



Annual Report 2021



Highlights

Financial Highlights

Revenue in FY 2021

\$281.3m FY 2020: **\$199.1m**
41.3% growth

Gross profit in FY 2021

\$252.9m FY 2020: **\$181.6m**
39.3% growth

Operating loss in FY 2021

\$(38.5)m FY 2020: **\$(24.9)m**
54.7% increase in loss

Cash and cash equivalents at 30 June 2021

\$342.4m FY 2020: **\$53.9m**
534.7% growth

Strategic KPIs

Annualised recurring revenue (ARR)** at 30 June 2021

\$343.5m FY 2020: **\$235.7m**
45.7% growth

Remaining performance obligations (RPO)** at 30 June 2021

\$758.2m FY 2020: **\$539.9m**
40.4% growth

Adjusted EBITDA* in FY 2021

\$29.7m FY 2020: **\$8.9m**
\$20.8m improvement

Net ARR Retention Rate** at 30 June 2021

103.1% FY 2020: **98.4%**

Other Key Highlights

Number of employees at 30 June 2021

1,600+ FY 2020: **1,100+**
45.5% growth

Cash inflow/(outflow) before financial activities in FY 2021

\$34.6m FY 2020: **\$(3.4)m**

One year gross ARR churn** at 30 June 2021

7.7% FY 2020: **6.9%**

Number of customers at 30 June 2021

5,605 FY 2020: **3,858**
45.3% growth

* Adjusted EBITDA is a non-IFRS measure defined as the Group's EBITDA including appliance depreciation attributed to cost of sales, adjusted to remove share-based payment charges and associated employer tax charges. See the "Financial Review" section on page 36 for a reconciliation between operating loss and Adjusted EBITDA.

** Definitions of RPO, ARR and the associated calculations are detailed in full in the section "Our Key Performance Indicators" of our 2021 Strategic Performance Review, see page 28.

Contents

Chapter 1 – Strategic Report

At A Glance	4	2021 Strategic Performance Review	28
Chair's Statement	6	Viability Statement	38
CEO Statement	10	People and Culture	44
Darktrace Business Model	14	Sustainability	48
Market Overview	16	Risks	54
Darktrace Innovations	20		

Chapter 2 – Governance

Corporate Governance Report	62	Report of the Audit & Risk Committee	76
The Board	64	Report of the Remuneration Committee	82
Report of the Board	68	Annual Report on Remuneration	98
Report of the Nomination Committee	74	Directors' Report	110

Chapter 3 – Financial Statements

Independent Auditor's Report to the Members of Darktrace plc	120	Darktrace plc Information	209
Consolidated Financial Statements	136	Shareholders	210
Company Financial Statements	198	Glossary	211

Chapter 1: Strategic Report



Chapter 1 – Strategic Report Index

At A Glance	4	Sustainability	48
Chair’s Statement	6	Protecting Critical Infrastructure and Public Services	48
CEO Statement	10	Supplier Engagement	49
Darktrace Business Model	14	Customer Engagement	49
Market Overview	16	Modern Slavery	49
Realising our Potential	19	Employee Handbook	49
Darktrace Innovations	20	Human Rights	49
Darktrace Products	22	Privacy	49
Use cases	25	Environment and Climate Change	50
Darktrace Technology Vision	26	Section 172 (1) Statement and Non-Financial Information Statement	52
2021 Strategic Performance Review	28	Risks	54
Key Performance Indicators (KPIs)	28	The Darktrace Risk Management Process	54
Financial Review	33	Risk Governance	56
Viability Statement	38	Principal and Emerging Risks	56
People and Culture	44		
Creating a Diverse and Inclusive Environment	46		
Darktrace’s Advisory Committees	46		
COVID-19	47		

“Our unique Self-Learning AI technology is what sets us apart at Darktrace. We are the only cyber security company using this kind of AI to solve real-world problems at scale. Constantly evolving, it augments the security team and can act autonomously on behalf of humans.”

Jack Stockdale, Chief Technology Officer, Darktrace

At A Glance

A global leader in cyber security AI

Darktrace is a global leader in cyber security AI, delivering world-class technology that protects over 5,600 customers worldwide from advanced threats, including ransomware, insider threats and cloud and Software-as-a-Service (SaaS) attacks. Darktrace's fundamentally different approach, assumes that threats will get inside an organisation and detects these threats from within the enterprise.

Darktrace's unique Self-Learning AI technology understands the DNA of an organisation and is constantly learning and adapting. It enables machines to autonomously defend organisations against cyber-threats.

Darktrace was founded by mathematicians and cyber defence experts in 2013, launching the world's first AI for cyber security.

Darktrace's mission is to empower organisations to stop cyber disruptions in real time across digital infrastructure and systems everywhere – helping to build up resilience against a continually changing threat landscape.



LSE:DARK



Across every industry sector



Global offices



80+ patents, protected or pending

For AI and machine learning concepts



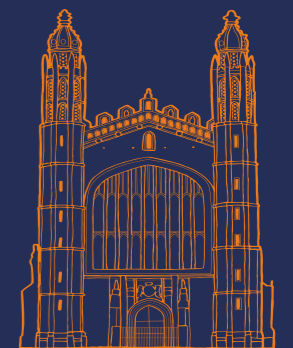
1,600+ employees



5,600+ customers in 100+ countries



#1 AI First at-scale deployment of AI in cyber security



HQ: Cambridge, UK

Chair's Statement

The twelve-month period ended 30 June 2021 was a significant year for Darktrace plc. Having delivered a strong set of full year results, grown our customer base to 5,605 (up 45.3% on the previous year) and, of course, successfully completed our Initial Public Offering (IPO) during the year, 2021 has been a pivotal point in Darktrace's journey to date.

Darktrace IPO – Major Milestone

In May 2021, Darktrace was admitted to the London Stock Exchange. The IPO elevated our profile globally, highlighting our business to prospective customers and boosting our ability to continue to recruit the best talent. We were delighted with the strong reception from investors, raising gross proceeds of £171.0 million (\$237.4 million) via a global share offer. Part of the proceeds will be invested in expanding the workforce in our R&D centre in Cambridge, allowing us to continue to evolve our product offerings and explore applications for our AI technology in adjacent fields. Additional proceeds will be used to accelerate adoption of our technology in new and existing markets and for other purposes that expand our business and support our mission.

In reporting our first set of full year results as a listed company, I am pleased to say that we grew our constant currency ARR at FY 2021 rates by 45.7% year-on-year, to \$343.5 million, and delivered revenue of \$281.3 million, representing year-on-year growth of 41.3%. While we reported a net loss of \$149.6 million, which was \$120.9 million greater than in FY 2020, this was largely due to recognising non-cash financing costs. These costs ceased at the IPO, when all of the convertible loan notes were converted to equity. We reported adjusted EBITDA of \$29.7 million for the year, a \$20.8 million improvement over the prior year period.

Since I joined Darktrace in 2019, the business has gone from strength to strength under the leadership of Poppy Gustafsson and her team. It has been a pleasure to see the business achieve so much in such a short period of time, and I have been impressed with the management team's performance as they seek to lay the foundations for sustainable growth.

Fundamental Technology

Our successful IPO is testament not only to the underlying strength of our business and the stand-out performance and commitment of the management team, but to our world-leading AI technology. As the first company to apply artificial intelligence to the challenge of cyber security, Darktrace has fundamentally transformed cyber defence with its pioneering Self-Learning AI. It has led the way with its digital immune system approach, and was the first company to offer Autonomous Response technology.

Jack Stockdale, our Chief Technology Officer, has continued to oversee the development team in Cambridge. With the additional investment in R&D, Jack and his team have set the most ambitious technology vision in cyber security to date, driving innovation and ensuring our customers can keep pace with an evolving threat landscape and rapid digital transformation.

Darktrace's innovative approach and the uniqueness of our technology was recognised not only by our customers but also by several award bodies, including the Alconic Awards (for Best Enterprise AI Solution), the Computing Technology Awards (for Best AI Provider) and the 2021 Cyber Defence InfoSec Awards (for five accolades including 'Market Leader in Cyber Security Artificial Intelligence'). In addition, TIME magazine named Darktrace as one of the '100 Most Influential Companies'.



Evolving Cyber-Threat Landscape

2021 was a watershed moment for the rising sophistication and scale of cyber-attacks, with a spate of advanced ransomware attacks that have caused severe disruption not only to businesses, but to critical national infrastructure too. Conventional security tools have failed to keep up with attacker innovation and machine-speed threats and, as a result, security teams find themselves overwhelmed. Victim organisations, in the private and public sectors, have seen critical IT services forced to shut down, and suffered high recovery costs following an attack.

As the cyber-threat landscape continues to evolve, Darktrace's mission to ensure organisations are protected from sophisticated attacks has never been more important. We reported in May 2021 that ransomware is now the top use case of our Autonomous Response technology, which reacts to ransomware in one second, on average, stopping it spread through an organisation. The technology's rapid AI-driven response gives the security team precious time to catch up, while the response action is highly targeted, meaning that normal business operations can continue unhindered.

Expanding our Customer Base

Our worldwide customer base has grown by 45.3% year-on-year, with organisations across all industry sectors, and of all sizes, represented. We are proud to be working with some of the world's largest financial organisations, energy and utilities companies and media corporations, as well as protecting the businesses that keep society running, from healthcare providers and charitable institutions through to educational institutions.

Our Customer Success team has continued to grow and has remained focused on engaging with our customers to ensure they received the best service possible from Darktrace. We were pleased to see the team recognised as 'Team of the Year' and for 'Project of the Year' at the 2021 Cyber Security Global Excellence Awards.

Chair's Statement

Governance and Leadership

In March I took over the role of Chair from Robert Webb QC, having previously served on the Board as a Non-Executive Director and Chair of the Audit Committee. On behalf of the Board and the Executive team, I'd like to take this opportunity to thank Mr Webb for his many years of valuable service and guidance to Darktrace.

We were pleased to add three Non-Executive Directors to the Board prior to the IPO: Lord Willetts, Sir Peter Bonfield CBE FREng and Paul Harrison. Lord Willetts brings a range of experience in science, education and politics to the role, having previously served as the Minister for Universities and Science, as well as currently holding several roles at think tanks and educational institutions. Sir Peter brings more than 50 years' experience in the international technology sector, having led businesses in the fields of electronics, computers and communications. Paul Harrison has held senior positions at several high growth, public technology companies in the UK and internationally.

Having joined Darktrace as Chief Financial Officer in February 2020, Catherine Graham joined the Board immediately after completion of the IPO. Catherine has more than two decades of professional experience in financial disciplines and played an instrumental role in Darktrace's successful IPO process.

Finally, we were delighted to welcome James Sporle to the Darktrace team as General Counsel & Company Secretary in April 2021. James' previous experience of working with companies transitioning from private to public is tremendously valuable and the executive team and Board are looking forward to working closely with him as we look ahead to the next chapter.

COVID-19

FY 2021 was a challenging year for many people and organisations around the globe as the impact of the pandemic continued to take its toll. As remote working remained the norm for many organisations and the adoption of cloud-based tools became more commonplace, cyber security has been pushed up the agenda for many organisations. These factors contributed to Darktrace's resilient performance for the year.

Within our own business, we too have had to adapt to a different way of working, and as a company which has always enjoyed a collaborative team environment in our offices around the world, the shift to remote working has been a new challenge. As a business, like many others, we have fostered new methods of communication and have increased the regularity of company-wide events and interactions such as webinars, company updates and newsletters. We have continued to encourage an innovative and collaborative culture despite the physical separation from our colleagues, and we look forward to being able to spend more time together as the situation improves. We are embracing a new way of working which combines the opportunities afforded by virtual working with in-person interaction where possible.

Annual General Meeting

Our first Annual General Meeting as a publicly-listed company will be held on 24th November, 2021. All members of the Board, as well as members of the management team, will be at the meeting. It will be a great opportunity for our shareholders to meet the Directors and to have their questions answered about our success over the last year as well as our future direction. We look forward to warmly welcoming our shareholders to meet with us and participate in the discussion.

Outlook

Following a successful IPO, and with a strong financial profile and a fast-growing customer base, Darktrace is well-placed to take advantage of a rapidly expanding market. We remain as ambitious as ever, and are focused on accelerating the deployment of our technology worldwide and investing in our long-term growth. With a huge opportunity to capture, a talented, growing workforce and a strong management team driving our strategy forward, we are excited to embark on our first full year as a publicly-listed company.

Gordon Hurst

Chair

“We have a strong team at Darktrace and are uniquely positioned to continue our successful growth trajectory as we lead the way forward in cyber security and enter our next period of strategic growth”

Gordon Hurst, Chair at Darktrace

CEO Statement

Looking back at Darktrace's achievements in FY 2021, we successfully completed our IPO, delivered a robust first set of results and, most importantly, continued to deliver world-leading technology to protect our customers during a challenging year for many.

These achievements are testament to the hard work and commitment of all the talented individuals within the business. They have remained steadfastly committed to pushing forward advancements in education on Self-Learning AI, creating world-first technologies and providing fantastic service to customers, all while embracing and adapting to new ways of working as a result of the pandemic.

A Year to Remember

Listing on the London Stock Exchange this year was an important moment in our journey, particularly as we endeavour to build on the UK's rich history of scientific research and innovation.

The IPO has allowed us to increase investment in our R&D centre in Cambridge and today our world-class team is laser focused on continuing to advance our expertise in Self-Learning AI and evolving our technology to continue protecting our customers as cyber-threats surge in number and sophistication.

We have delivered a strong set of results for FY 2021, reporting year-on-year revenue growth of 41.3% and ARR growth of 45.7%, reflecting continuing demand for our differentiated product offerings. While our net loss increased to \$149.6 million, primarily due to non-cash financing costs, these costs ceased at the IPO. Our adjusted EBITDA saw a \$20.8 million year-on-year improvement, reflecting both the continuing benefits of scale and a significant reduction in travel and entertainment costs driven by the pandemic.

Ambitious Technology Vision

The Darktrace spirit, which is present across the business globally, is characterised by challenging precedent and approaching problems in a way that no one has done before.

To date, cyber security has been marked by restriction. Organisations are encouraged to curb employee behaviour and think twice about which new devices and platforms they bring into the business. At Darktrace, we are seeking to fundamentally change the narrative. Cyber security can, and should, be an enabler. Done correctly, cyber security enhances freedom rather than constrains it.

Every second, somewhere in the world, Darktrace's self-learning AI is detecting the breadcrumbs of abnormal activity on behalf of humans and, crucially, interrupting this behaviour before it escalates into an attack. In the vast majority of cases, humans are not even aware threats have been thwarted until after the fact.

This approach strengthens the organisations on which we all depend in our daily lives, empowers employees to focus on what they do best, allows creativity and encourages executives to bring in emerging, exciting technologies into the business while remaining safe and secure.

Innovation is woven into the fabric of Darktrace: it is the value that drives everything we do. Inventing and bringing world-first technologies to market not only characterises Darktrace's heritage but is fundamental to our future.

As we speak, our R&D team is looking at how we can create an AI-driven 'loop' that autonomously improves and optimises the digital business to best mitigate cyber risk. This research will drive the next phase of product development.

This vision is only possible because of Self-Learning AI. We have a deep, leading expertise in this breakthrough technology which we are committed to accelerating to solve the real-world challenge of cyber security, and we believe it has the power to disrupt and benefit many other industries beyond security.



Self-Learning AI

Darktrace's technology is what sets it apart from not only every other cyber security solution on the market today, but also from other approaches to artificial intelligence.

Our Self-Learning AI underpins every product that we build. Today, the classical paradigm for artificial intelligence consists of feeding algorithms a large dataset that has been previously labelled by humans. The dataset is to train the technology to recognise patterns and make predictions.

Self-Learning AI is unlike these applications: it does not rely on being programmed with training data. The application of this technology to the challenge of cyber security is radical too.

For years, cyber security companies have relied on researching historical attacks, only to be outpaced by the innovation of the criminals coming up with new attacks.

So, rather than rely on historical attack information to train unchanging detections or responses, Self-Learning AI learns the unique fingerprint of a business. It builds an understanding of 'self' for every customer, across all their technology environments, live in the real world. With this 'sense of self', not only does the AI understand where threatening activity is happening, but it also knows how to stop that attack in a way that is very targeted.

The customer's business is made up of unique people, devices, and data, so this is where the AI is deployed. We don't summarise the average smart phone and ship it to a generic data cloud to be shared across thousands of customers, because that is not capable of detecting new attacks nor successful in achieving surgical responses. Instead, we bring the AI into the customer's business so it can be truly bespoke and successful.

