mitigate adverse financial conditions; and
- A strong liquidity position arising from a highly cash-generative model.

Forecasts and sensitivities have then been prepared, incorporating a range of plausible, but severe, impacts on Darktrace's revenue and ARR, cost base, consolidated statement of financial position and ability to meet its financial covenants.

*Viability Period*

The Directors have determined that three years represents the most appropriate period of assessment for Darktrace. This aligns viability considerations with internal planning frameworks and, given typical three-year contract lengths, revenue visibility. The lifespan of Darktrace's technologies and services is open-ended so this is not a determining factor. Furthermore, this assessment period is in line with that used by peers in the sector, reflecting the sector's high-growth and fast-changing operating and financial profiles.

The Directors have no reason to believe that Darktrace will cease to be viable over a longer period, however, given the nature of data available and the visibility of near-term operations in an evolving market, they consider that a reasonable assessment of its long-term viability is most appropriately formed on a three-year period.

*Viability Scenario Frameworks*

To assess Darktrace's viability throughout the assessment period, the Directors have built upon the analyses supporting the Going Concern assertion and extended these to varying degrees so as to represent plausible, but severe, scenarios that may be encountered over the three-year viability period of three years. Throughout, the threshold at which continued operations might become unviable has been tested.

The base case against which the scenarios are measured is Darktrace's FY 2024 budget and its forecasts for FY 2025 - FY 2026, which represent a broad continuation of recent trends, incorporating known and expected changes, into its assumptions. These trends reflect the sales and profitability trends exiting FY 2023 and anticipate both the impact of significant changes it has made in its go-to-market organisation and the ongoing uncertainties inherent in the current global economic environment. As such, Darktrace is bridging from FY 2023, where macro-economic conditions had a significant impact on new customer additions and related ARR growth, to FY 2024, where this macro-economic uncertainty is expected to continue to affect new and existing customer behaviour. However, with early signs of recovery across the global economy, and with the opportunity to benefit from the recent and ongoing investments in its go-to-market organisation, Darktrace is framing its FY 2024 expectations in terms of first half stabilisation and second half re-acceleration. In the longer-term, the Directors do not believe the current macro-economic uncertainty will have any impact on Darktrace's longer-term economic model, which as previously disclosed, anticipates adjusted EBIT margins in the mid-20% range.

If scenarios such as those tested were to occur, the Directors would have a number of options available to maintain Darktrace's financial position, including cost reduction measures, drawing on existing financing and the arrangement of additional financing.

Each scenario assessed is outlined in detail in the Annual Report with the first three considering different operating and financial challenges. These three scenarios do not incorporate elements of cost mitigation, instead demonstrating the extent to which Darktrace could remain viable, and continue to invest for growth and/or recovery, during the periods of disruption outlined in each scenario.

The fourth and final scenario - which combines the three standalone scenarios as one extreme scenario - explores available cost mitigation actions, the impact of different cost saving levers on the business, and how Darktrace could remain viable even in this extreme scenario. Without these cost mitigation actions, Darktrace would not remain viable in the period.

In each of the first three standalone scenarios, Darktrace is forecast to have sufficient resources to continue to meet its liabilities as they fall due, and for each of the revenue/ARR, cost, and balance sheet scenarios, active cost saving its liabilities as they fall due, and for each of the revenue/ARR, cost, and balance sheet scenarios, active cost saving actions were not instigated as part of the analysis. In the event that any of these adverse scenarios were to occur in reality, controllable mitigating actions are available should they be required.

When the scenarios are combined into an extreme 'worst case' scenario, Darktrace does not remain viable in the period without any cost saving mitigations. Indeed, in the unmitigated 'worst case' scenario Darktrace would turn cash negative by July 2025 and would therefore likely be at risk of breaching its financial covenants around this time, if not before. In such a scenario, as with the others, the Directors would have at their disposal a number of balanced and controllable mitigating actions, which once instigated would enable Darktrace to maintain sufficient cash headroom to remain viable throughout the period and in compliance with its financial covenants.

*Macro-economic Environment*

Each of the scenarios outlined above has been considered with respect to the ongoing impact of the uncertainties inherent in the current global economic environment as well the potential impacts from a pandemic or global health crisis. The Directors have noted that Darktrace's commercial performance remained largely unaffected by COVID-19, as evidenced by the strong performance in FY 2021 and FY 2022, so have no current plans for rent holidays or other cost adjustments in the event that employees are unable to work from Darktrace's offices.

The Directors are of the view that the current turbulent geopolitical background is making long-term cyber risk an even higher priority for Chief Information and Security Officers and senior executives. They are confident that Darktrace will continue to be able to meet the technological needs of customers at times of heightened uncertainty and workforce disruption, and are of the view that security will remain a structural growth industry for the foreseeable future.

*Confirmation of Longer-term Viability*

Based on the assessments outlined above, in accordance with the UK Corporate Governance Code, the Directors have assessed Darktrace's prospects over a period they deem to be appropriate and confirm that they have a reasonable expectation that it will be able to continue in operation and meet its liabilities as they fall due throughout this period.

**Principal and Emerging Risks**

The principal risks and uncertainties faced by Darktrace and its approach to internal control and risk Management are set out on pages 65 to 71 of the FY 2023 Annual Report which will be available on the Group's website at www.ir.darktrace.com .

*Principal risks*

Darktrace considers the principal risks and uncertainties it faces to be the following:

Inability to innovate Darktrace products

Failure to innovate, develop and enhance the AI Cyber Loop, to adapt to the increasingly sophisticated and changing nature of cyber-attacks posed by threat actors and the emergence of new generative AI LLMs. Darktrace may also fail to innovate against the market's current requirements and in line with Darktrace's overall business strategy.

Customer service delivery failure

The Group may fail to anticipate and understand customer needs appropriately and in a timely manner, therefore risking failure to deliver value to the customers.

Inadequate channel sales and support

The Group relies on the channel i.e., third parties, including distributors, resellers, referral partners and managed service providers, to generate a significant portion of its revenue.

Cloud service providers downtime

The Group relies on Cloud Service Providers, such as Amazon Web Services ("AWS") and its own data servers to host and operate an increasing number of deployments for the Darktrace product line.

Failure to retain and attract employees

The Group relies on the performance of highly skilled personnel, including key employees, to deliver on its strategic objectives.

Darktrace cyber incident

Risk of failure of its systems and compromise of its data, through cyber-attack, cyber-intrusion, insider threats or otherwise. Failure to responsibly collect, process and store data, together with ensuring an appropriate standard of cyber security across the business.

Intellectual property theft or exposure

The Group may fail to adequately protect its intellectual property, proprietary rights and prevent others from making unauthorised use of its platform and technologies, especially at a time when competitors are embracing new generative AI LLMs.

Autonomy Related Matters

The Autonomy related litigation represents a potential risk for Darktrace from both a reputational and a legal perspective.

*Major changes*

Brand & Reputation

The Audit & Risk committee analysed the Brand & Reputation Principal Risk, and it was assessed that Brand and Reputation are risk impact factors for all risks, rather than a standalone Principal Risk. The Brand and Reputation Principal Risk has been distilled into four Business risks that impact Darktrace's brand and reputation (Misinformation Campaigns, Market Share, Third Party Endorsement and Brand Awareness) and the Principal Risk name changed to Autonomy Related Matters.

All risks now have a reputation impact rating to help assess the materiality of reputational impact if those risks were to occur. The reputation impact rating scheme has been embedded within the ERM Framework for all risks. All Principal Risks have been assessed for their brand and reputational impact and this is monitored by the Audit & Risk Committee

Customer Service Delivery Failure

The Principal risks Understanding & Responding to Customer Needs and Customer Service Delivery were combined into one Principal Risk as the threat and impact of the two risks were both customer focused and posed the same potential threat to the business. The Audit & Risk Committee, with the advice of the Risk Steerco formally accepted the combination of those two principals risks.

Principal Risk Downgrading

As part of the ERM Framework evolution the Principal Risks were scrutinised for their potential material impact on the business goals, and a Principal Risks was downgraded:

- Covid-19: As the world learned to deal with COVID-19 so did Darktrace. The impact of COVID-19 was assessed to no longer have a potential material financial impact on Darktrace. As such, a new Strategic Business Risk for Pandemics has been created to ensure there is resiliency for any potential future pandemics. The Audit & Risk Committee, with the advice of the Risk Steerco formally accepted the downgrading of the principal COVID-19 risk.

*Emerging risks*

During 2023, in line with Darktrace's evolving ERM Framework, all Emerging Risks, were re-evaluated to focus on risks that could have a potential material impact on the business. This re-evaluation led to two significant changes, the number of Emerging Risks and the definition of an Emerging Risk. This evaluation has enabled Darktrace to better focus its mitigations on risks that are more likely to affect its business model.

Darktrace defines Emerging Risks as risks that may, in time, pose a threat to Darktrace's business model and are more unpredictable, have a greater level of uncertainty or in relation to which there may be less relevant data or detailed information available to formally assess the materiality of the risk.

Darktrace has procedures in place to identify Emerging Risks, including horizon scanning, and monitoring market and consumer trends. Darktrace also identifies Emerging Risks utilising in-house expertise that forms part of the ERM Governance structure and in turn "crowd sources" for emerging risks from its own industry experts.

Emerging Risks are reviewed quarterly by the Risk Steerco to assess their relevance, potential impact and status. Potential mitigations are prepared and if an Emerging Risk is assessed as quantifiable it is incorporated within the wider ERM Framework Risk registers. Any updates or significant changes to an Emerging Risk are presented to the Audit & Risk committee. The Board considers Emerging Risks on a regular basis and manages them accordingly, taking into account the expected timing of the risk.

Market Product Saturation

Darktrace is a at the forefront of Cyber AI products, as the Group's reputation grows more imitation products will appear using the same core product principles alongside the growth in new generative AI LLMs that competitors are incorporating in their own products which could potentially lead to an over saturation of the market, with cheaper and inferior product lines and the use of new generative AI LLMs trained on inferior data.

AI & Cyber Regulatory uncertainty

Current regulatory trends have prompted companies to re-examine the effectiveness of their governance and oversight. The continued adoption of new or proposed regulations can lead to compliance challenges and to increasing regulatory complexity for Darktrace.