This works for any customer in the world and it is robust; it is designed to be left indefinitely without intervention because it continually learns for itself, as the business evolves and grows. Self-Learning AI allows organisations to detect novel threats (zero-days) that others miss: when we plug our AI into organisations, in 77% of them, we find serious threats inside.

This is AI that works in the real world, solving real problems on real data. Our technology learns the business, not the breach, and we are the only company doing this.

Over the past year we continued to evolve our product offering to protect our customers as cyber attackers sought to take advantage of digital transformation accelerated by the global pandemic. In July 2020, we announced a range of new products and features that extend our Darktrace Immune System platform to collaboration tools and other SaaS applications, as well as end user devices like laptops. This means that Darktrace AI can protect global, dynamic workforces and is constantly learning, revising its assumptions in response to changes in employee behaviour.

We also announced that we had extended our Autonomous Response capability to enhance coverage of servers, allowing the AI to fight back precisely against all forms of fast-moving attacks.

Version 5 of our core platform was launched, which empowers organisations to embrace the advantages of the cloud and includes new Autonomous Response for SaaS applications, while protecting against novel cyber-threats.

CEO Statement

Rapidly Changing Cyber Security Market

Several trends are now driving the rapid evolution of the cyber security market. Organisations are fast-changing which has been exaggerated by, but is by no means limited to, the global pandemic. The change is characterised by increased connectivity, adoption of new technologies such as cloud and SaaS applications and a distributed workforce. There are many variables in the modern organisation.

Cyber criminals are also dynamic, and constantly innovating. We are now in new era of cyber-threats and we are seeing attacks that are silent and stealthy, which get into the heart of an organisation, and persist in their digital environments for a number of days and weeks, and even months.

In light of this, it has become clear that cyber security is not a human-scale problem: technology is critical. As such, organisations have shifted to the next generation of security solutions which have the intelligence to act swiftly on behalf of humans.

“Since becoming CEO of Darktrace in 2016, my excitement about the future of the business has only grown. We remain more ambitious than ever and focused on accelerating the adoption of Self-Learning AI worldwide.”

Poppy Gustafsson OBE, CEO, Darktrace

Supporting our Customers in a New Era of Cyber-Threat

Central to Darktrace’s mission is our desire to empower organisations around the world with Self-Learning AI that can interrupt cyber-threats across their digital infrastructure and minimising potential business disruption.

Cyber security is a challenge that cannot be tackled by humans alone: technology is crucial to the solution. We are passionate about enabling our customers to focus on what they do best and achieving their own ambitions in the knowledge that their business and workforce are protected from attack.

Our customers span all industries, from providers of vital public services such as healthcare and energy through to banks, retailers and manufacturers. We have now grown our customer base to 5,605 organisations, a rate of 45.3% year-on-year.

In 2021, we were determined to support our customers through an unprecedented period of change and helping them minimise cyber disruption as they managed increasingly dynamic workforces and rapid digital transformation.

We provided our Proactive Threat Notification (PTN) offering to our customers free of charge, helping to ensure that emerging attacks were interrupted as quickly as possible. We also provided our Self-Learning AI technology free of charge to healthcare trusts across the UK during the peak months of the pandemic in 2020.

In May 2021, we announced a landmark partnership with Microsoft to allow organisations to enhance their cyber defence across multi-cloud and multi-platform environments. This enables businesses to reap the benefits of cloud infrastructure while proactively managing the risk it introduces and allows security teams to prioritise more strategic tasks.

Our People and Culture

From our team of software engineers inventing new breakthrough innovations through to our fast-growing, ambitious sales team, Darktrace is brimming with individuals who are passionate about innovation. We are characterised by our collective restlessness and hunger to defy the status quo.

Central to how we operate at Darktrace is bringing together different perspectives to generate solutions to complex challenges and inform decision making because we firmly believe that at the apex of innovation is the meeting of many different minds.

As we begin a new chapter as a publicly-listed company, the executive team has been developing a refreshed and ambitious internal strategy to ensure we are building on our success to date and driving momentum within the business. As well as focusing on delivering sustainable growth and driving forward our vision for our technology, the strategy also looks at how to build on our company culture and ensure our people feel valued, supported and equipped with the tools and skills they need to thrive.

At Darktrace we strive to be a true meritocracy and we offer exciting career opportunities to ambitious and talented individuals. We hire graduates not only from computer science and mathematics backgrounds but also linguists, philosophers and those from many other disciplines. We look for individuals with curious and inquisitive minds, and by training them up in-house we aspire to contribute to the future generation of cyber skills.

Our headcount has grown to over 1,600 globally, up from 1,150 in 2020, and we are committed to life at Darktrace being a career, not just a job. To support this, we will be launching a new leadership development programme, as well as formalising and structuring the mentoring and coaching initiatives we already have in place.

As an organisation we are conscious of the positive impact that we can have on the world around us. By protecting businesses, public services and critical infrastructure from cyber-crime and state-sponsored attacks, Darktrace is driven by a social purpose too.

In today’s digital age, we are increasingly dependent on technology. Attacks played out in cyber-space are having real-world impacts, whether targeted attacks against particular countries and their infrastructure (noting the attack against the meat processor, JBS, which disrupted food supply chains across several countries)

or whether indiscriminate criminal campaigns (as with WannaCry, which affected many NHS trusts around the UK). Democracy too is jeopardised, as politicians and their parties are targeted by cyber-attackers. Protecting data integrity has never been more important to restore confidence in our leaders, and to enable businesses to be competitive in a globalised world.

Against the backdrop of a global cyber skills shortage, we are committed to developing cyber skills in Britain and beyond and creating the next generation of cyber experts. We have partnered with the UK’s National Cyber Security Centre to offer an eight-week cyber skills internship programme to undergraduate UK students at Darktrace.

Looking Ahead

We are just at the beginning of a new chapter and are incredibly excited about the opportunities ahead of us. Having delivered against FY 2021 expectations in our first set of results, we will focus on building on our track record to date and delivering value to our stakeholders. Our unique Self-Learning AI technology, our talented people and a large addressable market put us in a strong position as we look ahead. In this new era of cyber-threat, our customers have never needed our technology more, and we will continue to focus on meeting their needs and helping them to adapt as the threat landscape evolves.

Poppy Gustafsson OBE
Chief Executive Officer

Darktrace Business Model

High-growth business supported by long-term subscriptions

Darktrace is a high-growth business operating in the rapidly evolving cyber security market.

The growing awareness of cyber-threats to companies, organisations and government departments has inevitably focussed people's attention on the most effective ways of countering such threats. Darktrace provides an intelligent and adaptable cyber security platform to deal successfully with current and future threats.

Over the four financial years 2018-2021, Darktrace has achieved a Compound Annual Growth Rate (CAGR) of 52.4%.

A High-Growth Business

Darktrace is a high-growth business operating in a fast-evolving cyber security market. The Group's revenues increased by 41.3% in FY 2021, resulting in a **FY 2018-21 CAGR of 52.4%**. This growth is underpinned by a **high quality, recurring revenue model**. **Over 99.5% of Darktrace's revenue comes from subscription contracts**, resulting in increasing annual recurring revenue from new customers. Darktrace's subscription contracts **typically last three years**.

>150,000 Potential New Customers

The Directors believe there remains a significant **untapped market opportunity of over 150,000 potential Darktrace customers**. As such, the company continues to invest in product innovation to meet the changing cyber security landscape and to build out its sales and marketing capabilities to reach new customers across all sectors and geographies.

R&D Spend Efficiency

Darktrace's R&D function primarily operates from its Cambridge, UK headquarters, where the Group continues to attract the highest calibre of employees, drawn by the opportunity to work on its innovative technology. The autonomous, self-learning technologies behind the Darktrace platform enable the business to develop highly efficient products **which do not need to be trained for new environments**. This reduces the need for human input and oversight, thereby resulting in a **relatively low development expense as a percentage of revenue**. The autonomous nature of the technology also reduces the need for human oversight by the user, with the Darktrace platform offering a **simple to set up, simple to use, and easy to understand** experience.

Fits All Sizes and Sectors

Darktrace's award winning platform can be used by **customers of all sizes and across all segments** without customisation. The company's FY 2021 one year Gross ARR Churn rate of 7.7% (FY 2020: 6.9%) is in line with the industry and reflective of the company's uniquely diverse customer base, with higher levels of churn from its smaller ARR generating customer cohorts.

High Platform Adoption

A large portion of Darktrace's customers buy multiple products at the initial point of purchase and we are building a base of customers to upsell as we introduce additional products. At 30 June 2021, 62.2% of customers had three or more products, and 39.2% had four or more products, from our current ten product platform.

'Try Before You Buy'

The value of Darktrace's cyber security platform for new clients can be quickly demonstrated thanks to our 'Proof of Value' approach. By installing the platform on their own systems during a free trial period we have achieved a very high rate of customer conversions.



Market Overview

The Cyber Security Market is Undergoing a Period of Rapid Evolution

As the world becomes more interconnected and digitised, organisations are facing an increasingly sophisticated threat landscape. All organisations now face the reality that attacks will successfully get inside of their digital perimeter at some point, and the damage and rapid impact of those attacks could lead to major business disruption within seconds. As such, there is a growing recognition of the need to adopt new defence solutions which can quickly and autonomously identify and counter novel attacks once they are inside an organisation before they escalate into a crisis.

Outlined below are some of the key trends contributing to the evolving cyber-threat landscape.

Organisations are Fast-Changing

Organisations are constantly adapting as technology evolves, and the pandemic has led to the acceleration of certain trends, including remote working and the adoption of related technologies. The rapid growth in the use of public cloud services has led to a redefinition of the traditional network perimeter: data is flowing more freely in and out of organisations' boundaries. Additionally, the move to remote working means that many organisations have seen a convergence of personal and professional spheres among their workforce, with employees using different devices and tools, as well as consuming and interacting with more digital content through a greater range of channels.

As a result of these factors, there has been an increase in the number and location of access points that can be targeted by attackers.

Attackers are Increasingly Well-Resourced and Sophisticated

Cyber-attackers are constantly innovating and becoming more professional in their approach. There has been a rise in financially motivated attacks, particularly through ransomware, due to the potential for monetising stolen data. Cyber criminals are increasingly using state-of-the-art hacking techniques and tools, including automation and AI, to attack organisations of all shapes and sizes.

Zero-Day Attacks

A 'zero-day attack' exploits a weakness within a piece of software or application that is either unknown, or for which a patch has not yet been released. The plethora of different applications that are now commonplace in the workplace exacerbates the challenge of identifying such attacks.

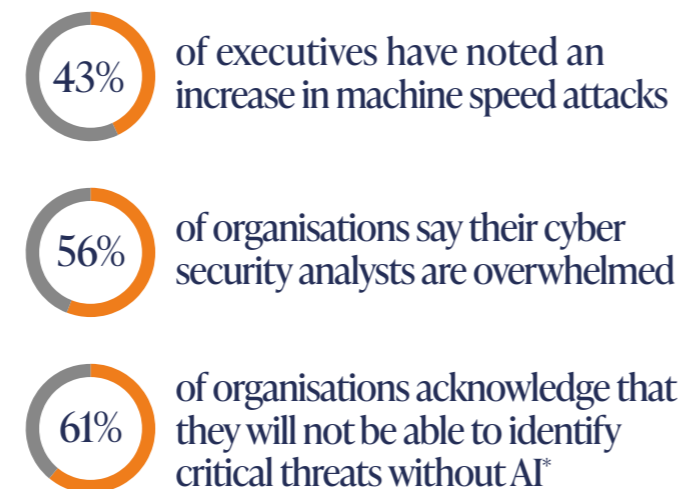
Cyber security approaches that rely on an understanding of past and known attack methodologies may struggle to identify and remediate zero-day attacks, as by definition these target previously unknown defects.

Shortage of Cyber Security Professionals

The proliferation of attacks and their increased complexity have led to a cyber security skills gap, with over 50% of cyber analysts considering themselves overwhelmed according to a report by Capgemini*. As a result, organisations are struggling to scale to the cyber security challenges they face, and are seeking more efficient, less labour-intensive security products such as AI-driven software.

Targeting of Critical National Infrastructure

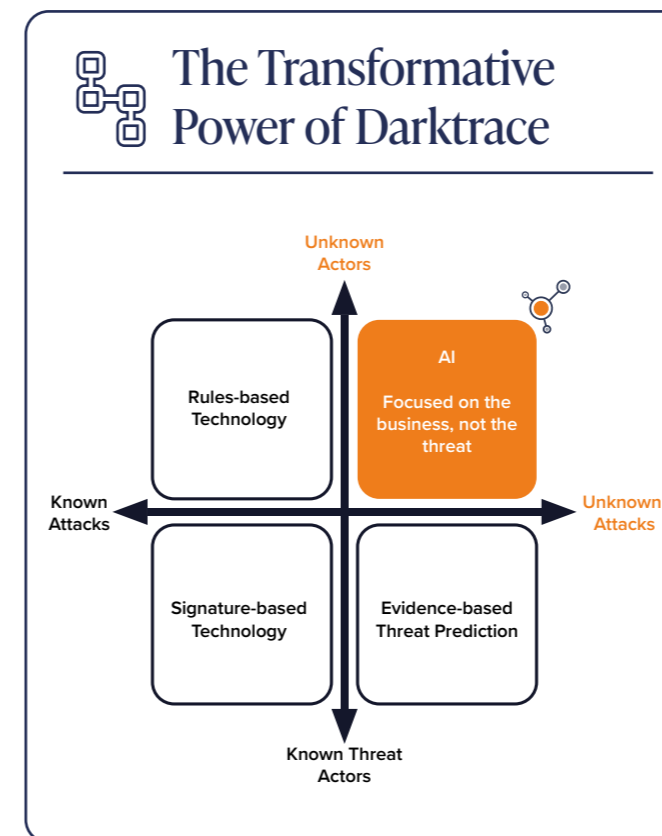
Cyber attackers are increasingly attacking critical national infrastructure such as healthcare systems, utilities providers and transportation services. This is partly because doing so can be highly disruptive, making it more likely that hackers will be able to profit from the attack. Additionally, infrastructure often runs on legacy systems and networks which can be more vulnerable to a cyber-attack. These systems are often highly specialist and are therefore much more difficult to protect than a server, laptop or other relatively ubiquitous device.



Traditional Security Approaches can no Longer Keep up

Attackers are succeeding because the security industry is fixated on stopping breaches, an unsolvable problem. Much of the industry is built on the premise of walls, even when many attacks originate from the inside. Humans are depended on to follow the rules within organisations but humans are fundamentally fallible. Mistakes are inevitable and can lead to both internal and external attacks.

Another legacy approach is the notion of 'signatures': the idea of looking at past attacks and identifying key attributes that reliably indicate it as 'malicious' activity. The reality is that attackers are innovative, and are constantly finding new ways around existing security tools, making these kinds of signature, or rules-based approaches, increasingly redundant.



Darktrace's Self-Learning AI Technology Addresses the Shortcomings of Traditional Cyber Security Solutions.

As a result of the changing threat landscape and the inability of traditional solutions to keep up with today's attacks, organisations are increasingly acknowledging that the solutions to these challenges will be AI.

Darktrace's Self-Learning AI technology identifies the infiltrations that get past the existing installed security infrastructure in seconds, including novel, zero-day attacks, whether internal or external. It is able to make autonomous decisions about how to protect an organisation's systems, at machine speed, and contain the incident.

Defending is Getting Harder

Data Explosion and proliferation	Overwhelmed Security Teams Explosion and proliferation
Digital Businesses Fragmented and complex	IOT and WFH Increase vulnerability
Blurred Boundaries Between inside and outside of networks	Attacks at Machine Speed Humans can't act fast enough

Traditional Approach: Attack Focused

Retrospective Based on historical data signatures and logs	Boundaries and fences Firewalls & barriers
Static Pre-programmed policies & rules	Defensive Machines taken off-line
Siloed and Point Solutions with limited scope & visibility	Labour Intensive Critical shortage of cyber professionals

*Capgemini (2019), "Reinventing Cybersecurity in Artificial Intelligence"

Market Overview

Darktrace Total Addressable Market (TAM)

Darktrace's AI platform can be applied to companies of almost all sizes, across all sectors and geographies and is complementary to traditional security solutions. As a result, the Group approaches its TAM both by using a bottom-up approach based on addressable global companies and their potential adoption of Darktrace's offering, as well as a top-down approach based on the overall cyber security market size.

Darktrace estimates that its current bottom-up TAM amounts to approximately \$41 billion, reflecting a substantial global greenfield opportunity for Darktrace to capitalise on to sustain its strong growth. There are over 150,000 companies that would benefit from Darktrace's Immune System, 27 times its current installed base. Within its customer base, it still has significant penetration opportunities, expanding to cover customers' entire digital estate, upselling its full product suite and the opportunity to complete the closed loop platform offering already on its roadmap. Factoring in an ARR of over \$343 million, there is a clear path to a \$40 billion plus opportunity.

The Group also takes into account a top-down TAM approach considering the overall Information Security and Risk Management market, which Gartner, a global research and advisory company, estimates to amount to approximately \$150 billion in 2021. The Information Security and Risk Management market comprises Cloud Security, Network Security Equipment, Data Security, Integrated Risk Management, Security Services, Infrastructure Protection, Identity Access Management,



Application Security, and Other Information Security Software. Gartner estimates the total market to grow at a compound annual growth rate of 10.8% from 2020 to 2025 on a constant currency basis.

Finally, Darktrace's growth opportunities are not constrained to cyber security markets. Its Self-Learning AI technology has the potential to be applied beyond cyber security. Whilst the deployment of AI has been mostly focused on the consumer space until now, we believe there will be growth opportunities in the broader Enterprise AI market in the future.

“Our highly sophisticated AI capabilities, combined with the fact that we are plumbed directly into the central nervous system of our enterprise customers, gives us an incredible opportunity to help deliver value to them way beyond the confines of cyber security. It is not hard to imagine how we could provide unique insights in areas of compliance, HR, IT operations, or risk. Watch this space.”

Poppy Gustafsson OBE, CEO, Darktrace

Realising our Potential

The size and value of our addressable markets

Darktrace
Bottom-up
TAM Value

\$41bn*

Darktrace
Top-down
TAM Value

\$150bn

Beyond
Cyber Security

5,605

The number of companies currently benefiting from the Darktrace cyber security platform.

> 150,000

The number of companies that could potentially adopt the Darktrace cyber security platform.

*As disclosed in the prospectus, bottom up TAM is calculated using FY 2021 ARR scaled up to our addressable enterprises globally, assuming all customers take our entire platform of products, across their entire digital estate, and our near term product roadmap disclosed at IPO.

Darktrace Innovations

World Leaders in Self-Learning AI

For a new era of cyber-threat, a new philosophy for defence is needed. Darktrace has a fundamentally new and unique approach to cyber security. Its technology is installed in an organisation and learns 'self'; not simply machines and processes, but people, and how they interact with machines and systems. It learns what 'normal' looks like for that organisation, acting as a 'digital immune system'. This is the fundamental technology powering the entire Darktrace suite: Self-Learning AI.

Rather than using large volumes of training data, Self-Learning AI learns on the job from real-time data. Applied to cyber security, this means that it can identify and stop zero-day attacks, because it's not learning from historical attack data.

The technology learns 'from scratch' with no preconceptions of what cyber-threats look like. This is what enables the system to detect and respond to novel threats which other systems trained on data from previous attacks miss.

As an organisation changes, so too does the technology's understanding of this underlying sense of 'self'. It is constantly learning and evolving, and in doing so it helps to build an organisation's cyber resilience over time as it adds depth to its understanding.

By understanding normal patterns as they evolve, Self-Learning AI understands subtle deviations indicative of every threat type, whether known or unknown, internal or external, subtle or fast moving, no matter where that behaviour is.

Autonomous Response

Human security teams are being outpaced in today's cyber-threat environment. Organisations need machines to think for themselves and react to fast-moving attacks, on their behalf. Self-Learning AI enables autonomous decision-making that is so critical as an attack or incident unfolds. It is able to work out, on its own, the appropriate action required to immediately contain the threat and stop it spreading, without causing unnecessary disruption to the organisation.

Regardless of time of day, or where the attack comes in through cloud, SaaS, email, or the corporate network the AI takes precise action to neutralise the threat, and buy back time for stretched security teams.

Autonomous Response enables human security teams to focus on higher-value tasks, knowing that their defence systems are able to intervene in escalating cyber incidents in seconds, before damage is done. For example, Autonomous Response reacts to ransomware in one second, on average.

Intelligence Augmentation

Intelligence Augmentation is a fundamental technology that extends and enhances human capabilities by analysing and correlating disparate data over time. It can then automatically deliver meaningful insights, designed to be easily consumed and understood by security and business users.

The technology can automatically produce a written report about a threat investigation in any language, which summarises key information and reduces both time to meaning and time to response for security teams.

As human security teams are increasingly subject to time pressure and often lack the resources to conduct full investigations into incidents, Intelligence Augmentation can help them to extend their reach and to be more efficient.

Case study: McLaren



McLaren Racing, McLaren Automotive, and McLaren Applied all leverage Darktrace's Self-Learning AI technology to protect against threats.

- McLaren has a dynamic and decentralised workforce, reliant on SaaS and Cloud tools
- It was targeted by tailored and sophisticated email attacks that bypassed gateway tools
- Autonomous Response stopped attacks before they could do damage, including sophisticated phishing campaigns

The McLaren security team often operate under high-pressure, dynamic environments – in race season, new remote trackside offices need to be set up almost every weekend in different parts of the world. Consequently, the teams rely heavily on cloud and SaaS tools such as Dropbox, SharePoint and OneDrive to help them set up their remote businesses wherever they are.

Once the team implemented Darktrace's Self-Learning AI, the technology immediately began learning 'normal', integrated with their existing tools and applications, and provided immediate, enterprise-wide protection against latent threats that had previously remained undetected.

Darktrace proved its value during one race weekend, when CEO Zak Brown received a sophisticated phishing email purporting to be from a trusted supplier, which appeared genuine and bypassed gateway tools. However, Darktrace for Email was able to identify subtle indicators of attack and work out that this email fell outside the patterns of legitimate behaviour. It autonomously 'locked' the link in the email, preventing it from causing damage.

“Darktrace acts autonomously, freeing up our team to work on high-level tasks”

Ed Green, Head of Commercial Technology, McLaren



Key Differentiators

Self-Learning

No rules or configurations

AI Anomaly Driven

Understands devices and detects subtle deviations

Constantly Adapting

Learns "on the job" not in a lab

Overarching & Unifying

Technology & protocol agnostic

Machine Fights Back

Rapid, autonomous and surgical response

Cloud-Native

Decentralised or hybrid models



Darktrace Innovations

Darktrace Products

End-to-End Cyber Defence – Across the Enterprise

Enterprise Immune System

The Enterprise Immune System learns normal ‘patterns of life’ to discover unpredictable cyber-threats, while delivering complete visibility across an organisation’s dynamic workforce — from cloud and collaboration tools to end user devices like laptops and the corporate network.



Detects the unpredictable

Leverages Self-Learning AI to spot novel attacks and insider threats



Learns ‘on the job’

Understands the DNA of your business as it evolves, learning and adapting continuously



Provides pervasive coverage

Correlates insights across multiple silos via open and extensible architecture

Industrial Immune System

Darktrace’s Industrial Immune System illuminates even the most complex cyber-physical ecosystems, detecting novel threats and vulnerabilities, and safeguarding the integrity and resilience of industrial technologies.



Identifies new threats and vulnerabilities

Continuously revises understanding of ‘normal’ with no tuning necessary



Illuminates entire digital infrastructure

Continuously identifies and maps



Works in any environment

Protocol and operating system agnostic

Darktrace Antigena

Darktrace Antigena brings Darktrace’s Autonomous Response technology to the enterprise, with a range of market-leading security products that deliver proactive cyber defence to all parts of the digital infrastructure.



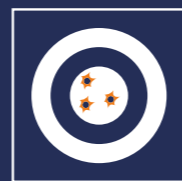
Interrupts attacks by enforcing ‘normal’

Understands your business, stops novel cyber-threats



Responds in seconds

Machine-speed actions taken to interrupt fast-moving attacks



Targeted and proportionate

Contains the threat only, without disrupting business

Cyber AI Analyst

Cyber AI Analyst is Darktrace’s AI investigation technology, which automatically triages, interprets, and reports on the full scope of security incidents.



Prioritizes the most relevant incidents

Surfaces and summarises every urgent incident as it emerges



Automates investigations at speed and scale

Mimics analyst intuition and continually investigates 100% of threats detected



Writes reports in the form of a digestible nature

Generates Incident Reports that immediately put teams in a position to take action

Darktrace Platform

Darktrace’s three core product families cover the entire digital ecosystem, from cloud, SaaS and email, to the corporate network and industrial control systems.

ENTERPRISE IMMUNE SYSTEM
NOVEL THREAT DETECTION

ANTIGENA
AUTONOMOUS RESPONSE

CYBER AI ANALYST
AUTOMATED INVESTIGATIONS

AUTONOMOUS • CLOUD-NATIVE

DARKTRACE IMMUNE SYSTEM

POWERED BY SELF-LEARNING AI

CLOUD Microsoft 365 Google Workspace	SAAS Salesforce Box Trello	EMAIL aws Microsoft Azure	NETWORK Cisco	CLIENTS Zoom	ZERO TRUST Cisco Duo	INDUSTRIAL/OT Siemens
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Darktrace Innovations

Case study: MAKEMYTRIP



- Leading online travel company in India
- Publicly traded on NASDAQ
- 3000+ employees

MakeMyTrip is a leading Indian online travel company providing an array of international travel services and bookings for flights, trains, hotels, buses, alternative accommodation and holiday packages. Pre-pandemic, the company had over 7 million monthly active users, and as the travel sector makes a recovery the organisation recognises the need for cyber resilience against advanced threats.

“As the travel sector begins to reopen for business, we know that innovative cyber-attackers are waiting in the wings. We understand the importance of staying cyber resilient to keep our business and our employee and customer data safe. By using Self-Learning AI and autonomous response across our digital infrastructure including our cloud environments, we know that our employees and customer data remains safe - no matter where they operate.”

Pradyumn Nand, Assistant Manager of Info Security, MakeMyTrip



Use cases

Darktrace for Microsoft

Darktrace and Microsoft have partnered to help organisations close the security gaps in their multi-cloud and multi-platform environments. Darktrace complements Microsoft security with Self-Learning AI that detects and autonomously responds to novel cyber-threats that evade other defences.

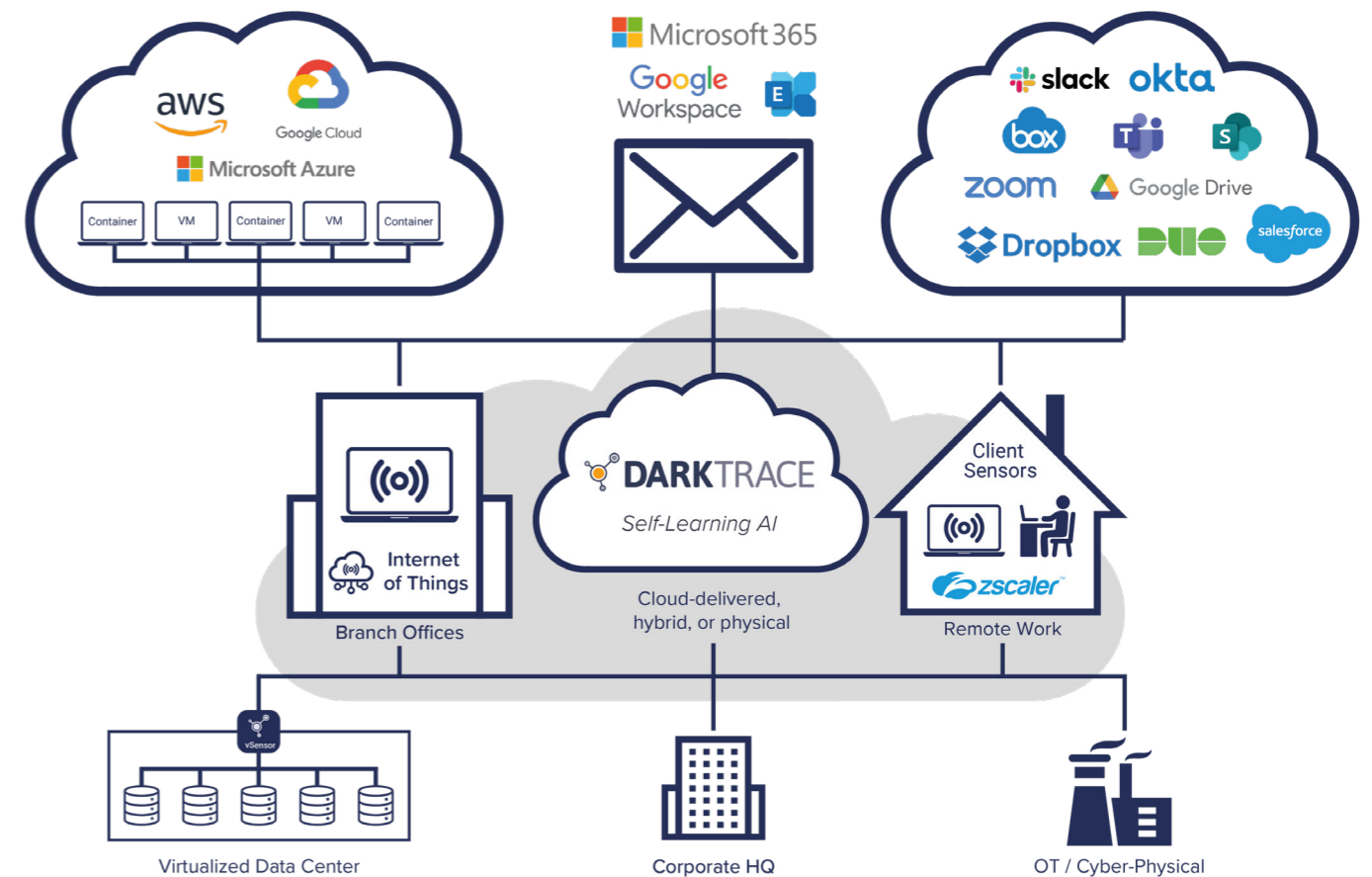
Everywhere Microsoft runs, Darktrace provides security. Darktrace protects the full range of Microsoft environments, from email and the wider Microsoft 365 product suite to data centres hosted in Azure. With a unified understanding across email, SaaS and cloud environments, the Darktrace Immune System correlates its findings across the enterprise, enabling more accurate detection, investigation, and response.

Darktrace for Ransomware

Self-Learning AI is the only technology in the world that autonomously fights ransomware without disrupting normal business operations.

It works by learning the normal ‘patterns of life’ for the organisation including its users, devices and servers; and identifies ransomware attacks within seconds, as they deviate from this norm.

Critically, Self-Learning AI takes targeted action to neutralise the ransomware, ensuring that an organisation’s response is proportionate and doesn’t incur damaging and unintended knock-on effects.



Darktrace Innovations

Darktrace Technology Vision: to Deliver the Optimal Self-Learning Security Ecosystem

Darktrace's focus has always been on delivering innovative, world-first technologies to customers. Darktrace has a growing, highly skilled, and diverse R&D team which is constantly looking at ways to improve Darktrace's customer offering and develop cutting-edge solutions to the universal problem of cyber security.

In addition to the Darktrace technologies described above which can detect and respond to attacks, Darktrace engineers have been working on the next phases of product development: prevent and heal.

Prevent

While many security teams are spending vast amounts of human time and resource on testing their defences, also known as red teaming or penetration testing, Darktrace is developing a product which can do the same thing, but using AI.

This AI-driven technology can launch safe attacks which appear to be genuine against an organisation to ensure its defences are working properly and are prepared for an attack. It does this on a continuous, automated basis, so that systems are constantly being tested and are building resilience.



Heal

Darktrace's technology is able to see how and where an attack got into an organisation, where it spread to and the specific impact that it had. Darktrace has been researching how its AI technology can help human teams in the aftermath of an attack through AI-driven healing to support businesses in the remediation process.

Self-Learning AI Loop

Taken together, Darktrace's prevent, detect, respond and heal technologies will reinforce each other, creating a 'virtuous circle' effect, where the entire security ecosystem is constantly being optimised. Darktrace customers are therefore protected by a Self-Learning AI 'loop' that can operate at machine speed to autonomously reduce cyber risk and identify vulnerabilities.