**Directors' Responsibility Statement**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. The Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Darktrace and the financial performance and cash flows of the Group for that period. Under that law the Directors have prepared the consolidated financial statements of the Group in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006, as amended have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain Darktrace plc and the Group's transactions and disclose with reasonable accuracy at any time the financial position of Darktrace plc and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of Darktrace plc and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on Darktrace's Investor Relations website. Legislation of the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 82 to 85 in the FY 2023 Annual Report confirm that, to the best of each person's knowledge:

- the Annual Report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Darktrace plc and the Group's performance, business model and strategy;
- the Group financial statements, which have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards, which give a true and fair view of the assets, liabilities, financial position and profit of the Group and Darktrace plc; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of Darktrace plc and the Group, together with a description of the principal risks and uncertainties that they face.

**Consolidated Statement of Comprehensive Income**

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| **Revenue** | 545,430 | 415,482 |
| Cost of sales | (55,642) | (44,848) |
| **Gross profit** | **489,788** | **370,634** |
| Sales and marketing costs | (289,703) | (232,772) |
| Administrative expenses | | |
| Research and development costs | (47,894) | (44,262) |
| General and administrative costs | (116,218) | (81,167) |
| Foreign exchange differences | (2,127) | (6,502) |
| Other operating income | 2,666 | 1,671 |
| **Operating profit** | **36,512** | **7,602** |
| Finance costs | (3,493) | (2,807) |
| Finance income | 8,016 | 518 |
| **Profit for the year before taxation** | **41,035** | **5,313** |
| Taxation | 17,923 | (3,856) |
| **Net profit for the year attributable to the equity shareholders of Darktrace plc** | **58,958** | **1,457** |
| Items that are, or may be, subsequently reclassified to profit or loss: | | |
| Exchange differences on translating foreign operations | - | (3,728) |
| **Total comprehensive profit/(loss) for the year** | **58,958** | **(2,271)** |
| **Earnings per share** | | |
| Basic earnings per share | **$0.09** | **$0.00** |
| Diluted earnings per share | **$0.09** | **$0.00** |

**Consolidated Statement of Financial Position**

| | 30 June 2023 $'000 | 30 June 2022 $'000 |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | 38,164 | 38,164 |
| Intangible assets | 12,571 | 15,649 |
| Property, plant and equipment | 65,789 | 61,001 |
| Right-of-use assets | 44,439 | 58,160 |
| Capitalised commission | 42,182 | 32,519 |
| Deferred tax asset | 19,849 | 1,041 |
| Deposits | 8,234 | 9,260 |
| | **231,228** | **215,794** |
| **Current assets** | | |
| Inventory | 100 | - |
| Trade and other receivables | 123,595 | 95,481 |
| Capitalised commission | 34,471 | 24,635 |
| Tax receivable | 5,485 | 2,828 |
| Cash and cash equivalents | 356,986 | 390,623 |
| | **520,637** | **513,567** |
| **Total assets** | **751,865** | **729,361** |
| **Current liabilities** | | |
| Trade and other payables | (109,959) | (81,690) |
| Deferred revenue | (283,678) | (222,419) |
| Lease liabilities | (4,873) | (3,710) |
| Provisions | (6,927) | (15,954) |
| | **(405,437)** | **(323,773)** |
| **Non-current liabilities** | | |
| Deferred revenue | (28,439) | (29,432) |
| Lease liabilities | (52,735) | (60,130) |
| Provisions | (1,741) | (1,338) |

| | | |
|---|---|---|
| Provisions | (1,741) | (1,338) |
| | **(82,915)** | **(90,900)** |
| **Total liabilities** | **(488,352)** | **(414,673)** |
| | | |
| **Net assets** | **263,513** | **314,688** |
| | | |
| **Equity** | | |
| Share capital | 9,779 | 9,812 |
| Share premium | 16,308 | 16,117 |
| Share capital redemption reserve | 255 | - |
| Merger reserve | 305,789 | 305,789 |
| Foreign currency translation reserve | (8,126) | (8,126) |
| Stock compensation reserve | 50,333 | 74,883 |
| Treasury shares | (104,946) | (11,683) |
| Retained earnings | (5,879) | (72,104) |
| **Total equity attributable to equity shareholders of Darktrace plc** | **263,513** | **314,688** |

These financial statements were approved by the Board of Directors and authorised for issue on 5 September 2023. They were signed on its behalf by:

Catherine Graham
Chief Financial Officer
Company No. 13264637

**Consolidated Statement of Changes in Equity**

| | Share capital $'000 | Share premium $'000 | Share capital redemption reserve $'000 | Merger reserve $'000 | Foreign currency translation reserve $'000 | Stock compensation reserve $'000 | Treasury Shares $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **1 July 2021** | **9,756** | **224,782** | **-** | **305,789** | **(4,398)** | **35,723** | **(761)** | **(308,873)** | **262,018** |
| Profit for the year | - | - | - | - | - | - | - | 1,457 | 1,457 |
| Other comprehensive loss | - | - | - | - | (3,728) | - | - | - | (3,728) |
| **Total comprehensive loss** | **-** | **-** | **-** | **-** | **(3,728)** | **-** | **-** | **1,457** | **(2,271)** |
| Share issued for acquisition | 34 | 15,782 | - | - | - | - | - | - | 15,816 |
| Share premium cancellation | - | (224,782) | - | - | - | - | - | 224,782 | - |
| Share buyback | - | - | - | - | - | - | (13,525) | (89) | (13,614) |
| Options exercised | 22 | 335 | - | - | - | (6,609) | 2,603 | 10,619 | 6,970 |
| Share-based payment charge | - | - | - | - | - | 45,769 | - | - | 45,769 |
| **Transactions with shareholders** | **56** | **(208,665)** | **-** | **-** | **-** | **39,160** | **(10,922)** | **235,312** | **54,941** |
| **30 June 2022** | **9,812** | **16,117** | **-** | **305,789** | **(8,126)** | **74,883** | **(11,683)** | **(72,104)** | **314,688** |
| Profit for the year | - | - | - | - | - | - | - | 58,958 | **58,958** |
| Other comprehensive loss | - | - | - | - | - | - | - | - | **-** |
| **Total comprehensive profit** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **58,958** | **58,958** |
| Share cancellation | (255) | - | 255 | - | - | - | 43,665 | (43,665) | **-** |
| Share buyback | - | - | - | - | - | - | (145,214) | (284) | **(145,498)** |
| Options exercised/awards vested | 222 | 191 | - | - | - | (61,591) | 8,286 | 51,216 | **(1,676)** |
| Share-based payment charge | - | - | - | - | - | 37,041 | - | - | **37,041** |
| **Transactions with shareholders** | **(33)** | **191** | **255** | **-** | **-** | **(24,550)** | **(93,263)** | **7,267** | **(110,133)** |
| **30 June 2023** | **9,779** | **16,308** | **255** | **305,789** | **(8,126)** | **50,333** | **(104,946)** | **(5,879)** | **263,513** |

**Consolidated Statement of Cash Flows**

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| **Cash generated from operations** | | |
| Profit for the year after tax | 58,958 | 1,457 |

| | | |
|---|---|---|
| Profit for the year after tax | 58,958 | 1,457 |
| Depreciation of PPE* and Right of Use Assets | 35,310 | 28,295 |
| Amortisation of intangible assets | 5,597 | 6,073 |
| Amortisation of capitalised commission | 32,471 | 21,817 |
| Impairment of capitalised commission and Right-of-use assets | 3,336 | 996 |
| Loss on disposal of PPE | 1,406 | 2,121 |
| Unrealised foreign exchange differences | (3,001) | 9,467 |
| Credit loss charge | 2,049 | 145 |
| Share based payment charge | 39,989 | 43,740 |
| Net settled share-based payment | (9,696) | - |
| Finance costs | 3,493 | 2,807 |
| Finance income | (8,016) | (518) |
| Other operating income | (2,666) | (1,671) |
| Taxation | (17,923) | 3,856 |
| **Operating cash flows before movements in working capital** | **141,307** | **118,585** |
| Increase in trade and other receivables | (30,577) | (19,601) |
| Increase in capitalised commission | (53,525) | (40,952) |
| Increase in trade and other payables | 26,177 | 27,129 |
| Decrease in provisions | (8,625) | (5,653) |
| Increase in deferred revenue | 60,266 | 65,575 |
| Increase in inventory | (100) | - |
| **Net cash flow from operating activities before tax** | **134,923** | **145,083** |
| Tax paid | (876) | (4,839) |
| **Net cash inflow from operating activities** | **134,047** | **140,244** |
| **Investing activities** | | |
| Cybersprint acquisition | - | (35,728) |
| Development costs capitalised | (1,813) | (1,292) |
| Purchase of PPE* | (24,306) | (31,863) |
| Finance income | 8,016 | 518 |
| **Cash outflow from investing activities** | **(18,103)** | **(68,365)** |
| **Financing activities** | | |
| Proceeds from share issues and exercises | 8,014 | 7,020 |
| Share buyback | (145,498) | (13,614) |
| Repayment of borrowings | - | (1,347) |
| Repayment of lease liabilities | (10,682) | (4,837) |
| Payment of interest on lease liabilities | (3,493) | (2,735) |
| **Cash outflow from financing activities** | **(151,658)** | **(15,513)** |
| **Net changes in cash and cash equivalents** | **(35,714)** | **56,365** |
| Cash and cash equivalents, beginning of year | 390,623 | 342,358 |
| Unrealised exchange difference on cash and cash equivalents | 2,077 | (8,100) |
| **Cash and cash equivalents, end of year** | **356,986** | **390,623** |

* Property, plant and equipment

## Notes to the Consolidated Financial Statements

### 1 General information

**Company Information**

Darktrace plc is a company incorporated in England and Wales under company number 13264637. The principal place of business is Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, CB4 0DS.

**The Company and Group Information**

The parent company, Darktrace plc has been defined as 'the Company' and Darktrace plc group as 'the Group' or 'Darktrace'.

**Basis of Preparation**

These consolidated financial statements are for the year ended 30 June 2023.

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

They have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The policies set out below have been applied consistently throughout all periods presented.

All amounts in the consolidated financial statements and notes have been rounded off to the nearest thousand USD, unless otherwise stated.

The financial information set out in this document does not constitute the Group's statutory accounts for the years ended 30 June 2023 but is derived from those accounts. Statutory accounts for FY 2022 have been delivered to the registrar of companies. The auditors have reported on those accounts; their reports were (i) unqualified, and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory accounts for FY 2023 will be delivered to the registrar of companies in due course. The auditors have reported on those accounts; their reports were (i) unqualified, and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The financial statements for the year ended 30 June 2023 (including the comparatives for the year ended 30 June 2022) were approved and authorised for issue by the Board of Directors on 5 September 2023. This results announcement for the year ended 30 June 2023 was also approved by the Board on 5 September 2023.

**New Standards, Amendments, IFRIC Interpretations and new Relevant Disclosure Requirements Adopted by the Group**

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 30 June 2023 that have a material impact on Darktrace's financial statements.

**Going Concern**

In adopting the going concern basis for preparing the financial statements, the Directors have considered Darktrace's principal risks and uncertainties in the current operating environment and assessed these risks via a series of scenario analyses designed to evaluate the capacity of Darktrace to withstand a prolonged period of adverse financial conditions. The Directors have further reviewed liquidity and covenant forecasts for the period to 30 September 2024 as part of their assessment of going concern.

The Directors have considered how a change in circumstances might impact the Group's expected financial performance for the period. Specifically, testing has been performed on the base case forecast for the period and a number of adverse scenarios have been modelled, including but not limited to:

- Annual Recurring Revenue (ARR)/revenue scenarios: The impact of material reputational damage on new customer acquisition and existing customer churn arising as a result of a data breach or cyber incident, combined with significant operational disruption and declines in salesforce productivity, as a result of a service provision downtime or a lack of future product innovation. Each of the scenarios would materially reduce Darktrace's ARR and revenue, and it was assumed, for example that there would be zero new logo ARR across the entire period along with a material deterioration in net ARR retention trends. No active cost saving measures were implemented during the period.
- Cost scenarios**:** Either as a result of increased industry competition and/or reputational damage, the impact of a material and prolonged failure in Darktrace's ability to attract and retain employees was considered, leading to significant increases in employee churn and hiring and compensation related costs. For example, expected employee churn rates for the entire salesforce and the remaining wider workforce were increased by 25% and 20% respectively. Meanwhile hiring and compensation costs were materially increased, particularly for technical and sales-related personnel, and extended general cost inflation was considered, with material increases to key unit costs (such as appliance and hosting costs). No active cost saving measures were implemented during the period.
- Balance sheet scenarios: Either as a result of a significant macro-economic event with recessionary impact and/or inadequate channel partner management and support, the impact of changes to direct and indirect customer payment terms and increased customer insolvencies was considered. For example, forecast collection rates were modelled to drop lower than at any point during the worst of the COVID-19 uncertainty and corresponding payment delays. Meanwhile estimated bad debt expense for the period was increased fivefold vs. the base case forecast, and the Group's base case forecast invoicing profile was amended to include a material shift towards quarterly and monthly invoicing.
- Combined, 'worst case' scenario**:** This scenario sought to present an extreme and unreasonable 'worst case' outcome by combining the three aforementioned scenarios. No active cost saving measures were enacted during the period and the Group remained viable and in compliance with its covenants within the period.

In each variation and combination of the adverse scenarios, Darktrace is forecast to have sufficient resources to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and for each scenario, active cost saving actions were not instigated as part of the analysis. In the event that any of these adverse scenarios were to occur, controllable mitigating actions are available to the Directors should they be required.

As an additional provision, the Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition and customer payment terms which would be required to trigger a breach in Darktrace's covenants or exhaust cash down to minimum working capital requirements. The conditions necessary to approach either of these parameters are extreme and would ultimately require no active cost saving actions to be enacted at any point. As such, the Directors consider their likelihood as highly remote given the resilient nature of the business model, as demonstrated by the growth in revenues, customer numbers and employees in recent reporting periods. The robust consolidated statement of financial position, with $357.0 million of cash available and continued strong receivables collection rate of the Group demonstrated during the COVID-19 pandemic and the macro-economic uncertainties through FY 2023 gives further support to the resilience of Darktrace's business-model.

The results of these assessments have enabled the Directors to assert a reasonable expectation that Darktrace has adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors are of the view that the preparation of the consolidated financial statements on a going concern basis continues to be appropriate and in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006.

**Foreign Currency Translation**

Functional and Presentation Currency

The consolidated financial statements are presented in U.S. Dollars ("USD") which is the functional currency of the Company.

Group Companies

Items included in these consolidated financial statements are measured using the functional currency for Darktrace plc. The functional currency of Darktrace plc is also the functional currency of all subsidiaries.

In the previous year, goodwill and fair value adjustments arising on the acquisition of a foreign operation were treated as assets and liabilities of the foreign operation and translated at the closing rate, since 1 July 2022 the functional currency of that foreign operation has changed to USD.

In the previous year, the results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Transactions and Balances

Foreign currency transactions are translated into the functional currencies of Darktrace plc and all of its subsidiaries using the exchange rate as at the time of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at month end exchange rates, are generally recognised in the consolidated statement of comprehensive income. All foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within foreign exchange differences. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Realised foreign exchange differences relating to working capital balances are included in the relevant lines within the cash flow statement; unrealised foreign exchange differences are reported separately in the cash flow.

**Basis of Consolidation**

These financial statements present the results of Darktrace plc and its subsidiaries as the Group. Intercompany transactions and balances between Darktrace and its subsidiaries are therefore eliminated in full.

Subsidiaries are entities over which Darktrace plc is exposed or has rights to variable returns from its involvement with the subsidiary, and it can affect those returns through its power over the subsidiary. Darktrace plc can direct decisions through its ownership and, if applicable, voting rights. Except for Darktrace Netherland BV, all Company's subsidiaries have been created by, rather than acquired by, Darktrace plc, and no subsidiaries have been closed or otherwise disposed of. Where subsidiaries are acquired, the profit or loss attributable to shareholders includes the profit or loss of the subsidiary from the date of acquisition. Were subsidiaries to be disposed of during the year, the profit or loss attributable to shareholders would include the profit or loss of the subsidiary to the date of disposal.

The directors have determined that they control a company called Darktrace Employee Benefit Trust ('EBT'), even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited is the trustee of the EBT. It is a controlled entity of Darktrace plc, because Darktrace plc is exposed to, and has right to, variable returns from this entity and is able to use its power over the entity to affect those returns, therefore EBT Trust has been consolidated.

**Impairment of Non-Financial Assets**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not subject to amortisation because they are not yet in use are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. Reversals of impairment losses are limited such that the value of the asset cannot exceed the carrying amount it would have had no impairment been recognised.

**Key judgements and estimates**

The preparation of consolidated financial statements in accordance with IFRS requires Management to make judgements, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the year end and the reported amount of revenues and expenses during the reported period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and for any future periods affected. The areas involving significant judgements and estimates are:

- Significant judgement in revenue recognition in determining one performance obligation exists - see note 4
- Significant judgement in assessment of control of appliances - see note 18
- Significant estimate in deferred tax asset recognised on losses carried forward - see note 25; and
- Significant estimate in share price used to calculate the provision for share option related employer tax changes - see note 15.

## Performance of the Group

### 3 Operating segment

**Segment Reporting policy**

The Group has concluded that it operates in one business segment as defined by IFRS 8: Operating Segments, being the development and sale of cyber-threat defence technology. The Chief Operating Decision Makers (the "CODMs"), which have been identified as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), make operating decisions for a single operating unit and operating performance is assessed as a single operating segment. The information used by the CODMs is consistent with, and prepared on the same basis as, that presented in these financial statements. Further there are no separately identifiable assets attributable to any separate business activity or business unit.

The information used by the Group's CODMs to make decisions about the allocation of resources and to assess performance is presented on a consolidated Group basis.

Refer to note 4 for disaggregated analysis on revenue from contracts with customers.

The non-current assets presented below exclude any deferred tax assets and deposits.

| Non-current assets by geographical market | 30 June 2023 $'000 | 30 June 2022 $'000 |
|---|---|---|
| USA | 62,827 | 63,408 |

| | | |
|---|---|---|
| USA | 62,827 | 63,408 |
| United Kingdom | 76,743 | 83,223 |
| Europe | 36,355 | 34,357 |
| Rest of world | 27,220 | 24,505 |
| | **203,145** | **205,493** |

The information used by the Group's CODMs to make decisions about the allocation of resources and to assess performance is presented on a consolidated Group basis.

## 4 Revenue from contracts with customers

**Revenue Recognition policy**

The Group does not recognise any revenue until there is a legally binding contract in place direct with a customer or with a reseller partner acting on behalf of a customer (i.e. end-user), the commencement date of that agreement has passed, and the obligations to fulfil that contract have been met. It applies the IFRS 15: Revenue from Contracts with Customers, principles-based, five step model to all contracts as follows:

- Identify the contract with the customer;
- Identify the distinct performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis; and
- Recognise revenue when the entity satisfies its performance obligations.

The Group has only a single performance obligation for most contracts, giving access to the Group's Cyber AI Platform and ancillary services to its customers as such the transaction price is the total amount charged to the customer over the service period.

Most of the Group's revenue is derived from multi-period subscription or licence contracts that allow access to the Cyber AI Platform. This revenue is recognised on a straight-line basis over the subscription or licence period as the customer simultaneously receives and consumes the benefits from the products it purchased within the Group's Cyber AI Platform as throughout the life of the contract. The Group's efforts are expended evenly throughout the subscription period and therefore using the input method under IFRS 15, it is appropriate to recognise revenue on a straight-line basis. The Group does not have any variable consideration as defined under IFRS 15.

In a very small number of cases, the Group sells supplementary training or extra appliances separately from its software product deployments, but always to customers who have software product deployments. The revenue from these contracts is recognised at the point in time when the training or appliance is delivered.

Contracts where terms are subsequently modified (for upsells, license expansions, etc) are assessed in accordance with IFRS 15 and are treated either as a separate contract with revenue recognition commencing from the modification date or as a cumulative catch-up adjustment to revenue recognised at the point of modification based on the new contractual terms.

Contracts where it is not probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer and for which a suspension notice has been applied and the performance obligations relating to future services is considered curtailed, are considered ceased and therefore related deferred revenue balance derecognised and any receivable balance fully provided or written off. In this case, Management accounts for the remainder of the contract as if the criteria to be a contract had not been met (IFRS 15).