Case study: Telenor Sweden



- Telenor Sweden is a leading telecommunications company in Sweden, and is part of Telenor Group
- Telenor Sweden uses Darktrace's Enterprise Immune System, Darktrace Antigena and Darktrace for SaaS

Telenor Group is a global business providing critical infrastructure to 88 million customers around the world, who rely on the company to deliver secure and resilient networks. Cyber security is a top priority for the business as it seeks to protect the privacy and security of its customers.

Throughout the pandemic, Telenor Sweden observed an increase in instances of cyber-attackers seeking to take advantage of the widening attack surface, particularly through specific COVID-19 phishing and malware. As the company adopted remote working practices, Darktrace's Enterprise Immune System identified novel attacks and insider threats, and enabled complete visibility across the dynamic workforce and the cloud. Darktrace Antigena allows the business to autonomously respond to attacks at machine speed.

“Providing our customers with a secure service is absolutely crucial. Advanced threat actors are increasingly aiming to steal information, modify customer data or make our services unavailable. By learning what ‘normal’ looks like for our organisation, and by constantly building on its understanding of our DNA, it is able to detect and respond to known and unknown threats as they emerge.”

**Ulf Andersson, Head of Information Security,
Telenor Sweden**



2021 Strategic Performance Review

Key Performance Indicators (KPIs)

Darktrace's management and board regularly review metrics, including the following KPIs, to assess its performance, identify trends, develop financial projections and make strategic decisions. For a review of the key financial metrics, see the "Financial Highlights" below.

Annualised Recurring Revenue, or ARR, and related performance metrics are calculated on a constant currency basis and are reported using the FY 2021 constant currency rates for FY 2021 and all comparable periods. The Group's primary currency exposures are the British Pound and the Euro converting to its US Dollar reporting currency. For FY 2021, constant currency rates were 1.2368 and 1.1235 for the British Pound and the Euro, respectively.

Annualised Recurring Revenue (ARR)

\$'000	30-Jun-21	30-Jun-20
Annualised recurring revenue	343,476	235,676
Year over year growth	45.7%	39.3%

ARR is a non-IFRS measure defined as the sum of all ARR for customers as of the measurement date. The ARR for each customer is the annual committed subscription value of each order booked for which Darktrace will be entitled to recognise revenue. For example, a contract for \$3.0 million with a committed contractual term of three years would have ARR of \$1.0 million, making the assumption for any period that the customer renews under the same terms and conditions. In the small number of cases where a customer has an opt-out within six months of entering a contract, Darktrace does not recognise ARR on that contract until after that opt-out period has passed.

As of 30 June 2021, Darktrace increased its ARR by 45.7% over the prior year end, driven primarily by the increase in customers from 3,858 to 5,605 over the same period, and to a lesser extent by an increase in upsells to existing customers made possible by an expanded product set. Growth in ARR has been across all regions in which the Group operates.

As of 30 June 2021, the distribution of customers by size of ARR remained consistent with the prior year end, demonstrating that the Group continues to add to customers across the full range of customer sizes and requirements.

	30-Jun-21	30-Jun-20
Less than \$100,000	53.0%	53.3%
Greater than \$100,000	47.0%	46.7%

Net ARR Added

\$'000	30-Jun-21	30-Jun-20
Net ARR Added	107,800	66,483
Year over year growth	62.1%	0.5%

Net ARR added is a non-IFRS measure defined as new customer ARR added in a period, plus the net impact of upsell, down-sell, and churn activity in the existing customer base in that period. For net ARR added, the relationship to hiring, productive salesforce growth, proof of values (POVs) as part of the sales process, and conversion rate is influenced by seasonality factors, with Darktrace typically seeing highest net ARR added in its second and fourth quarters.

Net ARR added increased by 62.1%, a \$41.3 million increase over the prior year and was primarily driven by the addition of over 1,700 new customers during that period. While FY 2021 growth in net ARR added was very strong, the growth rate was higher than typical because of the low growth rate, and therefore low net ARR added result, in FY 2020. In FY 2020, we saw that sales efforts had become overweighted towards renewing and extending customer contracts well before expiration. Changes to our sales management structure and to the requirements for achieving maximum commissions corrected this and restored the desired balance in our new prospect vs existing customer efforts, driving a return to year-on-year growth in net ARR added for FY 2021.

One Year Gross ARR Churn Rate

	30-Jun-21	30-Jun-20
One year gross ARR churn rate	7.7%	6.9%

One year gross ARR churn rate is defined as the 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. This churn rate reflects only customer losses and does not reflect customer expansions or contractions.

Although one-year gross ARR churn increased by 0.8 percentage points from the prior year to 7.7% from 6.9%, it has declined by 0.4 percentage points from 8.1% in December 2020. The increase in gross ARR churn during the financial year was primarily driven by increased customer terminations, either because of business failures or budget cuts, resulting from the pandemic. As most of the increase in churn occurred prior to December 2020, Darktrace believes that it should see gross churn stabilise or continue to decline in the short-to-intermediate term. For the longer term, it has invested in developing a customer success team to focus on the customer experience, which should also reduce gross churn.

\$41.3

Million Increase
over the prior year

45.7%

ARR Increase
over the prior year

2021 Strategic Performance Review

103.1%
Net ARR
Retention Rate

Net ARR Retention Rate

	30-Jun-21	30-Jun-20
Net ARR retention rate	103.1%	98.4%

Net ARR retention rate is defined as the current ARR value for all customers that were customers one year prior to the measurement date, divided by their ARR one year prior to the measurement date. This retention rate reflects customer losses, expansions, and contractions.

The Group ended the year with a net ARR retention rate of 103.1% a 4.7 percentage point improvement in the Net ARR retention rate from prior year end. This reflects results of Group's focus on increasing upsells and pricing uplifts on renewals outpacing the small increase year-on-year in gross ARR churn.

Average Contract ARR

\$'000	30-Jun-21	30-Jun-20	% Change
Average contract ARR	61,280	61,088	0.3%

Average contract ARR is defined as the total ARR at the measurement date, divided by the number of customers at that measurement date.

Average contract ARR at 30 June 2021 has remained relatively consistent with the prior year as the Group has continued to bring on new customers across a broad range of business sizes, types and locations.

Operating Profit or (loss) (EBIT)

\$'000	FY 2021	FY 2020	% Change
EBIT	(38,514)	(24,903)	54.7%

Earnings before Interest and taxes, or EBIT, is the Group's operating profit or (loss).

For FY 2021, the \$13.6 million year-on-year increase in operating loss was primarily a due to year-on-year increases of \$6.7 million and \$21.6 million in share-based payment charges and associated employer tax charges, respectively. Of the associated employer tax charges, \$19.5 million was related to equity issued in prior periods, but where the requirement to calculate and recognise a liability was triggered by entering the IPO process, as the assets became more likely to be exercised.

The Group's expects its share-based payment charges and associated employer tax charges to remain high in FY 2022, as certain grants made as a part of the transition from private to public share plan structures move through their vesting periods.

The Group also incurred \$15.3 million of non-recurring professional fees relating to the preparation and listing of the Group in May 2021.

The increase in these costs was partially mitigated by a reduction of \$19.2 million in travel and entertainment costs in FY 2021 compared to FY 2020, as the result of COVID-related global travel restrictions. These costs are expected to begin returning during FY 2022 as COVID travel restrictions are eased.

Adjusted EBIT

\$'000	FY 2021	FY 2020	% Change
Adjusted EBIT	58	(14,614)	n/a

Adjusted EBIT is a non-IFRS financial measure defined as the Group's EBIT adjusted to remove share-based payment charges and share option-related employer tax charges. The driver of the year-on-year improvement in adjusted EBIT is primarily year-on-year revenue growth outpacing net cost movements.

EBITDA

\$'000	FY 2021	FY 2020	% Change
EBITDA	2,791	8,022	-65.2%

EBITDA is a non-IFRS financial measure defined as the Group's earnings before interest, taxation, depreciation and amortisation.

The reduction in EBITDA in FY 2021 from FY 2020 was primarily due to the same year-over year increases of \$6.7 million and \$21.6 million in share-based payment charges and associated employer tax charges, respectively, that impacted EBIT (loss).

The Group also incurred \$15.3 million of non-recurring professional fees relating to the preparation and listing of the Group in May 2021.

The increase in these operating costs was partially mitigated by a reduction of \$19.2 million in travel and entertainment costs in FY 2021 compared to FY 2020, as the result of COVID-related global travel restrictions.

Adjusted EBITDA

\$'000	FY 2021	FY 2020	% Change
Adjusted EBITDA	29,724	8,919	233.3%

Adjusted EBITDA is a non-IFRS financial measure defined as the Group's EBITDA including appliance depreciation attributed to cost of sales, adjusted to remove share-based payment charges and associated employer tax charges.

Reconciling EBITDA to adjusted EBITDA for FY 2021, the Group deducted \$11.6 million of appliance depreciation included in cost of sales for appliances used to deploy our software at customer sites. It then added back \$17.0 million of share-based payment charges and \$21.5 million of associated employer tax charges.

233.3%

Adjusted
EBITDA Change
from prior year end

2021 Strategic Performance Review

45.3%
New Customer
Growth Rate

Number of Customers

	30-Jun-21	30-Jun-20	% Change
Number of customers	5,605	3,858	45.3%

Number of customers is defined as the count of contracting entities that are generating ARR at the measurement date.

Darktrace added an additional 1,747 net new customers in the year, a growth of 45.3%, which paralleled the 45.7% increase in constant currency ARR. Growth in new customers is the key driver of net ARR added, and the correlation to the increase in constant currency ARR is the result of the distribution of contracts at 30 June 2021 that were above and below \$100,000 in ARR remaining consistent with the prior year end.

Remaining Performance Obligations (RPO)

\$'000	30-Jun-21	30-Jun-20	% Change
RPO	758,216	539,929	40.4%

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.

The 40.4% increase in RPO, driven by new customer acquisition under long-term contracts, creates significant revenue visibility. The percent of FY 2021 revenue that was in RPO at the start of the financial year was approximately 80%, up from approximately 79% at the start of FY 2020. The reduction in RPO scheduled to be converted to revenue beyond four years is primarily a result of management actions to reduce contract lengths longer than our desired three to four years term.

\$'000	30-Jun-21	30-Jun-20
Within 12 months	322,013	225,782
Between 1 - 2 years	231,209	162,455
Between 2 - 3 years	143,085	95,645
Between 3 - 4 years	56,358	41,826
Over 4 years	5,551	14,221
Total	758,216	539,929

Financial Review

	FY 2021	FY 2020	% Change
Revenue (\$'000)	281,341	199,076	41.3%
Gross margin (%)	89.9%	91.2%	n/a
EBIT or operating (loss) (\$'000)	(38,514)	(24,903)	54.7%
Net (loss) (\$'000)	(149,588)	(28,672)	421.7%
EBITDA (\$'000)	2,791	8,022	-65.2%
Adjusted EBITDA (\$'000)	29,724	8,919	233.3%
Cash inflow/(outflow) before financing activities (\$'000)	34,610	(3,415)	n/a

At 41.3%, Darktrace delivered strong FY 2021 year-on-year revenue growth, which, because it largely signs subscription contracts that typically average 36 months, was less impacted by the pandemic than businesses without this recurring revenue model. Revenue growth was driven primarily by growing the customer base by 45.3% year-on-year, which resulted in a 45.7% year-on-year increase in constant currency ARR. The Company continued to invest for

future ARR and revenue growth by hiring employees in its technical teams to invest in research and the development of new products. The Company also continues to invest in expanding its sales force and marketing investment to increase market share. During 2021, Darktrace's total number of employees increased by 45.5% from over 1,100 to over 1,600, despite still being in the process of catching up from an early COVID hiring freeze.

\$'000	FY 2021	FY 2020	% Change
Sales and Marketing Costs			
Non T&E* operating	(172,533)	(138,921)	24.2%
Travel and Entertainment	(1,518)	(19,429)	-92.2%
Share-based payment (SBP) charges	(6,446)	(4,762)	35.4%
SBP related employer tax charges	(8,439)	60	n/a
Total sales and marketing costs	(188,936)	(163,052)	15.9%
Research and Development Costs			
Non T&E operating	(18,604)	(8,840)	110.5%
Travel and Entertainment	(55)	(669)	-91.8%
Share-based payment (SBP) charges	(2,730)	(2,522)	8.2%
SBP related employer tax charges	(7,425)	1	n/a
Total research and development costs	(28,814)	(12,030)	139.5%
Other Administrative Expenses			
Non T&E operating	(42,678)	(22,939)	86.1%
Travel and Entertainment	(229)	(882)	-74.0%
Share-based payment (SBP) charges	(7,870)	(3,072)	156.2%
SBP related employer tax charges	(5,663)	6	n/a
Total other administrative expenses	(56,440)	(26,887)	109.9%
IPO Costs	(15,250)	-	n/a
Finance costs	(109,157)	(2,405)	4,438.8%

*Travel and Entertainment

2021 Strategic Performance Review

During FY 2021 there were several factors that made comparisons of the Company's annual cost structure to prior year periods more difficult. First, Darktrace listed on the London Stock Exchange in May 2021, for which the Company incurred \$15.3 million in professional costs to prepare and complete the listing. While it will not have these costs in future years, it does expect some of this amount to be replaced with public company costs, including listing and sponsor fees, increased directors' and officers' insurance costs, increased audit and tax fees and other costs that are new or higher for a listed company. Additionally, Darktrace recognised increased share-based payment charges and related employer tax charges that were either triggered by the IPO process or the result of transitioning its equity compensation plans to listed company structures. These costs, partially offset by a \$19.2 million year-on-year decrease in travel and entertainment expense, were the primary reason for the Company's operating loss increasing to \$38.5 million in FY 2021 from \$24.9 million in the prior year.

The Company also recognised \$107.2 million in non-cash finance costs for convertible loan notes issued to certain investors in July 2020, the proceeds of which were primarily used to fund a share buy back as part of a restructuring of the Company's ownership ahead of the IPO. These charges were the primary reason for the Company's loss before taxation increasing to \$147.6 million in FY 2021 from \$26.9 million in the prior year. The convertible loan note finance costs ceased at the point of the IPO with the conversion of the notes into equity.

Revenue

Revenue increased by \$82.3 million, or 41.3%, to \$281.3 million for the financial year ended 30 June 2021, as compared to \$199.1 million for the financial year ended 30 June 2020. This increase was primarily attributable to a 45.3% net increase in unique customers between 30 June 2020 and 30 June 2021 and the resulting increase in constant currency ARR. Over 99.5% of all revenue is from recurring subscriptions contracts with customers, that typically average 36 month, resulting in significant RPO, or contracted backlog, remaining to convert to revenue in future years. Subscription revenue is recognised on a straight-line basis over the service period, from commencement date to termination date.

Cost of Sales

Cost of sales increased by \$11.0 million, or 62.8%, to \$28.5 million for the financial year ended 30 June 2021, as compared to \$17.5 million for the financial year ended 30 June 2020. This increase was primarily attributable to the increase in total customer deployments between the two financial years. Cost of sales scaled largely in line with revenue growth, resulting in gross margins of 89.9% and 91.2% for the FY 2021 and FY 2020 periods, respectively. Cost of sales include all costs relating to the deployment of Darktrace's software, whether through physical appliances or in the cloud, and of providing both customer support and supplementary monitoring and response capabilities.

Sales and Marketing Costs

Sales and marketing costs increased by \$25.9 million, or 15.9%, to \$188.9 million for FY 2021, as compared to \$163.1 million for FY 2020. The increase in non T&E operating expenses of \$33.6 million was primarily attributable to a \$20.7 million increase in staffing costs. There was a \$7.1 million or 14.4% increase in salaries as a result of the 15.8% growth in the average number of employees in sales and marketing in FY 2021. Growth in average number of employees was largely increases in sales personnel to drive customer acquisition. There was a \$12.6 million increase in commissions in the year, as a result of increased sales in the year and \$1.0 million increase in other employment costs, primarily employer taxes linked to increased salary costs. Direct marketing expense increased by \$8.0 million between the periods to \$36.3 million. There was a \$4.8 million increase in operating costs including rent and other operating costs that have increased as the average number of employees has increased.

The non T&E operating cost increases between the periods were partially offset by a \$17.9 million year-on-year decrease in travel and entertainment costs to \$1.5 million, resulting from pandemic-related global travel restrictions.

There was a \$1.7 million increase in share-based payment charges in the year, or 35.4%, to \$6.4 million. More significant was a \$8.5 million increase in SBP related employer tax charges resulting from the decision to IPO which triggered this liability to be recognised for participants in most countries.

Research and Development Costs

Research and development costs increased by \$16.8 million, or 139.5%, to \$28.8 million for FY 2021, as compared to \$12.0 million for FY 2020. The increase in non T&E operating expenses of \$9.8 million was in part attributable to a \$5.9 million or 90.3% increase in research and development staffing costs, as a result of increases in cash compensation, including retention bonuses to retain key talent. There was also a 39.7% increase in the average number of employees, as the Group expanded its technical departments focused on research and new product development efforts to expand its product offerings. There were also a \$1.7 million increase in other employment costs, and a \$2.1 million increase in operating costs, including rents, that have increased with average number of employees.

The non T&E operating cost increases between the periods were partially offset by a \$0.6 million year-on-year decrease in travel and entertainment costs to \$0.1 million, resulting from pandemic-related global travel restrictions.

There was also a \$0.2 million increase in the charge related to share based payments. More significant was a \$7.4 million increase in SBP related employer tax charges resulting from the decision to IPO which triggered this liability to be recognised for participants in most countries.

Other Administrative Expenses

Other administrative expenses increased by \$29.6 million, or 109.9%, to \$56.4 million for FY 2021, as compared to \$26.9 million for FY 2020. There was a \$19.7 million increase in non T&E operating expenses, mostly as a result of a 95.6% increase in average number of employees. \$8.7 million, or 92.5% of the increase was in cash compensation costs driven by a 53.7% increase in average number of employees in finance, legal and other supporting functions to ensure Darktrace could operate successfully as a listed company, as well as a 116.8% increase in bonus payments for employee retention, rewarding efforts around IPO preparation and transitioning to listed company compensation structures. Further, the Group created its customer success function in the second half of FY 2020 so significantly scaled that team in FY 2021. There was an increase of \$4.8 million, or 367.7%, in cash compensation costs for this team driven by a 364.7% increase in average number of customer success employees to 79. This includes a \$1.9 million in cash tax payment related to equity granted to independent non-executive board members and a \$3.4 million increase in other employment costs, primarily employer taxes linked to increased salary and bonus payments. Additionally, there was a \$2.8 million increase in all other operating costs, including rents, driven by the increase in average number of employees.

The non T&E operating cost increases between the periods were partially offset by a \$0.6 million year-on-year decrease in travel and entertainment costs to \$0.2 million, resulting from pandemic-related global travel restrictions.

In FY 2021 there was a \$4.8 million increase in share-based payment charges in the year, or 156.2%, to \$7.9 million. Included in the SBP charge was \$2.2 million related to the granting of equity to the independent non-executive board members of Darktrace plc. There was also a \$5.7 million increase in SBP related employer tax charges resulting from the decision to IPO which triggered this liability to be recognised for participants in most countries.

IPO Costs

In FY 2021 there was \$15.3 million of non-recurring professional fees related to IPO readiness. These consisted of accounting fees (\$4.5 million), legal fees (\$5.1 million), bankers' fees (\$2.5 million) and other fees (\$3.2 million). Under IFRS only a prorated amount of the IPO costs, calculated as the ratio of new equity relative to total equity in the business could be taken to equity, the rest was expensed in the year.

Finance Costs

Finance costs increased by \$106.8 million to \$109.2 million for FY 2021, as compared to \$2.4 million for FY 2020. This increase was primarily attributable to \$107.2 million of non-cash costs for \$162.8 million in convertible loan notes issued to certain of the Group's investors in July 2020. The loan notes carried an annual interest rate of 9%, compounded monthly, if converted into equity rather than paid in cash. They also required that Darktrace separately value and account for a bifurcated embedded derivative resulting from the equity conversion feature of the notes, that was deemed not to be closely related to the underlying host loan notes. The embedded derivative was separated from the host loan notes and recorded at fair value through the statement of consolidated income on initial recognition. The host contract was measured at amortised cost using the effective interest rate over its expected life and accreted to its expected conversion value over the expected life.

The accreted note value, including interest, was convertible to equity upon an IPO, at a 35% discount to the IPO price, if converted before 30 June 2021. These loan notes converted to equity at the point of the IPO and there are no charges relating to them subsequent to that point.

2021 Strategic Performance Review

Operating Loss (EBIT Loss), EBITDA and Adjusted EBITDA

	FY 2021	FY 2020
	\$'000	\$'000
Net Loss	(149,588)	(28,672)
Taxation	1,967	1,746
Finance income	(50)	(382)
Finance cost	109,157	2,405
Operating loss / (EBIT loss)	(38,514)	(24,903)
Depreciation & Amortisation	41,305	32,925
EBITDA	2,791	8,022
Appliance depreciation in Cost of sales	(11,639)	(9,392)
Share-based payment (SBP) charges	17,045	10,356
SBP related employer tax charges	21,527	(67)
Adjusted EBITDA	29,724	8,919

Darktrace generated a net loss of \$149.6 million, 422% greater than prior year, with \$109.2 million of the loss a result of finance costs, predominantly non-recurring, as a result of the convertible loan notes. Adjusting for taxation and finance income and costs to get back to operating loss, the business saw a 54.7% increase in operating loss compared to prior year as detailed above, which resulted in an operating loss of \$38.5 million.

There was an \$8.4 million increase in depreciation and amortisation in the year. Depreciation of property plant and equipment increased by \$2.8 million, as a result of increased depreciation of appliances which have scaled with the increased customer base. Amortisation of capitalised development costs increased by \$1.3 million as more of the internally generated software products were completed and then are amortised over three years.

Amortisation of right of use assets increased by \$0.6 million as more leases were entered into. Amortisation of capitalised commissions increased by \$3.7 million as a result of increased commissions being capitalised that have scaled in line with increased revenues. Adjusting for depreciation and amortisation resulted in EBITDA for FY 2021 of \$2.8 million compared to \$8.0 million in FY 2020, a reduction of \$5.2 million.

Included in cost of sales is depreciation related to appliances used to deliver the Darktrace software to customers, more akin to a cost of delivery and deducted in calculating Adjusted EBITDA. In FY 2021 there was a \$2.2 million increase in the depreciation of appliances that was allocated to cost of sales, which scaled as the customer numbers increased. There was a \$6.7 million increase in share-based charges as a result of equity schemes in place prior to IPO and new schemes set up as part of the transition to being a public company. There was a \$21.6 million increase in employer related taxes related to the share-based payment scheme. At \$29.7 million Adjusted EBITDA was \$20.8 million greater than in FY 2020.

Cash and cash Equivalents

The Group had cash and cash equivalents at 30 June 2021 of \$342.4 million, an increase of \$288.4 million from 30 June 2020. The increase in cash was mostly as a result of the shares sold in the IPO which generated \$237.4 million for the group, the balance from the convertible loan of \$162.8 million and the reduction in cash as a result of the purchase of shares of \$127.1 million. In the year the group generated \$59.9 million of cash from operating activities an increase of \$40.5 million from FY 2020.

Intangible Assets

The Group capitalises allowable costs related to the development of new products and related significant functional enhancements to its Cyber AI platform. In the year the group capitalised \$3.8 million of development costs, including \$0.9 million of capitalised interest, an increase of \$0.9 million from FY 2020. In the second half of FY 2021 more of the development teams work was in a research phase and therefore a higher percentage of research and development costs were expensed. Capitalised development costs are amortised on a straight-line basis over a three-year period, resulting in an amortisation charge in the year of \$2.7 million increased by \$1.3 million from FY 2020. At 30 June 2021 the Group had \$71 million of intangible assets increased by \$1.1 million from \$6.0 million at 30 June 2020.

Capitalised Commission

Most sales commissions are paid in two instalments, the first when the sale is made and the second upon the earlier of payment for the entire contract value or after one year from the date of sale. For the first instalment, the Group capitalises sales commissions and the associated payroll taxes, and amortises them over the related contract term. As there are continued employment and customer service obligations required to receive the second instalment, these commissions are not eligible for capitalisation. Capitalised commissions increased by 52.7% to \$39.0 million at 30 June 2021 from \$25.5 million at 30 June 2020 as a result of increases in sales in the year driving increased commission costs.

Deferred Revenue

Total deferred revenue increased by 53.3% to \$187.9 million at 30 June 2021 from \$122.5 million at 30 June 2020. This resulted from the increase in the Group's invoicing driven by a higher number of contracts in the year and a continued transition to annual invoicing for new contracts.

Equity

As a result of transactions with shareholders, the Group had an increase in equity of \$384.0 million during FY 2021 driven by:

- \$9.7 million increase in share capital as a result of the IPO
- \$54.4 million increase in share premium as a result of issuing new capital in the year
- \$305.8 million in merger reserve: as Darktrace issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued, see the accounting policy on [page 156](#) for more detail. The balance includes \$269 million related to the conversion of the convertible loan
- \$14.9 million increase in stock compensation reserve related to grants made under employee equity schemes.

Cash Flow from Operating Activities

The Group had a cash flow from operating activities of \$59.9 million, a 209.0% increase from the \$19.4 million in FY 2020. This was driven by a \$38.0 million cash increase from deferred revenues and a \$8.0 million cash increase in trade receivables as a result of the Company increase in scale. There was a \$11.0 million cash increase in provisions and payables and a \$9.6 million cash increase in capitalised commissions both due to continuing sales growth.

Cash flow from financing activities of \$250.6 million was mostly as a result of the shares sold in the IPO which generated \$237.4 million for the Group, the balance from the convertible loan of \$162.8 million and the reduction in cash as a result of the re-purchase of shares for \$127.1 million.

Viability Statement

In accordance with the UK Corporate Governance Code, the Directors are required to assess the prospects of the Group over an appropriate period and state whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due throughout this period. In doing so, 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. Indeed, in constructing these scenarios the Directors have assessed the viability of the Group's operations while considering 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.

“We are proud to advance the power of artificial intelligence to keep critical data and systems secure, particularly at a time when cyber-attacks are getting more and more sophisticated”

Poppy Gustafsson OBE, CEO, Darktrace



Viability Period

The Directors have reviewed the period in which to frame the viability assessment and determined a three year period of assessment to be most appropriate. This period aligns considerations of viability with the Group's internal planning framework and revenue visibility; reflecting the fact that customer contracts are typically three years in length and that the lifespan of Darktrace's technologies and services is open-ended. Furthermore, this period is in line with the Company's peers in the sector, and reflects the Group's early-stage, high-growth and fast-changing financial profile.

The Directors have no reason to believe that the Group 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, the Directors consider that a reasonable expectation on the Group's long-term viability is most appropriately formed on a three year period.

Viability Scenario Frameworks

To assess the viability of the Group throughout this period, the Directors have built upon the analyses supporting the Going Concern assertion and extended these to varying degrees so as to represent plausible yet severe scenarios the Group may encounter over the viability period of three years, testing throughout the threshold at which the Group's continued operations might become unviable. These are outlined in detail below.

In the event that scenarios such as those tested were to occur, the Directors would have a number of options available to maintain the Group's financial position including cost reduction measures and the arrangement of additional financing. The fourth and final scenario – which combines the prior three standalone scenarios together as one extreme scenario – explores which cost mitigation actions are at the Group's disposal, and the impact of different cost saving levers on the business and how the Group could remain viable even in this particularly extreme scenario. Without these cost mitigation actions the Group would not remain viable in the period. No other scenarios include elements of cost mitigation, instead demonstrating the extent to which the Group could remain viable despite the disruptions outlined in each respective scenario, enabling the Group to continue to invest for growth/recovery during the periods of disruption.

Summaries of Four Scenarios Affecting Darktrace's Viability

1. Revenue/ARR Scenario

Significant reputational event (for example: a major security breach) or disruption to salesforce productivity for an extended period.

2. Cost Scenario

Significant macro event (for example, a pandemic) with recessionary impact leads to material cost inflation for entire period.

3. Balance Sheet Scenario

Significant macro event(s) and recessionary impact lead to changes in customer payment terms and increased customer insolvencies for an extended period.

4. Combined Worst-Case Scenario

Combination of all scenarios, impacting the Group's revenue/ ARR profile, costs, and balance sheet profile.

These four scenarios are addressed in more detail on the following pages.

Viability Statement

Principal considerations relating to four potential scenarios and how they could affect Darktrace's viability.

1. Revenue/ARR Scenario

Significant reputational event (e.g. security breach) or disruption to salesforce productivity for an extended period of time. Gradual and limited recovery after sustained no-growth period of 12 months. Group continues to invest for growth and recovery throughout and no cost saving measures.

Principal Considerations

- Impacts to employees, retention and company culture
- Material deterioration in trends of ARR upsell, churn, and downsell trends (for existing ARR). Zero new logo ARR growth
- Corresponding impact to revenues
- Product and customer strategies
- Salesforce restructuring and customer success trends
- Route to market
- Covenant compliance
- Damage containment and actions for reputational repair
- The overall impact to total Net ARR added across the viability period is a 62% decline relative to the base case forecast, with ARR at the end of the period representing a 36% decline relative to the base case forecast. Meanwhile total revenues across the period declined 27% relative to the base case forecast

2. Cost Scenario

Significant macro event (e.g. pandemic) with recessionary impact leads to material cost inflation for entire period. Increased competition from new/existing market disruptor leads to material increases to hiring and compensation costs and heightened employee churn which remain in effect for entire period of consideration. Group continues to invest for growth and no cost saving measures.

Principal Considerations

- Impacts to employees, retention and company culture
- Forecast churn rates for all employees were increased relative to base case churn levels by at least 10%, with particular focus given to increased salesforce churn, which was increased by 25% vs base case assumptions for the entire period
- Material wage and overall compensation inflation (particularly for technical personnel) considered
- Supply chain and deployment risks considered
- Extended periods of general cost inflation considered, with additional increases to key unit costs (e.g. appliances, hosting)
- No changes to the revenue and ARR profile of Group
- Covenant compliance considered
- Total expected operating costs for the Group throughout the period increased by c10% relative to the base case forecast

3. Balance Sheet Scenario

Significant macro events and recessionary impact lead to changes to customer payment terms and increased customer insolvencies for extended period of time. Group continues to invest for growth and no cost saving measures.

Principal Considerations

- Impacts to employees and retention
- Company culture
- Customer insolvencies and viability
- Bad debt provisions were tripled vs the base case forecast for the entire period
- Relationships with creditors
- Collection rates modelled to drop to a materially lower rate than at any point during the worst of the COVID uncertainty
- Covenant compliance
- No changes to cost and revenue/ARR profiles of Group
- The overall impact of this scenario is a c39% reduction in cash & equivalents relative to the base case forecast by the end of the viability period

4. Combined Worst-Case Scenario

Combination of all scenarios, impacting the Group's revenue/ARR profile, costs, and balance sheet profile. Exploration of cost saving measures required to remain viable

A combination of the three aforementioned scenarios would leave the Group with negative headroom by 31 July 2023, resulting in potential breach of covenants. In order for the Group to remain viable and in compliance with its covenants in the combined, worst case scenario and cost saving measures of varying degrees would need to be enacted.

Principal Considerations

- Impacts to employees, retention and company culture
- Material deterioration in trends of new logo ARR growth, ARR upsell, churn, and downsell trends (existing ARR)
- Supply chain and deployment risks
- Wage and cost inflation
- Payment terms, customer and creditor relationships
- Covenant compliance
- An exploration of cost saving measures available
- The combination of the three prior scenarios without any cost mitigation actions would leave the Group with negative cash headroom by 31 July 2023, resulting in a potential breach of covenants. The following actions are illustrative of the magnitude of costs savings the Group would likely need to make for the Group to remain viable throughout the period.
- A respective 35%/20%/10% reduction in planned new hires in fiscal years FY22/23/24; a 100%/50%/25% reduction in forecast discretionary executive compensation in respective fiscal years FY22/23/24; a 25% reduction to annual travel & entertainment costs throughout the period; a 30% reduction to annual forecast marketing spend throughout the period, and a 3 month delay in commencement of forecast new leases vs base case.

Viability Statement

In each variation of the three [non-combined] scenarios, the Group 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, 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 to the Group should they be required.

When the scenarios are combined into an extreme ‘worst case’ scenario the Group does not remain viable in the period without any cost saving mitigations. Indeed, in the unmitigated ‘worst case’ scenario the Group turns cash negative by July 2023 and would therefore likely be at risk of breaching its covenants around this time. 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 the Group to maintain sufficient cash headroom to remain viable throughout the period and in compliance with its covenants.