The Group deploys a significant portion of its software on appliances that it delivers to the customer. These appliances are encrypted devices that can only be used to run the Group's software. They cannot be used for any other purpose and have no separate value to the customer, and as the Group retrieves its appliances at the end of deployments, each appliance may be redeployed multiple times, in multiple situations over its useful life. The Group considers that the appliances it deploys are an integral part of the delivery mechanism for the service to the customer and are not normally sold to the customer unless required for legal or regulatory reasons.

Customers are generally billed in advance, with credit terms of typically 30-60 days, in line with market practice. In instances where payment for the subscription is within 12 months or less of the service being provided Darktrace has taken the practical expedient under the standard of not adjusting for any financing component. In some instances, the Group bills in advance for periods of greater than one year. In these instances no financing component is deemed to be present as this arrangement is customer driven.

Principal vs agent assessment

Darktrace sells its products and services either directly to end users or through channel partners. The business operates two types of partner relationships, one where the contract is with the reseller partner and another where it is with the end user but the partner receives a referral fee.

Most partner deals involve a reseller partner who takes Darktrace to the end-users. In these instances, Darktrace sells to the reseller partner, who is the contracting entity, and therefore different from the end-user that will be provided with the services. Darktrace will only invoice the partner and it is the partner who controls pricing with the end-user, and bears the credit and foreign currency risk.

When revenues are generated through a reseller partner, Darktrace requires that every partner contract be related to a specific end-user (Darktrace has a direct operating relationship with the end-user as most partner contracts are co-sold and Darktrace employees carry out the vast majority of pre-sale product scoping directly with the end-user). Darktrace only recognises revenue for the contract value between Darktrace and the partner, it does not recognise any benefit from any mark-up that the partner adds to determine its price to the end-user. Once the Darktrace/partner and partner/end-user contracts have been finalised and the end-user is able to deploy the purchased products and services, Darktrace will recognise revenue as required under IFRS 15.

An intermediary partner is the principal in an arrangement with the end-user, and therefore, Darktrace's customer, if it controls the offering before it is transferred to the end-user. As Darktrace controls all aspects of the products and services it sells, including setting the price to the reseller partner (but not the end-user), and bears the credit and foreign exchange risk in its contract with the reseller partner, it has concluded that Darktrace is a principal in its contracts with reseller partners. Darktrace has also considered the role of the reseller partner in their contract with the end-user, and based on all information available, primarily considering the control of pricing and the assumption of credit and foreign exchange risk, has concluded that the reseller is principal in their contract with the end-user. While Darktrace has responsibility under its Master Service Agreement for fulfilment of the products and services provided to the end-user, the reseller partner has responsibility for the pricing of Darktrace products to the end-user, and any invoicing and credit concerns.

There is a smaller cohort of referral partners who Darktrace works with who will initiate the customer contact, but who do not take on the contractual risk. In these cases, Darktrace enters into a direct contract with the end user and is therefore the principal in these transactions. The partner will earn usually a commission or a fee which is classified as cost of sales.

**Significant Judgement in Revenue Recognition in Determining one Performance Obligation Exists**

Group revenue is from subscription contracts and is recognised over the term of the contract.

Management considers that these contracts consist of a single performance obligation, which is the ongoing access to the portions of the Cyber AI platform purchased by the customer. The Cyber AI platform is a single combined solution, with customers able to choose the appropriate product mix based on their own needs. The key contractual elements considered by Management included the deployment of the software (on appliances or virtually), the core software products and subsequent updates. Appliance deployments typically take an hour or less once the appliance is received by the customer, and virtual deployments can be enabled immediately, so deployment is in line with the start of the subscription contract that has, on average, a three-year life. Subsequent updates to the platform ensure that the latest software is available with the latest capabilities but do not materially change the functionality of the platform. The products and to a lesser extent, services are significantly integrated to provide a combined output and services which are highly interdependent with (and are not separately available from) the subscription to product within the Cyber AI platform. Some customers may purchase ancillary services or training, but these are immaterial to the total contract value and are not deemed to impact the assessment of there being only a single performance obligation.

**Disaggregation of revenue**

Revenue recognised at a point in time is not significant to the reported results in any year. This includes revenue generated by separate contracts for training and sale of appliances. In the year ended 30 June 2023, this revenue amounted to $0.3 million (year ended 30 June 2022 $1.5 million).

Management has assessed that the single performance obligation that it is providing to customers is access to products, primarily software, within the Darktrace Cyber AI platform to protect customers' digital estates from the impact of cyber threats.

| Revenue geographical market | FY 2023 $'000 | % of revenue | FY 2022 $'000 | % of revenue |
|---|---|---|---|---|
| USA | 188,808 | 34.6% | 142,697 | 34.3% |
| United Kingdom | 82,841 | 15.2% | 69,228 | 16.7% |
| Europe | 135,667 | 24.9% | 100,244 | 24.1% |
| Rest of World | 138,114 | 25.3% | 103,313 | 24.9% |
| | **545,430** | **100%** | **415,482** | **100%** |

Revenue from customers has been attributed to the geographic market based on contractual location. No single customer accounted for more than 10% of revenue in FY 2023 or FY 2022.

**Contract assets and liabilities related to contracts with customers**

The following table provides information on accrued income and deferred revenue from contracts with customers.

| | 30 June 2023 $'000 | 30 June 2022 $'000 |
|---|---|---|
| Accrued income | 3,445 | 4,152 |
| **Total accrued income** | **3,445** | **4,152** |
| | | |
| Current deferred revenue | 283,678 | 222,419 |
| Non-current deferred revenue | 28,439 | 29,432 |
| **Total deferred revenue** | **312,117** | **251,851** |

Accrued income has decreased year over year due to timing in raising invoices and remains a reasonably small value relative to revenue recognised.

Contracts are typically invoiced between one month and more than three years in advance, with the majority of contracts being invoiced annually in advance. Deferred revenue reflects the difference between invoicing and associated payment terms, and fulfilment of the performance obligation and has increased year-over-year as expected with the continued growth in revenue.

Details of costs to obtain contracts with customers are shown in note 12.

Revenue recognised in relation to deferred revenues (contract liabilities)

The following table shows how much revenue recognised in each reporting period related to brought-forward contract liabilities:

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | 222,419 | 154,505 |
| % of total revenue recognised in the period | 40.8% | 37.2% |

Future contracted revenue (formerly revenue expected to be recognised)

Future contracted revenue represents revenue expected to be recognised over the term of the contract, i.e. over the subscription period, from the contract commencement date to the end of the subscription period as identified in the contract, calculated by valuing all uninvoiced future contract value, including one-time product or service purchases, at the exchange rates in effect on the reporting date, and all previously invoiced future revenue at the relevant transaction exchange rates. In line with IFRIC 22, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (in whole or part) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. One-time revenue is included in the calculation but because of the high proportion of subscription revenue in Darktrace's revenue base, it is not material. Future contract value does not include any opt-out clauses i.e. revenue expected after opt-out date, up to the termination date of the contract.

Prior year adjustment to the disclosure

However, subsequent to the publication of its FY 2022 Annual Report, Darktrace identified that "Revenue expected to be recognised" i.e. future contracted revenue mistakenly included expected revenue after the opt-out date, inconsistent with IFRS 15 paragraph 11. This error accounts for $33.0 million mistakenly disclosed in the expected future revenue to be recognised. Darktrace has corrected the error in its disclosure in these financial statements as presented below. This did not affect any reported numbers in the primary financial statements and the error was limited to this disclosure only.

| | 30 June 2022 Reported $'000 | Restatement $'000 | 30 June 2022 Restated $'000 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Due within 12 months | 477,025 | (25,595) | 451,430 |
| Due within 1-2 years | 330,045 | (4,335) | 325,710 |
| Due within 2-3 years | 196,546 | (1,833) | 194,713 |
| Due within 3-4 years | 60,793 | (433) | 60,360 |
| Due over 4 years | 4,621 | (41) | 4,580 |
| | **1,069,030** | **(32,237)** | **1,036,793** |

| | **30 June 2023**<br><br>**$'000** | **30 June 2022**<br>**Restated**<br>**$'000** |
|---|---|---|
| Due within 12 months | 576,326 | 451,430 |
| Due within 1-2 years | 397,783 | 325,710 |
| Due within 2-3 years | 216,513 | 194,713 |
| Due within 3-4 years | 72,263 | 60,360 |
| Due over 4 years | 3,552 | 4,580 |
| | **1,266,438** | **1,036,793** |

## 5 Material profit and loss items

**Cost of Sales**

Cost of sales is made up of two primary cost categories: the cost of software deployment and labour costs for support or supplemental monitoring and response services.

The largest of the deployment costs is depreciation on appliances used to deliver the software to customers under contracts. The depreciation of appliances is apportioned to Cost of sales based on the proportion of the Group's appliance pool deployed to customer sites and all appliance depreciation related to customer contracts is recognised in Cost of sales. Where the Group deploys software to a contracted customer virtually, the associated hosting costs are also recognised in Cost of sales. Cost of sales also includes shipping costs and other costs necessary to deploy the Group's software products.

**Operating Cost Apportionment**

Wherever possible, operating costs are attributed to either Sales and marketing, Research and development or Other administrative costs by the direct method. When costs apply to more than one cost category, they are apportioned using an allocation methodology based on the most appropriate direct data source.

The Group apportions the depreciation of appliances used to run Proof of Value ("POV") demonstrations for prospects (see note 18 for additional detail) to Sales and marketing. Similarly, for POVs of virtually deployed products, the associated hosting costs are recognised as Sales and marketing costs. Also, pre-sales support staff, whose costs are primarily attributed to Sales and marketing, may also perform post-sales support functions. This work is tracked, and the compensation costs associated with that work are allocated to Cost of sales.

Research and development ("R&D") primarily consists of compensation and other directly attributable costs of the staff who develop the Group's software products. The Group capitalises the costs of development work that meets the criteria for capitalisation and amortises those costs beginning once the software is released to production and/or brought into use. Developers and Analysts working in the Group's R&D function may also provide supplemental monitoring and response services to customers. This work is tracked and the compensation costs associated with that work are allocated to Cost of sales. Research and development expenditures that do not meet the criteria for capitalisation, are recognised as expenses when incurred. Development costs previously recognised as expenses are not recognised as assets in any subsequent period. Development costs for features and enhancements that are available to all customers without additional charge, are expensed as incurred. Amortisation of capitalised development costs is recognised as R&D cost (note 17).