COVID-19

Each of the scenarios outlined above has been considered with respect to the ongoing impact of COVID-19 or a potentially similar global health / macro crisis. It is noted that the Group is not at any point expecting to utilise any COVID-related government support schemes, nor is it planning for any rent holidays in the event that employees are unable to work from the company’s offices. Meanwhile, the commercial performance of the Group remains largely unaffected by COVID-19, as evidenced by the strong fiscal year 2021 financial and customer acquisition trends. Indeed, the Directors are confident that the Group will continue to be able to pivot to 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 as outlined above, in accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period they deem to be appropriate and confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due throughout this period.



“As cyber-threats become more sophisticated and better-resourced, it is clear that the cyber challenge is one that can only be addressed with breakthrough AI technology”

Paul Harrison, Board of Directors, Darktrace

People and Culture

Darktrace is a business with innovation and creativity at its heart. It is proud not only of its technology teams and their inventions, but also of its culture, which has been built by its people, and which champions collaboration, bravery and boldness.

Since its inception, Darktrace has sought to defy the status quo. This is the driving force in everything Darktrace does: from its ground-breaking advances in artificial intelligence to recruiting and retaining the best talent for its workforce.

Darktrace recognises the need to continually develop its culture as it grows as a business, and to engage in a company-wide conversation about how it can have the most impact both internally and externally. Some of the initiatives coming out of this have been covered below, and a more detailed picture of these, and any others, will be provided in FY 2022.

Skills, Training and Careers

Training and upskilling the Darktrace work force is a key area of focus. Darktrace recruits graduates from a wide range of talent pools, allowing it to hire the best and brightest candidates from a variety of academic backgrounds and disciplines and train them up in-house so that they are equipped to excel. Darktrace places great emphasis on its online training platforms and tools, as well as its in-house training team and facilities. Darktrace also aims to give its employees the opportunity to work in different parts of the business where possible as part of their career development.

Darktrace's dedicated training team provides comprehensive training and onboarding for all new staff, as well as ongoing support with learning and professional development. Darktrace provides internal training on a wide variety of topics such as management techniques and HR practices. Since the period end, it has launched a new training portal which will provide ongoing training opportunities for all Darktrace staff as their careers progress.

Third party technical training platforms form part of the core training offering provided for technical staff in their first few years of development at Darktrace. Building on a bespoke 12-week programme that provides new joiners with a comprehensive exposure to the Darktrace product range, these platforms allow Darktrace to continually expand technical staffs understanding of the Cyber Security and broader technology landscape. It also offers employees the opportunity to explore more targeted development pathways, such as those undertaking their Certified Information Systems Security Professional (CISSP) certification.

Mentoring

Darktrace sales teams have dedicated mentors who provide advice and support to colleagues. Darktrace is in the early stages of a programme that will give a more formalised structure to the coaching and mentoring of customer-facing technical staff, particularly those who are in experienced Analyst and CT roles. With mentors drawn from Darktrace's Subject Matter Expert team, this will give mentees the chance to experience and engage in more strategic customer engagement, nurturing the Technical Leadership talent of the future.

Case Study: Cyber Skills Programme in Partnership with CyberFirst



- Darktrace partners with CyberFirst, a programme led by the National Cyber Security Centre (NCSC) aimed at inspiring young people to develop cyber security skills and learn more about careers in the industry.
- Through this partnership, Darktrace offers a cyber skills programme to undergraduate UK students which offers exposure to Darktrace's Cyber Technology and Cyber Analyst roles, with a view to permanent technical positions being offered where applicable.
- Over summer 2021, Darktrace took on the first cohort of CyberFirst interns for an eight-week internship, providing students in their first or second year of university training in the foundations of cyber security.
- The students had the opportunity to work with and meet a number of different experts from different functions of the business, to gain as broad an experience of working life as possible.

Developing the Cyber Skills Ecosystem

There is currently a global cyber skills gap, at a time when cyber security has never been so important. Darktrace is committed to help build the global cyber security skills ecosystem, so that society can develop resilient systems now, and for the future. Darktrace is excited to play its part in creating a new generation of cyber experts.

Employee Engagement

As a global technology business focused on innovation, fostering a collaborative culture is of the utmost importance to Darktrace and it is vital that Darktrace staff are able to share their thoughts, ideas and visions with each other. This is done in a variety of ways, including through monthly global webinar sessions, regular social events across all regions and the company intranet, which was recently refreshed for employees. Through the intranet, Darktrace staff can access useful resources such as training materials, as well as features such as 'Thoughts from the CEO', a feature which is regularly updated by Poppy Gustafsson.

Darktrace staff are also encouraged to take advantage of the 'Suggestion Box' on Darktrace intranet, which Poppy Gustafsson responds to on an individual basis. This can include ideas or suggestions from employees on topics

such as initiatives and events Darktrace could consider or on its broader impact as a company. One initiative that recently came out of this was the Darktrace Charitable Giving programme, which boosts employee fundraising with 'matched giving'. Employees who are fundraising for a charity are encouraged to inform Darktrace, and the company will match the amount that employee has raised. Additionally, Darktrace will also be donating \$10,000 every quarter to a charity voted for by Darktrace employees.

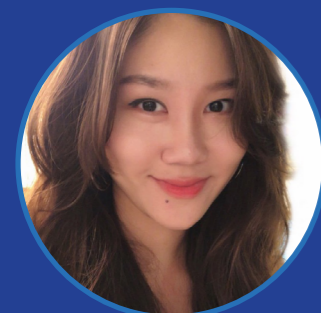
Darktrace is taking steps to establish an employee forum as a critical part of its employee engagement and it is through this and the designated NED that employees' views will be able to be put forward to the Board.

Incentives

The Group provides a market competitive package to all employees with an element of reward through incentive payments linked to the achievement of stretching performance targets. This reward philosophy applies to all levels of the business.

Darktrace also offers a comprehensive package of benefits to all employees around the world, including private healthcare, a generous pension plan and competitive benefits packages across the different localised regions in which it operates.

Alyssa Choi, Marketing Manager (Singapore, APAC)



"I started out at Darktrace as a Business Development Executive in 2017. As one of the first employees in the South Korean office, I was heavily involved in establishing Darktrace within the regional market. This included getting involved with marketing activities, such as planning and executing campaigns and events, as well as supporting the sales team and building partner relationships. Because of the breadth of my experience, I was later able to take on a role in the Education team, which involved training new APAC new hires.

I really enjoyed the marketing activities I'd been able to get involved with, and decided to focus on building my skills in that area so that I could progress my career in marketing. Today, I am Marketing Manager of the APAC region and have moved to Singapore to manage the marketing team over there!"

People and Culture

Creating a Diverse and Inclusive Environment

Equal Opportunity

Darktrace is committed to creating a culture in which diversity and equality of opportunity are promoted actively and in which unlawful discrimination is not tolerated. Darktrace recognises that having a diverse range of people contributing to the business is crucial for its success.

Darktrace strives to create an environment in which staff are able to identify and share good practice, celebrate success and encourage positive attitudes towards diversity.

Responsibility for ensuring the effective implementation of the Diversity & Inclusion policy sits with the Board. All leaders and managers are required to demonstrate their commitment to promoting equality and diversity, and to promote the same levels of behaviour across the workforce.

Women in Technology

Darktrace is passionate about encouraging more women to pursue careers in science, technology, engineering and mathematics (STEM). Darktrace recognises that women are underrepresented in this sector and is committed to empowering the brightest talent to flourish within the organisation.

Darktrace is proud to be led by a female senior leadership team, and today its workforce is made up of over a third women - against the backdrop of an industry average of typically less than half that. A strong presence of senior female role models in the organisation has been a key factor in building that workforce.

Darktrace's Advisory Committees

Darktrace is able to draw on the experience and expertise of its Advisory Council and Science & Technology Committee on issues relating to the wider science, technology and security industries. Both groups meet on an ad hoc basis several times a year, but are not part of the company's corporate governance arrangements.

Advisory Council

Darktrace's Advisory Council members are world-leading experts in their respective fields who support the Darktrace executive team by providing their insights on key industry and global trends.

The Advisory Council's members are:

- Lord Evans of Weardale KCB
- Professor Nick Jennings CB FREng
- Alan Wade
- Rt Hon Amber Rudd
- Robert S Webb QC

Science and Technology Committee

Darktrace's Science and Technology Committee is a panel of leading experts which provides advice and consultation on key industry and global trends relating to the science and technology industries.

The Science and Technology Committee's members are:

- Professor Nick Jennings CB FREng
- Dr Mike Lynch OBE

COVID-19

At the outset of the pandemic, Darktrace immediately activated its Business Continuity Plan, which included implementing remote working practices across different regions to promote safe working conditions for its employees. Darktrace formed a working group in March 2020 to address any employee anxieties or concerns, which has since evolved to focus on developing a flexible hybrid working model in consultation with its employees in offices around the world.

Throughout the year Darktrace held 'drop in' sessions across different regions, giving employees the opportunity to ask questions or make suggestions in relation to working arrangements. These were particularly helpful for staff

who had joined the company during fully remote working periods. Managers and team leads have consistently been in close communication and consultation with teams to find out how hybrid working practices are working and to collect feedback on what working practices could look like in the future. A global three-month review of working practices will be completed at the end of September.

Colleagues and their immediate family members have had ongoing access to the Employee Assistance Helpline, a free and confidential wellbeing and counselling service offered by Darktrace to employees.

Kieran Brook, Financial Accountant (Cambridge, UK)



"I joined Darktrace four years ago when there were just three other members of the finance team. As the team grew, I was given the opportunity to develop and build the payroll team, which today has six employees feeding into the payroll manager."

"In order to progress my career, I decided to undertake official Association of Chartered Certified Accountants (ACCA) exams. Darktrace supported me in this endeavour by sponsoring me, as well as offering me study leave for each exam. I moved into the central accounting team this year and now fully immersed in my new role. I'm hugely grateful to Darktrace for the opportunity!"



Darktrace sponsored the prize giving ceremony for the CyberFirst Girls Competition – run by the National Cyber Security Centre – a nationwide contest for girls aged between 12-14, to inspire the next generation of young women to consider a career in cyber security. The prize giving ceremony recognises the winning teams, and provides a day of celebration alongside additional cyber challenges.



Darktrace partners with WISE – a social enterprise which works to promote the participation of women in STEM



Sustainability

Darktrace's mission is to protect businesses, public services and critical infrastructure from the most sophisticated cyber-threats. We strive to have a positive impact on society by empowering organisations of all shapes and sizes to defend their critical assets in the face of an evolving cyber-threat landscape. Our customers span across all industry sectors, including critical national infrastructure, government bodies and charitable organisations. Darktrace is committed to conducting its business responsibly and sustainably.

In addition to the work Darktrace does with its customers and suppliers, it also focuses on making a wider contribution to society in several key areas. These include contributing to the development of the cyber skills system, promoting women in technology and developing a charitable giving programme, explored elsewhere in this report on [page 45](#).

Protecting Critical Infrastructure and Public Services

As a leader in cyber security, Darktrace is committed to strengthening organisations' ability to defend themselves from a range of adversaries, including cyber criminals, nation-state attacks and malicious insiders, in order to protect the companies and public services that we rely on.

From energy providers to transport services, water suppliers through to government systems, all organisations with a digital footprint are at risk of cyber-attack. Darktrace works across public and private sectors, small business and not-for-profits, including:

- Transportation operations across the world, from airport groups to train companies, to help them defend their networks.
- Some of the world's leading universities, museums and educational foundations.
- Hospitals and healthcare providers, including 18 UK NHS trusts, and protected the UK healthcare system from the Wannacry ransomware in 2017.
- Over 270 government and defence organisations globally.

In 2020, Darktrace provided its software free of charge to the NHS to help protect its IT systems from cyber-attack during the peak months of the pandemic.



Supplier Engagement

The group has fostered excellent relationships with its key suppliers, mostly in relation to the provision of appliances to deliver preloaded software. The Group has worked with its key suppliers on Brexit and COVID-19 contingency plans and has the appropriate credit lines in place with them to support the growth of the business.

Darktrace's process for contracting with suppliers includes checks to remain vigilant to any risk of modern slavery and human trafficking. These may include (but are not limited to):

- **Due Diligence.** It is a requirement that staff engaged in the process of selecting suppliers conduct reasonable checks to ensure that suppliers and partners are held to account over modern slavery. Darktrace may also require the suppliers and partners to provide a copy of relevant policies and their employee handbook. Where necessary, verification of the working conditions of staff and contractors may be required.
- **Contractual Commitments.** There are appropriate protections in Darktrace's agreements with suppliers. Where necessary, there is a written requirement for suppliers to implement effective systems and controls to prevent slavery from affecting any part of the business or supply chain. Darktrace may also require suppliers and partners to provide a summary of the steps they take to prevent modern slavery, including details of any relevant staff and supplier policies conducted on their suppliers.
- **Termination.** Darktrace may also terminate a supplier's contract at any time should any instances of modern slavery come to light.

Customer Engagement

The Group focuses on developing and then delivering a world leading Cyber AI platform. The business measures both the total number of customers and the number of new customers added within the period to ensure that it is developing products that new customers want to buy. The Group closely monitors customer engagement through its KPIs on net annualised recurring revenue retention rate and gross annualised recurring revenue churn rate. These KPIs are a useful indicator of the Group's successful engagement with its customers. The Group has invested in the last year in growing its customer success function, with the aim of reducing gross annualised recurring revenue churn rate.

Modern Slavery

Darktrace is opposed to slavery, servitude, compulsory or forced labour and human trafficking in all its forms (together "Modern Slavery"). As part of Darktrace's commitment to tackle Modern Slavery and in support of its Modern Slavery Policy, Darktrace will run an awareness campaign for all staff across the business, with guidance and training on what to do if they suspect any form of modern slavery in the business or its supply chain. Darktrace's Modern Slavery policy is available to all employees as part of the employee handbook and Darktrace will continue to provide education, information and guidance to its employees as part of its ongoing commitment.

Employee Handbook

Darktrace has a comprehensive Employee Handbook governing subjects such as equal opportunities, equality and diversity, anti-harassment and bullying, grievances, the environment, conflicts of interest, anti-bribery and corruption, modern slavery, whistleblowing and maintaining a professional environment. Darktrace keeps the Employee Handbook under continuous review and will update it regularly. Darktrace conducts business in an honest and ethical manner and is committed to acting fairly and with integrity. Specifically, Darktrace takes a zero tolerance approach to bribery and corruption and will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates.

Human Rights

Whilst Darktrace has no specific policy in place regarding human rights, all employment policies and practices are equally applied to all Darktrace people. Further details on the Darktrace Employee Handbook are provided above.

Privacy

Darktrace's data protection processes and policies (internal and customer and supplier facing) are designed to govern the way it processes personal data safely and securely in accordance with applicable legislative and regulatory requirements. Darktrace continually monitors and updates its processes and systems relating to the storage and processing of personal data including updating its customer facing agreements and reviewing processes around employee and customer data.

Sustainability

Environment and Climate Change

As a software company offering virtual installations, Darktrace operates in a relatively low environmental impact sector. However, it is actively looking at ways to minimise its environmental impact and to embed this into every aspect of the company and its operations.

Darktrace will seek to establish its initial strategy on sustainability during this calendar year. Where appropriate this will include setting KPIs and targets as needed in order to decarbonise our operations and achieve our sustainability goals.

Global Greenhouse Gas Emissions and Energy Use

Darktrace reports on global energy consumption and associated GHG emissions in compliance with the Streamlined Energy and Carbon Reporting ("SECR") legislation for listed companies.

The main impact to the energy usage of the business in the year was the stopping of nearly all business travel for the year as a result of the government-imposed travel restrictions and the related work from home policies as a result of COVID-19.

Global greenhouse gas emissions and energy use data for the period 1 July 2020 to 30 June 2021	FY 2021			FY 2020
	Global (UK and Non-UK)	Non-UK	UK and offshore	UK and offshore
Scope 1 emissions in metric tonnes CO2e				
Gas consumption	31	2	29	30
Refrigerants (UK only)	-	-	-	-
Total Scope 1	31	2	29	30
Scope 2 emissions in metric tonnes CO2e (Location based)				
Purchased electricity	142	69	72	89
Total Scope 2 - Location based	142	69	72	89
Scope 3 emissions in metric tonnes CO2e				
Business travel in employee owned vehicles	53	10	43	34
Total Scope 3	53	10	43	34
Total tonnes CO2e				
Total gross emissions in metric tonnes CO2e	226	82	144	153
Underlying Energy Consumption (kWh)				
Gas	168,379	10,837	157,541	121,045
Electricity	589,061	248,198	340,863	383,050
Transport	189,492	33,645	155,847	137,659
Total energy consumption	946,932	292,681	654,251	641,754
Intensity Ratio				
Tonnes CO2e per FTE	0.2	0.2	0.2	0.4
Tonnes CO2e per \$m Revenue	0.8	N/A	N/A	N/A

Methodology

Darktrace has compiled its UK and global GHG emissions and the underlying energy consumption in compliance with the Streamlined Energy and Carbon Reporting ("SECR") legislation for quoted companies.

Scope

For FY 2021 reporting year, the scope includes UK and non UK operations. Global figures are the sum of UK and non-UK figures.

Reported energy consumption and associated carbon emissions include gas and electricity consumption in Darktrace's two offices in the UK (London and Cambridge) as well as Global offices in the US (Chicago, Los Angeles, New York, Reston, San Francisco), France (Paris), and Singapore. Shared workspaces are excluded. Since this is the first year of reporting for non-UK offices, leakage of refrigerant data is not available. Transport includes business travel in employee owned vehicles.

Period

The reported figures cover the period from 1st July 2020 to 30th June 2021, in line with the financial reporting period.

Calculation Methodology

The reporting methodology used is the GHG Protocol Corporate Accounting and Reporting Standard, using the operational control approach. A market based approach was not used due to limitations on data available from third party landlords.

Energy consumption data comes from invoices and estimates where applicable. Business travel in employee owned car data comes from mileage expense claims records.

Emission factors used to calculate UK GHG emissions come from UK Department of Business Energy and Industrial Strategy (BEIS 2021). Global emissions factors have been obtained from relevant governmental public sources, where applicable.

Scope 1 includes emissions associated with gas consumption and leakage of refrigerant for the UK. Scope 2 includes emissions associated with electricity consumption and is calculated based on location-based approach. Scope 3 includes emissions associated with business travel in employee owned cars.

There are two intensity ratios disclosed. The first ratio is calculated based on total tonnes CO2e emissions in the reporting period divided by the average number of employees in the reporting period, the second ratio is calculated based on global total tonnes CO2e emissions in the reporting period divided by the global revenue in \$m.

Prior year Data

FY 2021 is the second year of SECR reporting for offices in the UK and the first year of reporting for global offices. Prior year data is reported for the UK scope but not applicable for the global scope. The comparative figures for FY 2020 have been prepared in compliance with the SECR legislation for large, unquoted companies. There was no data available in FY 2020 for leakage of refrigerant.

Efficiency Measures

Darktrace is currently undergoing a fit out of the London office. It is working towards achieving a gold SKA rating in order to reduce its carbon emissions and operating costs, as well as demonstrate its commitment to sustainability.

Sustainability

Task Force on Climate-Related Financial Disclosures

Darktrace recognises climate change as one of the biggest environmental threats the world faces and one which could detrimentally impact Darktrace, its customers and its suppliers. Darktrace is committed to providing transparency to its stakeholders regarding climate-related risks and opportunities that may impact the business and how it manages those risks and opportunities. In response to the new legislation made by the Task Force on Climate-related Financial Disclosures (TCFD) Darktrace will seek to establish its initial strategy on environmental risks and opportunities during this calendar year.

This will include outlining our governance, strategy and risk management around climate related risks and opportunities, based on a range of climate change scenarios.

As a response to the findings of these scenario assessments Darktrace will set KPIs and targets where needed in order to manage its climate change risk, decarbonise our operations and take advantage of opportunities.

Section 172 (1) Statement and Non-Financial Information Statement

Section 172 (1) Statement

The Board considers that the Board and its individual members have acted in a way that would be most likely to promote the success of the Group, for the benefit of its members as a whole, in the decisions made by the Board during the year. The directors confirm that the meetings and considerations of the Board, which underpin its decisions, incorporate appropriate regard to the matters detailed in section 172 of the Companies Act 2006.

The Board and each director acknowledge that the success of Darktrace's strategy is reliant on positive engagement with all the Group's stakeholders. We believe we are stronger and can each achieve our common goals working in collaboration and with regard to each other. Darktrace has a global and diverse community of stakeholders, each with its own interests in and expectations of the Group. Due to the scale and geographic spread of our businesses, stakeholder engagement mostly takes place at an operational level and the Board is therefore reliant on management to help it fully understand the impact of the Group's operations on its stakeholders.

During the year, the Board considered information from across the Group's businesses in the form of presentations from management and reports and took part in discussions which considered, when relevant, the impact of the Group's activities on its key stakeholders. These activities, together with direct engagement by the Board and individual directors with the Group's stakeholders, helped to inform the Board in its decision-making processes.

As a Board, the collective role of the directors is to act as responsible guardians and stewards of the Group. In so doing, the Board ensures that the Group is optimally positioned to achieve its long-term sustainable aims and deliver value for its stakeholders. The Board recognises that balancing the needs and expectations of stakeholders is important, but it often must make difficult decisions based on competing priorities where the outcome is not positive for all of the Group's stakeholders. Decisions are not taken lightly, and the decision-making process has been structured to enable directors to evaluate proposed business activities and the likely consequences of its decisions over the short, medium, and long term, with the aim of safeguarding the Group so that it can continue in existence, fulfilling its purpose and creating value for all stakeholders.

Details of how the Board and the directors have fulfilled their section 172 duties can be found throughout the Strategic and Governance reports as referenced against section 172 (1) (a) to (f) below.

Section 172(1) (a) to (f)

A director of a Group must act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term; 📅
- the interests of the Group's employees; 👤
- the need to foster the Group's business relationships with suppliers, customers and others; 🤝
- the impact of the Group's operations on the community and the environment; 🌍
- the desirability of the Group maintaining a reputation for high standards of business conduct; and 👤
- the need to act fairly as between members of the Group. ⚖️

You can read about the policies that underpin these broader corporate responsibilities as signposted by the symbols in our following non-financial information statement.



Non-Financial Information Statement

This section of the report constitutes Darktrace's non-financial information statement, produced to comply with sections 414CA and 414CB of the Companies Act 2006. The table below, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters

Ethics and Governance

Governance and Leadership – 60-108 📅 👤 ⚖️

Risk Management – 54-59 📅

Supporting our Customers in a New Era of Cyber-Threat – 12 🤝 🌍

Supplier and Customer Engagement – 49 🤝

Modern Slavery – 49 👤 🤝

Anti Bribery and Corruption – 49 👤 🤝

Environment

Direct and Indirect GHG Emissions – 50 🌍

Environmental Strategy – 52 🌍

Social

Community Engagement – 44, 45, 46 👤 🤝 🌍

Women in Technology – 46 👤 🌍

Protecting Critical Infrastructure and Public Services -12, 48 🤝 🌍

People

People and Culture – 44-47 👤

Employee Engagement – 45 👤

Diversity – 46 👤

Modern Slavery – 49 👤

Risks

The Darktrace Risk Management Process

Darktrace subscribes to the Enterprise Risk Management (ERM) approach to managing its risk profile. The appropriate management of risk is important for Darktrace to meet its corporate objectives and to develop its future competitive advantage.

The Board's role is to maintain oversight of the key business risks and ensure that the Audit & Risk Committee and Risk Management Committee are managing risks effectively. Where appropriate the Board will challenge these committees and management to ensure the effectiveness of Darktrace's risk management approach and strategies.

Darktrace's ERM framework ensures a consistent approach to the identification, management and oversight of risks. This enables meaningful comparisons of these risks and the development of mitigation strategies across the business, which is essential to Darktrace achieving its strategic objectives.

Darktrace maintains a Group Risk Register utilising a Risk Management system. Risks are identified under each risk Category or major support function (IT, Finance, Commercial) which are of significance to that business unit.



The Darktrace Risk Management Process



A hierarchical approach to the relationship of the various risk registers exists, as shown in the above diagram, and takes into account the various levels of risk and their escalation to the appropriate ownership and governance.

Risk Owners are required to maintain a regular review of risks and Risk Reports are reviewed by the Risk Management committee.

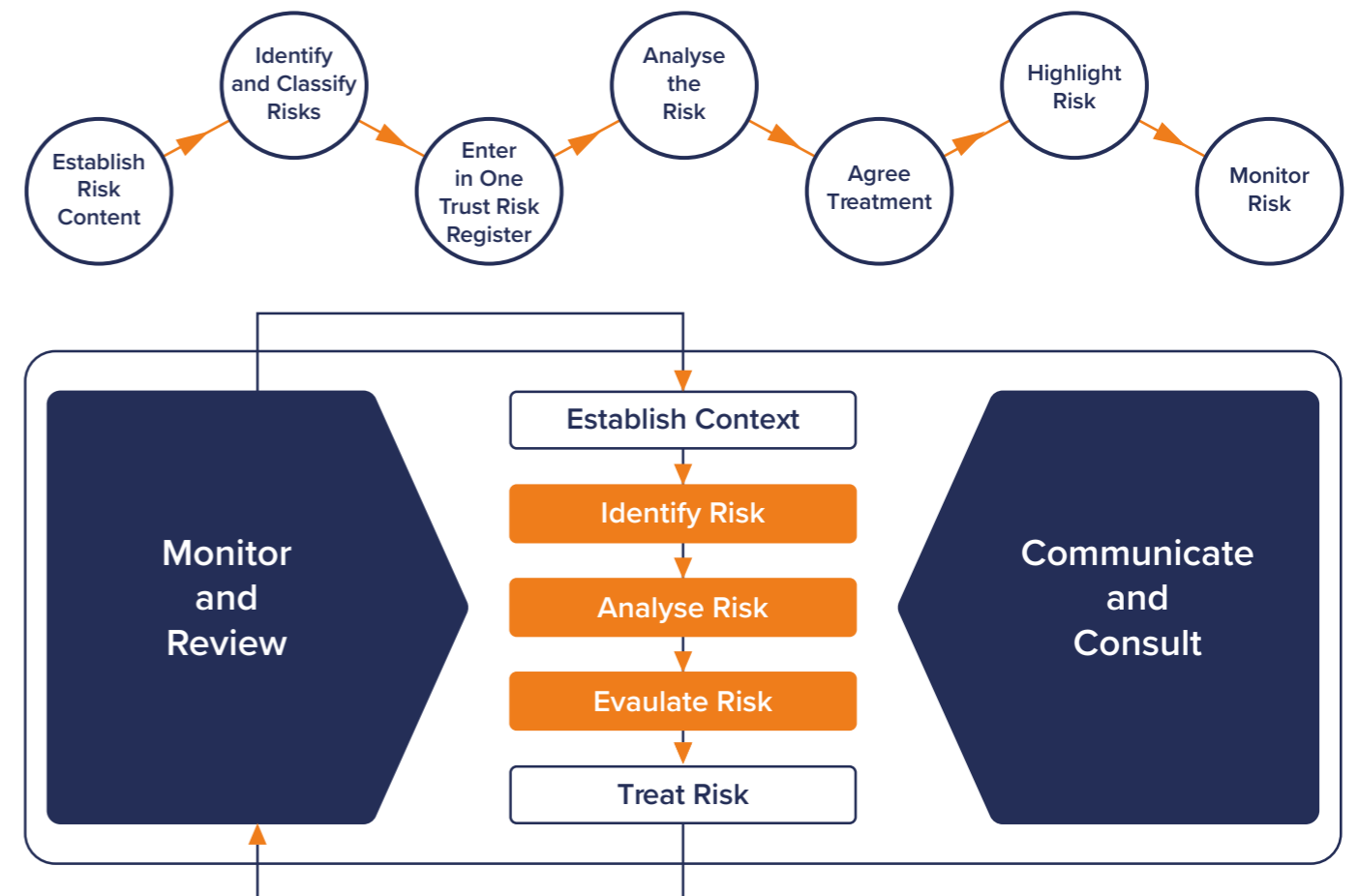
Monitoring and review is then conducted on a quarterly basis or as required to ensure that the Risk Committee can provide up to date Risk Information to the Audit & Risk Committee.

Within the risk assessment framework, risk levels are monitored for change, be it an increase or decrease in the level of risk over time, with management actions modified in response to such changes.

All principal and emerging risks are reported to the Audit & Risk Committee. Risk Owners are integrated into the review cycle through the Risk Management Committee, meetings occur monthly for the main business units and bi-monthly or quarterly for the support areas (Finance, Commercial). The Owner for each Category is accountable for ensuring that the Risk Register is maintained and up to date for the purpose of their review.

Risk Reviews assess whether the risk is being managed or mitigated appropriately. This process is regularly re-visited with each business activity so that new risks come under management, existing risks are managed to a point of acceptability (within Darktrace's risk profile) and risks that no longer apply are removed from management view. The interpretation of 'regular' is dependent on the situation surrounding the risk activity and advice from the Risk Committee is sought if the regularity of application is not apparent. All employees involved within the risk assessment process must undergo risk assessment training.

The Darktrace Risk Management Process



Risks

Risk Governance

The Board

The board has overall responsibility for risk management and setting the Group's risk appetite. It monitors the risk environment and assesses the appropriateness of risks to the business and any mitigating or management strategies.

The Audit & Risk Committee

The Audit Committee assists the Board in overseeing the risk management framework and any matters of significance affecting financial reporting, risk and internal controls.

The specific responsibilities of the Audit & Risk Committee related to risk management are to assess the adequacy of the internal control framework including accounting and risk management controls based on information provided or obtained.

The Audit & Risk Committee meets at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

The General Counsel & Company Secretary convenes and aligns the meetings of the Risk Management Committee to the same frequency to ensure that risks have been reviewed and risk reporting can feed into Board meetings.

Outside of the formal meeting programme, the Audit & Risk Committee Chair maintains a dialogue with the General Counsel & Company Secretary.

Risk Management Committee

The Risk Management Committee is assembled from members of the Senior Management Team invited to collaborate by the General Counsel & Company Secretary.

The committee is responsible for identifying and overseeing risks within their Category areas and to ensure that the Risks Management System is regularly updated to reflect current recognised risks, risk classifications and any remediations activities.

The committee convenes periodically, aligned to the requirements for reviewing and reporting organisational risk to ensure that up to date information can be provided to the Audit & Risk Committee.

The responsibilities of the Risk Management Committee in relation to risk management include:



- the setting of the risk profile and risk tolerance levels (i.e., acceptance of risk ratings) with the Audit & Risk Committee for the corporate level risks of the business;
- documenting policies and procedures for the risk management activity;
- staff training in respect of the policies and procedures to be followed;
- appropriate reporting of risk management issues to senior management and the Board;
- monitoring compliance with the endorsed risk management framework;
- delegating authority to management, where appropriate; and
- reporting on significant risks to the Board of Directors, Audit & Risk Committee and, where appropriate, government bodies.

Membership of the Risk Committee contains representatives from across the business, both functionally and geographically.


Principal and Emerging Risks

Darktrace defines emerging risks as (re)emerging or changing risks that are difficult to quantify and whose potential impact on the Group is not yet sufficiently considered. Darktrace identifies emerging risks utilising inhouse expertise that form part of the ERM Governance structure, e.g. the Risks Management Committee, and in turn "crowd sources" for emerging risks from its own industry experts. Key drivers for identifying emerging risks include new demographic, economic, technological, socio-political, regulatory and environmental developments.

Darktrace considers the principal risks and uncertainties it faces to be in four primary categories. These are outlined as follows.