Share-based payment cost and related share-option related employer tax charges are apportioned on a direct basis depending on the department the employee reports into. The Group has identified a number of items which are material due to the significance of their nature and or amount. These are listed separately here to provide a better understanding of the financial performance of the Group, if not presented elsewhere in these financial statements.

The Group has identified a number of items which are material due to the significance of their nature and or amount. These are listed separately here to provide a better understanding of the financial performance of the Group, if not presented elsewhere in these financial statements.

| | FY 2023<br>$'000 | FY 2022<br>$'000 |
|---|---|---|
| Hosting fees | 21,353 | 15,191 |
| Legal and professional fees | 11,588 | 7,208 |
| New software implementation costs | 3,873 | - |
| Accounting advice costs | 3,765 | 1,604 |
| Auditors' remuneration | 2,042 | 1,398 |
| Brand strategy costs | - | 2,030 |

Hosting fees related to customer contracts are classified within cost of sales for an amount of $16.9 million (FY 2022 $10.7 million) and those related to POV are classified to sales and marketing costs for an amount of $4.5 million (FY 2022 $4.5 million).

Legal and professional fees increased as a result of costs spent in preparation for Darktrace Federal Inc trading activity and other corporate activities including the equity transactions, the refinancing activity and some legacy litigation cost. Accounting advice costs increased due to the EY independent review and other advisory services in relation to corporate activities.

Brand strategy costs in prior year related to costs for Darktrace's new branding and logo change.

**Auditors' remuneration**

| | FY 2023<br>$'000 | FY 2022<br>$'000 |
|---|---|---|
| Audit of the Group and parent company accounts | 1,167 | 700 |
| Audit of the accounts of the Company's subsidiaries by the Group auditors and its associates | 735 | 623 |
| **Total audit fees** | **1,902** | **1,323** |
| Audit-related assurance services | 124 | 75 |
| Other non-audit services | 16 | - |
| **Total non-audit fees** | **140** | **75** |

Audit related assurance services includes the fees in relation to the review of the Group interim consolidated financial statements as at 31 December.

## 7 Earnings per share ("EPS")

**Earnings per Share**

Basic Earnings per Share

Basic earnings per share is calculated by dividing: the profit attributable to owners of Darktrace, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the year.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account: the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

| | FY 2023<br>$'000 | FY 2022<br>$'000 |
|---|---|---|
| Profit attributable to ordinary shareholders | 58,958 | 1,457 |
| | | |
| Weighted average ordinary shares | 714,928,452 | 698,145,263 |
| Effect of treasury shares | (54,608,143) | (54,866,296) |
| **Weighted-average number of ordinary shares at period end** | **660,320,309** | **643,278,967** |
| Add dilutive effect of share-based payment plans | 17,590,707 | 52,302,067 |
| **Weighted-average number of shares for calculating diluted earnings per share at period end** | **677,911,016** | **695,581,034** |

| | FY 2023 | FY 2022 |
|---|---|---|
| Basic earnings per share | $0.09 | $0.00 |
| **Diluted earnings per share** | **$0.09** | **$0.00** |

**Debt and Equity**

### 9 Share capital and share premium

**Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Equity comprises the following:

- Share capital: represents the nominal value of equity shares. Where shares are redeemed or purchased wholly out of profits available for distribution, a sum equal to the amount by which the company's share capital is diminished on cancellation of the shares (the nominal value of the shares) is transferred to the capital redemption reserve in line with section 733 of Companies Act.
- Share premium: represents the excess over nominal value of the consideration received for equity shares, net of any transaction costs associated with the issue of shares.
- Merger reserve: At IPO Darktrace plc issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, therefore the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued. Instead, a merger reserve is recorded equal to the value of share premium which would have been recorded if the provisions of section 612 of the Companies Act 2006 had not been applicable. Furthermore, as Management has used the retrospective presentation method (merger accounting), the equity structure (that is, the issued shares capital) reflects that of the new entity (Darktrace plc), with other amounts in equity (such as retained earnings or cumulative translation reserve) being those from the consolidated financial statements of the previous Group holding entity (Darktrace Holdings Limited). The resulting difference has been recognised as a component of the equity as a merger reserve.
- Foreign currency translation reserve: result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the statement of financial position date before Darktrace Holdings Limited and its subsidiaries changed their functional currency on 1 July 2019. Cybersprint changed its functional currency from Euro to US Dollar on 1 July 2022 (see note 2 for details).
- Stock compensation reserve: The grant-date fair value of share-based payments awards granted to employees (note 10) is recognised as an employee expense, with a corresponding increase in stock compensation reserve, over the period that the employees become unconditionally entitled to the awards.
- Treasury reserve: includes shares bought back by Darktrace plc during the year and shares that are held by the Equiniti Trust (Jersey) Limited for the purpose of issuing shares under the Darktrace plc employee share scheme. Shares issued to employees are recognised using the weighted average price method.
- Retained earnings: represents retained profits and losses.

| Share capital | Number of ordinary shares of £0.01 each | Number of preference shares of £1 each | Number of deferred shares of £0.01 each | Total number of shares | Share capital $'000 | Share premium $'000 | Share capital redemption reserve $'000 |
|---|---|---|---|---|---|---|---|
| **1 July 2021** | **697,630,127** | **50,000** | **120,063** | **697,800,190** | **9,756** | **224,782** | **-** |
| Share cancellation | - | - | - | - | - | (224,782) | - |
| Shares issued | 1,581,578 | - | - | 1,581,578 | 22 | 335 | - |
| Shares issued for acquisition | 2,573,648 | - | - | 2,573,648 | 34 | 15,782 | - |
| **30 June 2022** | **701,785,353** | **50,000** | **120,063** | **701,955,416** | **9,812** | **16,117** | **-** |
| Shares issued in the year | 18,250,239 | - | - | 18,250,239 | 222 | 191 | - |
| Preference and deferred shares cancellation | - | (50,000) | (120,063) | (170,063) | (71) | - | 71 |
| Ordinary shares cancellation | (13,280,100) | - | - | (13,280,100) | (184) | - | 184 |
| **30 June 2023** | **706,755,492** | **-** | **-** | **706,755,492** | **9,779** | **16,308** | **255** |

FY 2022 Share premium cancellation

The share-premium cancellation received shareholder approval prior to the IPO on 29 April 2021. The share premium was cancelled on 28 September 2021 following the registration of the order of the High Court of Justice (Chancery was cancelled on 28 September 2021 following the registration of the order of the High Court of Justice (Chancery Division) by the Registrar of Companies. The total amount of share premium at the time of cancellation has been reclassified to retained earnings.

FY 2022 Shares issued

During prior year certain employees have exercised their options (see note 10 for details on share-based payment transactions). These have been satisfied through the issuance of new shares before the share buyback happened or if the Darktrace Employee Benefit Trust (see below) could not satisfy the request as a result of its legal and regulatory framework.

FY 2022 Shares issued for acquisition

2,573,648 shares in Darktrace plc were issued as part of the business combination (see note 2).

FY 2023 Preference and deferred shares cancellation

On 15 May 2023 50,000 redeemable preference shares were cancelled. On 23 May 2023 120,063 deferred shares were redeemed for a consideration of £1 and cancelled.

**Treasury Reserve**

FY 2022 Company Shares buyback

During December 2021 the company purchased 2,460,678 shares on-market to satisfy, in part, Darktrace's pre-existing obligations arising from its share incentive programmes. The shares were acquired at an average price of £4.11 ($5.47) per share, with prices ranging from £3.90 ($5.19) to £4.31 ($5.74). The total cost of $13.6 million, including transaction costs, was deducted from equity.

FY 2023 Share Buyback Programme and Cancellation

On 1 February, 2023, Darktrace commenced a share buyback programme of up to 35 million of its ordinary shares to be completed no later than 31 October, 2023. The maximum amount allocated to the Programme is £75.0 million and Darktrace is making and will continue to make appropriate disclosures during the Buyback Period of the number of Shares it has repurchased.

The purpose of the Programme is to reduce Darktrace's issued share capital and the purchased shares will be cancelled. As at 30 June 2023 15,440,726 shares have been bought back and 13,280,100 have been cancelled. At cancellation a capital redemption reserve equal to the nominal amount of ordinary shares cancelled is created. The shares were acquired at an average price of £2.68 ($3.72) per share, with prices ranging from £2.20 ($3.5) to £3.40 ($4.72). The total cost of $0.3 million, including transaction costs, was deducted from equity.

At 30 June 2023 the company holds 3,621,634 shares in treasury (30 June 2022: 2,038,774).

2023 EBT Market Purchase Programme

During the year Equiniti Trust (Jersey) Limited, as Trustee of the Darktrace Employee Benefit Trust ('EBT'), completed market purchases of ordinary shares of £0.01 each in the Company. The January EBT Market Purchase Programme completed on 18 April 2023 with the purchase of 28,301,976 shares for a total aggregate consideration of £80.0 million ($94.3 million inclusive of brokerage and dealing charges) which has been deducted from equity. Shares purchased under the January EBT Market Purchase Programme are used to satisfy existing, planned and anticipated options and awards under Darktrace's employee share schemes, or as otherwise permissible within the terms of the EBT trust deed. The shares were acquired at an average price of £2.83 ($3.33) per share, with prices ranging from £2.09 ($2.53) to £3.98 ($4.58). At 30 June 2023 the EBT holds 63,121,031 shares (30 June 2022: 43,900,170).

**10 Share-based payments**

**Share Based Payments**

The Group operates equity settled share-based payment schemes. The equity settled share-based payments are measured at fair value at the date of grant. Having a graded vesting schedule, the fair value determined is expensed on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. The charge for the period is allocated to the relevant statement of comprehensive income categories where the employment costs of the employee who is granted the equity options are charged.

The fair value of options and awards granted is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options and awards that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. When the options or awards are exercised, the appropriate number of shares are issued to the employee. The proceeds received from exercised options, net of any directly attributable transaction costs, are credited directly to equity.

Modification of share-based payments

Where the effect of the modification is to increase the value of the award to an employee, the incremental fair value is recognised as a cost. The incremental fair value is the difference between the fair value of the original award and that of the modified award, both measured at the date of modification.

Share based payment charges have been made in the consolidated statement of comprehensive income within the following functional areas:

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| Sales and marketing | 16,524 | 20,084 |
| Research and development | 6,712 | 6,522 |
| Other administrative | 16,753 | 17,412 |
| **Total share-based payment expense** | **39,989** | **44,018** |

Other administrative share-based payment expense includes $3.7 million related to shares issued in connection with the acquisition of Cybersprint, treated as remuneration under IFRS 2 Share-Based Payments (FY 2022: $1.4 million) see note 2 for details. $0.7 million of the share based payment expense has been capitalised under software underdevelopment (FY 2022: $3.2 million).

Share based payments are calculated in accordance with IFRS 2 - Share-based Payment. The Company has used a Black-Scholes valuation model to value the options and growth shares granted up to the IPO and a Monte Carlo Model for the awards granted at and since IPO. Where an option scheme has no market-based performance conditions attached to the award, a Black-Scholes model is typically appropriate. The growth shares have a hurdle, which is a market-based performance condition, however, this is used as a proxy for an exercise price. Therefore, Black-Scholes is still an appropriate model.

**Option Schemes in Place Before IPO**

Share options are exercisable at prices determined at the date of grant. All awards vest over three years from the grant date in six-month intervals, (i.e. 1/6 of the Awards will vest every six months over 36 months) subject to continued employment.

Movements in the number of share options outstanding and their related weighted average exercise prices ("WAEP") are as follows:

| | WAEP $ | FY 2023 Options Number | WAEP $ | FY 2022 Options Number |
|---|---|---|---|---|
| Outstanding at 1 July | 1.94 | 38,886,044 | 1.56 | 54,970,631 |
| Lapsed | 5.02 | (158,074) | 4.67 | (948,289) |
| Exercised | 0.98 | (10,086,689) | 0.46 | (15,136,298) |
| **Outstanding at 30 June** | **2.23** | **28,641,281** | **1.94** | **38,886,044** |
| **Exercisable at 30 June** | **2.39** | **26,605,865** | **1.66** | **33,226,669** |

Options exercised during the year had an average share price at exercise of £3.87 ($4.91) (FY 2022: £4.75 ($5.99)).

The table below presents the weighted average remaining contractual life ('WACL') and the price range for the options outstanding at each year end:

| Range of exercise prices | WACL $ | FY 2023 Options number | WACL $ | FY 2022 Options number |
|---|---|---|---|---|
| $0.00 - $0.23 (£0.00 - £0.18) | 1.40 | 7,577,970 | 2.40 | 12,712,035 |
| $0.41 - $0.67 (£0.32 - £0.53) | 3.19 | 2,647,949 | 4.19 | 4,032,118 |
| $1.37- $1.45 (£1.07 - £1.13) | 4.45 | 1,703,785 | 5.45 | 2,564,592 |
| $2.09 - $2.21 (£1.61 - £1.70) | 4.89 | 2,059,364 | 5.89 | 2,270,226 |
| $2.76 - $2.87 (£2.06 - £2.14) | 5.98 | 8,818,333 | 6.98 | 11,218,529 |
| $5.20 (£3.73) | 7.72 | 5,833,880 | 8.72 | 6,088,544 |
| | **5.72** | **28,641,281** | **6.72** | **38,886,044** |

**AIP Awards**

Performance Based Conditional Award (the 'Performance Awards')

Vesting of Tranche 1 is dependent on Darktrace's total shareholder return ('TSR') performance over the period from the Grant Date to the end of the second Financial Year, ranked in comparison to the constituents of the FTSE 350 (ex. Investment companies). Tranche 2 vests dependent on the same terms, albeit the measurement period runs from the Grant Date to the end of the third Financial Year (i.e. an additional year). Awards do not incorporate an exercise price.

Awards issued during the year also have market-based vesting criteria with up to 80% of the awards vesting in accordance with the conditions of the TSR and up to 20% of the awards vesting in accordance with ARR growth targets at the end of the performance period.

Executive Director Conditional Awards ('Executive Awards')

The Executive Awards carry the same market-based vesting criteria as the Performance Awards. Additionally, they have a holding period which determines that vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

Top-Up Awards and modification

These awards vested according to a share price performance hurdle measured over a one-year period following the Admission Date. In essence, no shares vest where the closing share price was £2.50 or less, where the closing share price was £5, 100% of the shares vested and where the closing share price was between £2.50 and £5 the number of awards vested on a straight-line basis. These Awards did not incorporate an exercise price.

The performance period for the vesting of Top-Up awards ended on 6 May 2022 with the original calculation based on the share price for the 30-days up to the 6 May 2022. Management determined that a much longer measurement period was needed to ensure that the share price used to determine vesting of the awards reflected Management's performance and the underlying performance of the business. Management offered a modification to the employees to extend the performance averaging period to 12 months ending on the first anniversary of IPO resulting in 100% of the award vesting but extending the service period to 31 October 2022.

The effect of the modification was to increase the value of the award to the employees by allowing them to have the maximum number of shares subject to a small extension of the employment period i.e. vesting period, the incremental fair value increase must be recognised as a cost over the vesting period. The incremental fair value is the difference between the fair value of the original award (measured using the Monte Carlo model) and that of the modified award (time-based award means the valuation is the share price at grant date), both measured at the date of modification. There were no compensation payments for this modification.

Time-based Awards

These awards vest according to time only. There is no market-based vesting criteria and awards do not incorporate an exercise price. The value of the time-based awards will simply be the value of the underlying equity. Movements in the number of share awards outstanding are as follows:

| | FY 2023 Awards number | FY 2022 Awards number |
|---|---|---|
| Outstanding 1 July | 23,903,647 | 21,959,096 |
| Granted | 14,173,831 | 3,311,747 |
| Lapsed | (1,250,518) | (1,055,798) |
| Exercised | (19,872,266) | (311,398) |
| **Outstanding at 30 June** | **16,954,694** | **23,903,647** |
| **Exercisable at 30 June** | **179,290** | **26,000** |

In the UK, an award of shares or options to an employee gives rise to a personal tax liability for the employee, related to the fair value of the award when it vests. In order to meet this tax liability, two executives surrendered as many shares as are needed to raise proceeds equal to the tax liability ('net settlement'). This tax collection arrangements meant that the equity-settled awards resulted in a cash cost for the Company for the income tax for $9.7 million and an equal deduction from equity.

Valuation

The fair value of share-based payments has been calculated using the Monte Carlo option pricing model. Monte Carlo models are used to simulate a distribution of TSRs/share prices. The model utilises random number generation with the distribution determined by volatility, risk free rate and expected life.

The Performance Awards carry market-based vesting criteria which must be incorporated into the valuation. Vesting is dependent upon the Company's TSR performance ranked against the constituents of the FTSE 350 (ex. investment trusts) ('FTSE Index'). TSR is defined as the change in Net Return Index for a company over a relevant period. The Net Return Index is equal to the index that reflects movements in share price over a period, plus dividends which are assumed to be reinvested on a net basis in shares on the ex-dividend date.

Up to 80% of the Awards will vest in accordance with the TSR conditions and up to 20% in accordance with the ARR conditions.

TSR is calculated over the 'Performance Period' using the following formula: (TSR2-TSR1)/TSR1.

- TSR1 is the Net Return Index at admission date
- TSR 2 is the average Net Return Index over each weekday during the three months period ending on the last day of the TSR performance period.

The Company's annualised recurring revenue (ARR) growth will be measured between the basis year and the year ending on the performance period end date.

A correlation coefficient is included to model the way in which the price of a listed company's stock tends to move in relation to the stock of other listed companies. Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from grant to exercise based on Management's best estimate.

Time-based Awards vest according to time only. There is no strike price, no market-based vesting criteria and no expectation of dividends. For purposes of the valuation, the fair value of the time-based awards will simply be the value of the underlying equity at the time they were granted.

The table below presents the key assumptions for the awards valued at different grant dates during the prior year:

| | **Performance awards** | **Time based awards** | **Top up Awards Modifications** |
|---|---|---|---|
| **Grant dates** | **23/08/2021 - 28/06/2022** | **05/11/2021 - 26/05/2022** | **14/04/2022 - 17/06/2022** |
| Share price at grant date | £3.29 ($4.04) - £5.78 ($7.87) | £3.63 ($4.55) - £5.78 ($7.84) | £3.24 ($3.97) - £4.11 ($5.35) |
| Exercise price | - | - | - |
| Fair value per award (range) | £2.04 ($2.57) - £5.19 ($7.07) | £3.63 ($4.56) - £5.78 ($7.84) | £1.04 ($1.26) - £1.48 ($1.94) |
| Expected life in years (range) | 1.01 - 3.00 | N/A | 0.03 - 0.04 |
| Expected volatility (range) | 40% - 50% | N/A | 70% |
| Risk free interest rate (range) | 0.34% -2.19% | N/A | 0.26% - 0.42% |
| Cancellation rate | 10% | N/A | 10% |
| Dividend yield | 0% | N/A | 0% |
| Correlation (range) | 15% - 20% | N/A | 0% |
| **Number of awards** | **840,013** | **2,471,734** | **18,586,362** |

The table below presents the key assumptions for the awards valued at different grant dates during the current year:

| | **Time based awards** | **Performance awards** |
|---|---|---|
| **Grant dates** | **21/09/2022 - 22/05/2023** | **21/09/2022 -17/05/2023** |
| Share price at grant date | £2.62 ($3.23) - £3.69 ($4.25) | £2.62 ($3.23) - £3.69 ($4.25) |
| Exercise price | - | - |
| Fair value per award (range) | £2.62 ($3.23) - £3.69 ($4.25) | £0.95 ($1.17) - £3.69 ($4.25) |

| | | |
|---|---|---|
| Expected life in years (range) | N/A | 1.78 - 3.00 |
| Expected volatility (range) | N/A | 50% |
| Risk free interest rate (range) | N/A | 3.07% - 3.94% |
| Cancellation rate | N/A | 10% |
| Dividend yield | N/A | 0% |
| Correlation (range) | N/A | 20 - 25% |
| **Number of awards** | **7,179,220** | **6,994,611** |

**Working capital**

**12 Capitalised commission**

**Commission Cost Recognition**

Commission costs are all recognised as Sales and marketing costs. The Group pays commissions to sales staff and to referral partners. IFRS 15 requires that certain costs incurred in both obtaining and fulfilling customer contracts be deferred on the statement of financial position where recoverable and amortised over the period that an entity expects to benefit from the customer relationship. The only significant cost falling within the remit of IFRS 15 is the portion of commission costs classified as a cost of contract acquisition. Depending on their role in sales, staff receive either the first 50% or 100% of commission at the point of contract signing, which is deemed to meet the criteria of being incurred solely to acquire the contract. These transaction related commission costs, including related social security and similar contributions, are therefore capitalised and amortised over the customer contract term, with the amortisation being recognised as a Sales and marketing cost. Commissions paid to referral partners are also capitalised and amortised to Sales and marketing costs over the life of the related contracts.

The remaining 50% of sales staff commission is paid on the earlier of the full contract value being paid, or, most frequently, after one year. Because these commissions have additional service and performance requirements, they are not eligible to be capitalised under IFRS 15. Instead, the commission and associated social security costs are accrued based on the expected period between the sale and payment, then the accrual is released when the commission is paid or earlier if commission is recouped due to the customer defaulting on payments or salesperson ceases to be employed prior to the commission becoming payable. Refer to note 14 for treatment of the commission accruals.

Refer to note 1 for impairment of non-financial asset.

Capitalised commissions, which primarily represent approximately 50% of commissions paid to the Group's salesforce and partners, are deemed to be a cost of obtaining a contract and are spread over the expected contract term.

| **By Geographic market** | **30 June 2023 $'000** | **30 June 2022 $'000** |
|---|---|---|
| USA | 23,303 | 17,321 |
| United Kingdom | 10,933 | 10,142 |
| Europe | 23,742 | 17,060 |
| Rest of World | 18,675 | 12,631 |
| | **76,653** | **57,154** |
| Current | 34,471 | 24,635 |
| Non-current | 42,182 | 32,519 |
| | **76,653** | **57,154** |
| Amortisation in the year | 32,471 | 21,817 |
| Impairment in the year | 1,555 | 996 |

**15 Provisions**

**Dilapidation provision**

Darktrace is required to restore the leased premises of its offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the right-of-use asset and are amortised over the term of the lease.

**Provision for share-based payment tax**

The Group accounts for a provision on tax payments when the employer has the primary liability to pay for social

The Group accounts for a provision on tax payments when the employer has the primary liability to pay for social security-type contributions on share-based payments. In some jurisdictions, the employer rather than the employee has the legal obligation to pay taxes on employee awards. Darktrace recognises the cost and liability in relation to those countries where this type of payment is required. Management calculates the liability arising from the obligation to pay taxes as a provision in accordance with IAS 37 using the market value of the total options at each reporting date to estimate the provision to be accrued over the vesting period. Also, provisions are recognised where a legal or constructive obligation exists at the balance sheet date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Significant Estimate in the Share Price Used to Calculate the Provision for Share-Option Related Employer Tax Charges

The provision represents the best estimate of the amount payable by the Group at year end if all options were exercised at that date. The key input for the calculations is the percentage applicable for each country and the share price at each period end. The key element subject to change in future periods is the share price, and for this reason the Group has prepared the following sensitivity analysis:

| | FY 2023 | FY 2022 |
|---|---|---|
| | $'000 | $'000 |
| +/- 10% share price value - change in value of provision for the year ($'000 absolute value) | 933 | 3,852 |

| | FY2023 | | | FY2022 | | |
|---|---|---|---|---|---|---|
| | Provision for share-based payment tax $'000 | Other provisions $'000 | Total Provision $'000 | Provision for share-based payment tax $'000 | Other provisions $'000 | Total provision $'000 |
| **Opening provision** | 15,192 | 2,100 | 17,292 | 22,945 | - | 22,945 |
| Accruals/(release) | 4,315 | (316) | 3,999 | (1,526) | 2,100 | 574 |
| Reclassification from lease liability (note 19) | - | 1,528 | 1,528 | - | - | - |
| Utilisation | (13,351) | (800) | (14,151) | (6,227) | - | (6,227) |
| **Closing provision** | **6,156** | **2,512** | **8,668** | **15,192** | **2,100** | **17,292** |
| Current | 5,943 | 984 | 6,927 | 14,654 | 1,300 | 15,954 |
| Non-current | 213 | 1,528 | 1,741 | 538 | 800 | 1,338 |
| **Total provision** | **6,156** | **2,512** | **8,668** | **15,192** | **2,100** | **17,292** |

The Group accounts for a provision on tax payments when the employer has the primary liability to pay for social security-type contributions on share-based payments at the time of exercise.

In the UK, an award of shares or options to an employee gives rise to a personal tax liability for the employee, related to the fair value of the award when it vests.

In most other countries where social security-type obligations arise on share awards, the obligation to accrue applies irrespective of whether the shares are RCAs or not. Calculation of social security-type contributions can be complex as they involve changing or tiered cost ceilings and differing percentages applied depending on the salary level of the employees.

Other provision includes an estimate of tax charges related to new permanent establishments in countries where Darktrace plc does not currently have a subsidiary.

**Long term assets**

## 17 Intangible assets

**Intangible Assets**

Software

Software acquired in a business combination is recognised at fair value at the acquisition date. It has an estimated useful economic life of 5 years and is subsequently carried at cost less accumulated amortisation and impairment losses.

The Group capitalises allowable costs related to the development of new products and related significant functional enhancements to its Cyber AI platform. The directly attributable costs capitalised are employee costs including the appropriate portion of relevant compensation-related overheads. Costs are only capitalised when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software so that it will be available for use;
- There is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

These capitalised development costs are recorded as intangible assets and amortised from the point at which the developed assets are released for use, typically as a part of major version or product releases.

Capitalised development costs are amortised on a straight-line basis over a three-year period unless the related software is removed from service prior to that date, in which case the remaining amortisation related to the software removed from use would be accelerated. Amortisation is classified as Research and development costs.

Costs associated with maintaining software programmes are recognised as an expense as incurred.

Customer relationship

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. It has an estimated useful economic life of 12 years and is subsequently carried at cost less accumulated amortisation and impairment losses.

Software consists of capitalised development costs being internally generated intangible asset of $2.2 million (30 June 2022 $4.9 million) and acquired software from acquisition of $ 6.6 million (30 June 2022 $8.6 million) with a remaining useful life of 3.7 years. The Group has not identified any impairments to the intangibles.

All amortisation of intangible assets is charged to the consolidated statement of comprehensive income and is included within research and development costs.

| | FY 2023 | | | | FY2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Customer Relationship** | **Software** | **Software under development** | **Total** | **Customer Relationship** | **Software** | **Software under development** | **Total** |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | | | |
| As at 1 July | 869 | 25,535 | 1,517 | 27,921 | - | 13,286 | - | 13,286 |
| Additions | - | - | 2,519 | 2,519 | - | 2,391 | 2,368 | 4,759 |
| Business combination (no | - | - | - | - | 930 | 9,647 | - | 10,577 |
| Reclassification | - | 1,082 | (1,082) | - | - | 851 | (851) | - |
| Foreign exchange difference | - | - | - | - | (61) | (640) | - | (701) |
| As at 30 June | 869 | 26,617 | 2,954 | 30,440 | 869 | 25,535 | 1,517 | 27,921 |
| **Amortisation** | | | | | | | | |
| As at 1 July | (26) | (12,246) | - | (12,272) | - | (6,199) | - | (6,199) |
| Charge for the year | (72) | (5,525) | - | (5,597) | (26) | (6,047) | - | (6,073) |
| As at 30 June | (98) | (17,771) | - | (17,869) | (26) | (12,246) | - | (12,272) |
| **Net book value as 30 June** | **771 843** | **8,846** | **2,954** | **12,571** | **843 -** | **13,289** | **1,517** | **15,649** |

## 18. Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

The depreciation methods and periods used by the Group are as follows:

| | |
|---|---|
| Appliances | 5 years straight line |
| Leasehold improvements | Lower between EUL and lease term on straight line |
| Equipment | 2-5 years straight line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

**Other assets**

Other assets included within property, plant and equipment are generally IT equipment for employee use and a small amount of infrastructure equipment. The Group also has office fit out costs, furniture, other tangible property including leasehold improvements.

**Appliances**

Most of the Group's property, plant and equipment is comprised of the appliances used to deploy its software. Appliances are encrypted with the Group's software and deployed both to customers for the fulfilment of contracts and potential customers for POV demonstrations. These appliances are deployed, retrieved and redeployed many times over their useful lives and may be on customer or prospect sites, interchangeably, at any given time. The Group retains ownership of these appliances and depreciates them over an estimated five-year useful economic life. The depreciation of these assets is apportioned to either cost of sales or sales and marketing based on the proportion of appliances deployed to customers and prospects in each period.

Significant Judgement in Assessment of Control of Appliances

The Group is required to assess if, as part of the assessment of the performance obligations, there is an embedded lease within the contract relating to the appliances used to deploy its software. Due to the length of the contracts, averaging approximately three years, and the underlying asset value, it is appropriate to assess if there is an inherent lease embedded within the contract.

The Group considered its continued ownership of the appliances, the appliances having a useful economic life in excess of the typical contract length (appliances are accounted for on an estimated useful life of five years based on the Group's experience to date) in determining if there was a lease. It is Management's judgement that the Group retains control of the appliances throughout the performance period as the Group directs the use of the asset. It is also Management's judgement that the Group's contracts do not contain leases under IFRS 16.

| | | | | FY 2023 | | | |
|---|---|---|---|---|---|---|---|
| | **Leasehold Improvements $'000** | **Equipment $'000** | **Appliances $'000** | **Total $'000** | **Leasehold Improvements $'000** | **Equipment $'000** | **Appliances $'000** |
| **Cost** | | | | | | | |
| As at 1 July | 2,327 | 16,583 | 112,301 | 131,211 | - | 12,161 | 92,606 |
| Additions | 11,622 | 1,199 | 18,409 | 31,230 | 2,327 | 4,951 | 24,585 |
| Business combination (note 4) | - | - | - | - | - | 108 | - |
| Foreign exchange difference | - | - | - | - | - | (7) | - |
| Disposals | - | (685) | (5,141) | (5,826) | - | (630) | (4,890) |
| **As at 30 June** | **13,949** | **17,097** | **125,569** | **156,615** | **2,327** | **16,583** | **112,301** |
| **Depreciation** | | | | | | | |
| As at 1 July | - | 9,621 | 60,589 | 70,210 | - | 6,634 | 45,237 |
| Charge for the period | 935 | 4,185 | 19,864 | 24,984 | - | 3,391 | 18,355 |
| Impairment loss | - | - | 52 | 52 | - | - | - |
| Disposals | - | (510) | (3,910) | (4,420) | - | (404) | (3,003) |
| **As at 30 June** | **935** | **13,296** | **76,695** | **90,826** | **-** | **9,621** | **60,589** |
| **Net book value as at 30 June** | **13,014** | **3,801** | **48,974** | **65,789** | **2,327** | **6,962** | **51,712** |

Depreciation of appliances is apportioned to cost of sales based on the proportion of the Group's appliance pool deployed to customer sites in each period, and all appliance depreciation related to customer contracts is recognised in Cost of sales. Depreciation of appliances used to run POV demonstrations for prospects is apportioned to Sales and marketing based on the proportion of the Group's appliance pool deployed to prospect sites in each period. Where appliances are at client sites or in transit and there is doubt about their recoverability, they are impaired; the impairment for the year amounted to $0.1 million (2022:nil).

they are impaired: the impairment for the year amounted to $0.1 million (2022:nil).

The depreciation charges for Property, plant and equipment have been made in the consolidated statement of comprehensive income within the following functional areas:

| | FY 2023<br>$'000 | FY 2022<br>$'000 |
|---|---|---|
| **Depreciation** | | |
| Cost of sales | 16,721 | 14,589 |
| Sales and marketing | 4,599 | 4,945 |
| Research and development | 1,262 | 1,018 |
| Other administrative | 2,402 | 1,194 |
| | **24,984** | **21,746** |

**Inventory - appliances for Federal use**

Inventory includes those appliances that are purchased for the purpose of being sold to potential and future customers for Darktrace Federal Inc. Under the specific requirements of segregation of this entity, those future customers require that the appliances used to deploy the software as POV or for future contracts be sold to them. Those appliances are distinct from appliances used in any other country or for any other Industry as they are purchased specifically for this subsidiary and retained in dedicated space before they are deployed to the potential or future customer.

Inventory is stated at the lower of cost and net realisable value. Cost is determined on the basis of weighted average costs and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

| | FY 2023<br>$'000 | FY 2022<br>$'000 |
|---|---|---|
| **Inventory** | 100 | - |

**Financial risk management**

## 20 Cash and Cash equivalents

**Cash and Cash Equivalents**

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits at call are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

| | 30 June 2023<br>$'000 | 30 June 2022<br>$'000 |
|---|---|---|
| Cash at bank and in hand | 132,396 | 156,912 |
| Deposits at call | 224,590 | 233,711 |
| **Cash and cash equivalents** | **356,986** | **390,623** |

Deposits at call are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

**Other notes**

## 25 Income tax

**Income Tax**

The income tax expense or credit for the period comprises current tax for the year, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses, where applicable.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods in the countries where the Group operates and generates taxable income. Any uncertain tax treatments are reviewed, documented and communicated to the Board as appropriate. The Group finance function monitors any uncertain items on a regular basis, working closely with the Head of Tax to understand any potential changes to the associated risk. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Income tax is recognised as an expense or income and included in the consolidated statement of comprehensive income for the period, except to the extent that the tax arises from a transaction or event that is not itself recognised in the consolidated statement of comprehensive income, for example when it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**Significant judgement and estimate in deferred tax asset (DTA) recognised on UK losses carried forward**

At 30 June 2023 the Group has significant tax losses in the UK available for offset against future taxable profits. The Group has recognised a DTA on UK losses carried forward of approximately $10.9 million (30 June 2022: nil) and an unrecognised DTA on UK losses carried forward of approximately $50.7 million (30 June 2022: $51.7 million) as Management believes there is insufficient convincing other evidence that the potential asset will be utilised in the foreseeable future, which is required for recognition under IAS 12 when there is a history of losses.

<u>Significant judgement</u>

When assessing if it is probable that future taxable profits will be available, given the long history of tax losses, Management has determined whether sufficient positive evidence outweighs existing negative evidence. The longer the estimates or forecasts extend into the future, the less reliable they are. Management believes the most appropriate period to be used in order to make the assessment on the future taxable profit and the recoverable deferred tax asset on UK losses carried forward is two years. In particular, whilst from a cash flow perspective given the strong cash position, a three year period for a viability analysis is considered appropriate, the profitability is sensitive to changes that depend much more on the current and future macro-economic environment, inflation and foreign exchange trends.

Had a three-year period been considered, a further $6.3 million UK deferred tax asset on losses carried forward would have been recognised at 30 June 2023.

<u>Significant estimate</u>

The estimates or forecasts used for the determination of the future taxable profits for the UK entity used consistent assumptions to those used elsewhere. Currently there is sufficient convincing other evidence on the certainty of sufficient future taxable profits in the UK over the next two years, which will enable Darktrace Holdings Limited to start utilising its' brought forward tax losses, therefore an initial recognition of the deferred tax asset in relation to losses carried forward has been done in the year for an amount of $10.9 million.

The estimates take account of the inherent uncertainties constraining the expected level of profit as appropriate, however part 12 deductions have not been taken into account given the uncertainty of the tax deduction in excess of IFRS2 change recognised for share based payments. Possible changes in the estimates made, will affect future profits and therefore the recoverability of the deferred tax assets. An increase in operating costs by 10% would bring the UK entity into tax loss position over the next two years and therefore no DTA ($10.9 million) on UK losses carried forward should be recognised. In contrast, a decrease in operating costs by 10% would bring a significant increase in the tax profit for the UK entity increasing the recognisable DTA by $16.5 million.

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| **Current tax (credit)/expense:** | | |
| Current period | 936 | 3,454 |
| Foreign taxation | 764 | 1,612 |
| Adjustments for prior period | (816) | |
| Total current tax expense | 884 | 5,066 |
| | | |
| Origination and reversal of temporary differences | (5,713) | (1,210) |
| Deferred tax recognised | (13,033) | - |
| Adjustments in respect of prior periods | (61) | - |
| **Total tax (credit)/ charge** | **(17,923)** | **3,856** |

The relationship between the expected tax expense based on the UK effective tax rate of the Group at 20.5% (2022: 19%), and the tax expense recognised in the consolidated statement of comprehensive income can be reconciled as follows:

| | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| **Profit for year before taxation** | **41,035** | **5,313** |
| **Tax rate** | **20.5%** | **19%** |
| Tax on profit on ordinary activities at standard CT rate 20.5% FY 2022 - 19%) | 8,412 | 1,010 |
| Effects of: | | |
| Effect of tax rates in foreign jurisdictions | 1,683 | 831 |
| | | |
| Fixed Asset Differences - Super deduction net of Ineligible depreciation | (1,202) | (1,740) |
| Non-deductible expenses | 3,744 | 6,955 |
| Overseas taxes deducted at source | 607 | 817 |
| Tax cost on research and development tax credit | 560 | 186 |
| (Over)/under provided in prior years | (877) | 1,403 |
| Deferred tax recognised | (13,033) | - |
| Current year utilisation of deferred tax not previously recognised | (17,817) | (5,606) |
| **Total tax (credit)/charge for the year** | **(17,923)** | **3,856** |

**Deferred Tax Assets and Liabilities**

The tax rate applied considers 25% for UK and 27% for US as these are the tax rates expected to be applicable by the time the loss will be unwound.

The unrecognised deferred tax asset is comprised of:

| | 30 June 2023 | | 30 June 2022 | |
|---|---|---|---|---|
| | Gross amounts $'000 | Unrecognised DTA* $'000 | Gross amounts $'000 | Unrecognised DTA* $'000 |
| Fixed Asset timing differences | - | - | (2,151) | (538) |
| Short term temporary differences | 3,401 | 850 | 17,222 | 4,306 |
| Losses carried forward | 202,952 | 50,738 | 206,498 | 51,665 |
| Share based payments | 101,669 | 26,687 | 147,293 | 37,775 |
| **Total** | **308,022** | **78,275** | **368,862** | **93,208** |

Given the uncertainty of the tax deduction in excess of the IFRS2 charge recognised for share-based payments, demonstrated by the high volatility of Darktrace share price since IPO, the related deferred tax asset has not been recognised at 30 June 2023 and in prior year.

**Recognised deferred tax asset and deferred tax liabilities**

| | 30 June 2023 $'000 | 30 June 2022 $'000 |
|---|---|---|
| Fixed asset timing differences | (2,272) | (76) |
| Short term temporary differences | 4,859 | 1,573 |
| | | |
| Losses carried forward | 19,271 | 2,032 |
| Intangible assets arising on business combination | (2,009) | (2,488) |
| **Total** | **19,849** | **1,041** |

| **Recognised deferred tax** | FY 2023 $'000 | FY 2022 $'000 |
|---|---|---|
| Opening | 1,041 | 544 |
| (Charged)/Credited through the income statement: | | |
| Deferred tax asset recognised on acquisition | - | 1,950 |

| | | |
|---|---|---|
| Deferred tax asset recognised on acquisition | - | [illegible] |
| Deferred tax liability recognised on acquisition | - | (2,655) |
| Deferred tax asset movement | 19,276 | 1,034 |
| Deferred tax liability movement | (468) | 168 |
| **Closing** | **19,849** | **1,041** |

**29 Post balance sheet events**

Assignment of previous London office lease

On 4 August 2023 the assignment of the lease for the previous London office has been completed. This will result in the de-recognition of the related right-of-use asset of $2.7 million and the de-recognition of the lease liability of $3.9 million as at the date of assignment.

RCF Extension

On 31 August 2023 the RCF agreement with Silicon Valley Bank (now HSBC Innovation Bank) has been extended to have an expiry date of 30 November 2023. All other terms and conditions (see note 20) remain unchanged. The company is currently considering the proposals from a number of financial institutions to increase the amount of the facility before the end of the agreement with HSBC Innovation Bank.