Risk Area	Risk Description	Risk Impact	Risk Management or Mitigation Strategy
	<p>Technology and products</p> <p>The Group's ability to penetrate its target market and continue to grow is based on the effectiveness of its products in protecting its customers against the impacts of a rapidly evolving cyber security threat environment.</p> <p>The Group may be unable to develop and enhance its platform to adapt to the increasingly sophisticated nature of cyber-attacks.</p>	<p>If the Group's products fail to work as designed, or it cannot evolve and expand its product offerings to meet the needs of this evolving environment, its business and operating results could be negatively impacted.</p>	<p>The Group invests a significant amount in ongoing research and development to ensure its products remain market leading and effective.</p> <p>The Group has a number of world leading experts that contribute to thought leadership and international policy in the cyber security space. This also ensures that the Group's research and development investment remains at the forefront of technology as well as allowing the Group to anticipate and effectively respond to changes in the cyber security market, develop new or enhanced technologies or processes or to extend the Group's offering to new and evolving platforms, operating systems or appliances.</p>
	<p>Market and competitive environment</p> <p>Darktrace operates in a competitive marketplace where other companies seeking to compete may be larger, better funded and have more resources.</p> <p>If the Group is unable to develop and enhance its platform to adapt to the increasingly sophisticated nature of cyber-attacks, it could negatively impact the Group's business, results of operations, financial condition and prospects.</p> <p>The Group may be unable to develop and enhance its platform to meet the changing cyber protection demands of its customers.</p> <p>Failure by the Group or, in certain markets, its channel partners, to maintain sufficient levels of customer support could have a material adverse effect on its business, results of operations, financial condition and prospects.</p> <p>The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and the Group's business, operating results and financial condition.</p>	<p>If it fails to maintain its leadership position, either because it fails to invest appropriately, its product development is not effective or its technology advancements are outpaced by the advancement of others, its business and operating results could be negatively impacted.</p>	<p>The Directors believe that the Group's AI Immune System approach gives it a market advantage and leadership position.</p> <p>The group continues to significantly invest in both its people and products to ensure that it retains its market leading position.</p>

Key


-  New risk identified since last annual report
-  Risk increased
-  Risk stable
-  Risk decreased

Note that these are risks identified at or since the date of IPO


Risks

Risk Area	Risk Description	Risk Impact	Risk Management or Mitigation Strategy
 People and partners	<p>The Group relies on the talents of highly skilled personnel, including its senior management and its technologists.</p> <p>Additionally, Darktrace relies on both its own employees and a network of reseller partners to acquire new customers, service existing customers and increase both market penetration and product uptake.</p> <p>The Group's customers depend on the continuous availability of its Cyber AI Platform. Darktrace-controlled cloud-hosted products are expected to grow in materiality and importance. Consequently, the Group may be subject to service disruptions as well as failures to provide adequate support for reasons from its third-party data centres that are outside of its direct control.</p> <p>The global COVID-19 outbreak and the global response to this outbreak could affect the Group's business and operations.</p>	<p>Any inability to attract and retain this talent could have a negative impact on the business.</p> <p>If the Group fails to retain and expand either its own employee base or partners within its network, or it failed to adequately train and otherwise equip them to succeed, its business and operating results could be negatively impacted.</p> <p>The Group relies on third-party data centres to host and operate an increasing number of deployments of or offerings in its Cyber AI Platform, and any disruption of or interference with its use of these facilities may negatively affect its ability to maintain the performance and reliability of its Cyber AI Platform which could cause its business to suffer.</p>	<p>The Group continues to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of the organisation, particularly technical professionals.</p> <p>The Group operates a Vendor Risk Management (VRM) program that identifies risks posed to the Group from vendors, such as third-party data centres and Partners. As part of the VRM all vendors are assessed for their criticality to the Group.</p> <p>Third party data centres are Critical vendors to Darktrace and therefore undergo rigorous security checks. They are also incorporated into Disaster Recovery and Business Continuity tests. Testing is based upon real world scenarios and effectively test the Group's resilience and failover capabilities to ensure that any services disruptions are mitigated or reduced.</p>

Key

-  New risk identified since last annual report
-  Risk increased
-  Risk stable
-  Risk decreased

Note that these are risks identified at or since the date of IPO

Risk Area	Risk Description	Risk Impact	Risk Management or Mitigation Strategy
 Brand and reputation	<p>The Group's brand and reputation relies on a variety of factors including the effectiveness of its products to protect its customers against risks, its ability to protect its intellectual property, the actions of its people and the nature of its business associations., e.g. such as coverage of criminal or civil litigation or related asset enforcement proceedings, or adverse comments in the civil judgment on the evidence of current Group directors or employees, could adversely affect the Group's reputation in the cyber security, financial, investment and other communities, and could also adversely affect the Group.</p> <p>As a provider of security solutions, the Group has in the past been, and may in the future be, specifically targeted by bad actors for attacks intended to circumvent the Group's own security capabilities.</p> <p>If the Group is unable to maintain and enhance its brand or if the Group's reputation and business is harmed by news or social media coverage it could negatively impact the Group's business, results of operations, financial condition and prospects.</p>	<p>If Darktrace's products fail to work as designed, it has to defend its intellectual property or defend itself against claims of infringement on the intellectual property of others, its employees or partners fail to comply with its standards for commercial transactions or other behaviour, or its external associations expose it to real or perceived factors beyond its control, its business and operating results could be negatively impacted.</p> <p>A successful attack or other incident that compromises the Group's own data or results in an interruption of service (whether or not customer data is compromised) could have a significant negative effect on its operations, reputation, financial resources, and the value of its intellectual property.</p> <p>Negative publicity or other events associating the Group and its employees, ex-employees, partners, or business associates in unlawful, and allegedly unlawful, activities that could negatively impact the Group's brand and reputation and therefore impact the Group's business, results of operations, financial condition and prospects.</p>	<p>The Group uses a layered approach of people, technology, and process to protect the group from numerous threats that could negatively impact the Group.</p> <p>Darktrace is ISO 27001 certified, ISO 27001 is one of the most well-known, significant, and globally respected information security accreditations. Darktrace's ISO 27001 certification enables an effective delivery of a layered security approach across the Group.</p> <p>Darktrace also utilises its own proprietary self-learning AI and autonomous response to discover unpredictable cyber-threats, while delivering complete visibility across our dynamic workforce — from cloud and collaboration tools and to laptops. This is monitored by a world-class 24/7 SOC, which enables Darktrace to respond and mitigate to any anomalous activity and potential threats posed to the Group.</p> <p>The Group seeks to protect its intellectual property under patent, trademark, copyright and trade secret laws, and through a combination of confidentiality procedures, contractual provisions and other methods, all of which offer only limited protection. The Group generally enters into confidentiality, invention assignment or licence agreements with employees, consultants, vendors, partners and customers, and generally limits access to, and distribution of, its proprietary information.</p> <p>The successful promotion of the Darktrace brand and reputation will depend largely upon its marketing efforts, ability to continue to offer high-quality products and ability to successfully differentiate its platform from its competitors' product offerings. A combination of administrative and marketing processes have been implemented to ensure that the potential negative impact from negative publicity or other events associating the Group and its employees, ex-employees, partners, or business associates have been implemented to minimise the impact.</p>

Key

-  New risk identified since last annual report
-  Risk increased
-  Risk stable
-  Risk decreased

Note that these are risks identified at or since the date of IPO

Chapter 2: Governance



Chapter 2 – Governance Index

Corporate Governance Report	62	Report of the Audit & Risk Committee	76
The Board	64	Report of the Remuneration Committee	82
Report of the Board	68	Annual Report on Remuneration	98
Report of the Nomination Committee	74	Directors' Report	110

“The demand for our latest release is testimony to Darktrace’s unique position in helping CISOs* upgrade their security, as they seek to protect their entire digital infrastructure in the cloud, email, home office or network environments.”

Poppy Gustafsson OBE, CEO, Darktrace

*Chief Information Security Officer

Corporate Governance Report

The IPO process we recently underwent to list Darktrace plc on the London Stock Exchange provided the Board with an excellent opportunity to refresh its governance arrangements. As a listed company we welcome the expectation of high standards of corporate governance.

Chairman's Introduction to Governance

Although a relatively young company, Darktrace already had governance practices in place that were appropriate for a private business of its size, before its IPO. There were regular and structured Board meetings with active participation by Executive and Non-Executive Directors alike. We had a commitment to good practice in corporate governance as an essential part of creating shareholder value over the long-term. These were not adjuncts to the success of the business – they were right at the core of that success being achieved.

Building on these firm foundations, we took the opportunity offered by our IPO to refresh our Board and Committee governance arrangements and bring them into line with recognised good practice for companies listed on the main market of the London Stock Exchange, based on the UK Corporate Governance Code (the "UK Code").

This has included:

- My appointment as Non-Executive Chair and the appointment of three new independent Directors, Lord Willetts, Sir Peter Bonfield CBE FREng and Paul Harrison, in advance of our IPO. They provide diverse, valuable and fully independent representation to our Board.
- Constituting the Audit & Risk Committee and the Remuneration Committee with our new independent Directors and with updated terms of reference, and appointing a new Nomination Committee on a similar basis.
- The appointment of Lord Willetts as our Senior Independent Director in addition to his role as Chair of the Nomination Committee.
- Formalising other governance arrangements such as the division of responsibilities between Poppy Gustafsson as CEO and me as Chair and expanding the matters specifically reserved for the decision of the Board (reported on more fully in the report of our Board commencing on [page 68](#)).
- Moving the remuneration of our Executive Directors towards more typical practice for listed companies (reported on more fully in the report of our Remuneration Committee commencing on [page 82](#)).

We view these developments as part of an ongoing process. Our view is that achieving best practice in corporate governance is a journey rather than a destination. In the same way as Darktrace in the past year completed its IPO so it will continue to evolve in other ways that will require ongoing development of its governance arrangements. Our commitments to high standards of corporate governance and business integrity will allow us to continue to set the tone as well as the direction of the management of the Group. This will remain an important contributor to the continued creation of value for shareholders on a sustained basis over the long-term.

UK Code Compliance

This Corporate Governance Report, including the sections that follow, sets out how Darktrace has applied the main principles of good governance contained in the UK Corporate Governance Code for the period from the date of Darktrace's Admission to listing on the main market of the London Stock Exchange on 6 May, 2021 to 30 June, 2021. The Board considers that Darktrace has been compliant with the Code provisions that applied during this period, and will comply with those that apply after, with the following exceptions:

- Code Provision B.1.2 recommends that at least half the members of the Board, excluding the Chair, should comprise Non-Executive Directors determined by the Board to be independent. For the purposes of assessing compliance with the Code, the Board considers that Lord Willetts, Sir Peter Bonfield CBE FREng, Paul Harrison, are independent of management and free from any business or other relationship that could materially interfere with the exercise of their judgement;
 - ◆ the Board also considers that I, as Chair of Darktrace, was independent at the time of appointment; and
 - ◆ as well as our two Executive Directors, we have three other Non-Executive Directors who were nominated by major shareholders and are therefore not considered to be independent for the purposes of the Code.
- Code Provision 21 requires that a formal evaluation of the executive and non-executive directors is conducted however given the short period that the Board has been in charge, no formal evaluation has yet been conducted. The Nomination Committee intends to conduct a formal evaluation during the course of the next financial year.

Whilst the Board is therefore not fully compliant with these two parts of the Code and may not be during the course of the next financial year, we believe its current membership works well and intend to move to full compliance as the Board changes over time.

I look forward to reporting to you next year on how our governance arrangements continue to develop. This will include a report on the evaluation to be undertaken of the effectiveness of our Board in the first year since Darktrace's IPO and on any actions we undertake in response to this. We view measurement of performance, targeting improvement and reporting results to be as important for us as a Board as it is for our business.

Later in this Corporate Governance Report:

1. An introduction to our Board is given in the biographies of our Directors on the next pages.
2. More detail on the role and activities of the Board starts on [page 64](#).
3. Lord Willetts, the Chair of the Nominations Committee, reports on its work commencing on [page 74](#).
4. Paul Harrison, the Chair of the Audit & Risk Committee, reports on its work commencing on [page 76](#).
5. Sir Peter Bonfield CBE FREng reports on the remuneration of the Directors in his capacity as Chair of our Remuneration Committee, commencing on [page 82](#).

On behalf of the Board

Gordon Hurst

Chair

15th of September 2021

The Board

The Board comprises a diverse range of directors with a wide variety of complementary skill sets and experience.

Gordon Hurst – Non-Executive Chair – N, R, I



Mr. Hurst joined the Group on 28 July 2019 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Hurst has 27 years' experience with Capita plc (LON: CPI), a leading consulting, digital services and software business company, from 1988 until February 2015, including having served as the Group Finance Director on its board since 1996. During this period, Mr. Hurst was instrumental in managing acquisitions, large outsourcing deals, and building a team of commercially-focused finance directors to enable continued development of the business. Since then, Mr. Hurst has served as non-executive chair of the board of Featurespace and Marston Holdings and currently serves as the non-executive chair of Azets Ltd.

Poppy Gustafsson OBE – Chief Executive Officer – N



Ms. Gustafsson joined the Group as an employee with effect from November 2014, was appointed as a Director of Darktrace Holdings Limited on 11 May 2020, and was appointed to the Board of Darktrace plc on 1 April 2021 and has served as the CEO of the Group since 2016. Under her leadership, the Group has grown to 1,605 employees with over 40 offices around the world. Ms. Gustafsson has led the Group to achieve a variety of accolades, such as being named the 9th 'Fastest Growing European Company' by The Financial Times, as well as 'Fastest Growing Super Scale-up' by Tech Tour. Ms. Gustafsson is a qualified chartered accountant and previously served as the company's CFO. She was named Vodafone's 'Woman of the Year for Technology and Innovation' in 2020, 'Tech Businesswoman of the Year' at the UK Tech Awards 2019 and won the Veuve Clicquot Business Woman Awards in 2019. Ms. Gustafsson was awarded an OBE (Officer of the Order of the British Empire) in 2019 in recognition of her services to cyber security.

Catherine Graham – Chief Financial Officer



Ms. Graham joined the Group as an employee in February 2020, was appointed to the Board of Darktrace plc at incorporation of Darktrace plc and is the Group's Chief Financial Officer. Ms. Graham has more than two decades of professional experience in financial disciplines and has served at the helm of several businesses throughout periods of rapid growth and capital structure evolution. Previously at 2U, a global leader in education technology, Ms. Graham has extensive experience in developing and maturing hyper-growth technology companies. In 2015, she was named as Northern Virginia Technology Council's 'Public Company CFO of the Year' and has most recently been included in the Washington Business Journal's 2018 list of 'Women Who Mean Business.' Ms. Graham holds an MBA from Loyola University Maryland and a BA in Economics from the University of Maryland.

Paul Harrison – A, R, I



Mr. Harrison was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Harrison is a chartered accountant with over 35 years' business experience. Previously, Mr. Harrison has served as the CFO of Just Eat plc, a FTSE 100 on-line food marketplace business, and as interim CEO from April to September 2017. Prior to Just Eat, Mr. Harrison served as CFO of WANdisco plc in California and as Group CFO of one of the largest UK (& FTSE 100) software businesses, The Sage Group plc for 13 years. In addition, Mr. Harrison served from 2007 to 2017 as a Non-Executive Director and, in the last 5 years of his appointment, Senior Independent Director of FTSE 250 recruiter, Hays plc. During this time, Mr. Harrison initially chaired the Audit Committee switching midway through his appointment to chairing the Remuneration Committee. In February 2016, Mr. Harrison also joined the Board of the newly listed Ascential plc, a FTSE 250 business where he served as chair of the Audit Committee until January 2021. At that time, he assumed the role of Executive Director and Chief Operating Officer of Ascential plc. Mr. Harrison has formerly also served as a Governor of Royal Grammar School, Newcastle a large, independent school based in Newcastle upon Tyne.

Sir Peter Bonfield CBE FREng – A, R, I



Sir Peter was appointed to the Board of Darktrace plc on 1 April 2021. Sir Peter has previously served as the CEO and Chairman of the Executive Committee of British Telecommunications from 1996, when he was appointed, until early 2002. Sir Peter is currently serving as Chairman of NXP Semiconductors in the Netherlands. Sir Peter has previously served as Chairman and Managing Director of ICL after its merger with STC, a large telecommunications equipment manufacturer, Deputy Chief Executive of STC plc as well as Chairman and CEO of ICL. Sir Peter's career has also included Chairman of GlobalLogic, Senior Independent Directorship of AstraZeneca, Member of the Citigroup International Advisory Board, Advisor to Apax Partners LLP, Senior Advisor to Rothschild, member of Silent Circle's Advisory Board and Directorships on the Boards of Sony Corporation in Japan, Mentor Graphics Corporation in the USA, Ericsson in Sweden, the Department for Constitutional Affairs and the Ministry of Justice. In total, Sir Peter has been a Board Member of 12 quoted companies around the world. Sir Peter has an Honours Degree in Engineering from Loughborough University and is a Fellow of the Royal Academy of Engineering.

Lord Willetts – A, R, N, I



The Rt Hon Lord Willetts FRS was appointed to the Board of Darktrace plc on 1 April 2021. Lord Willetts begins his career as an official in HM Treasury and in the Number 10 Policy Unit. He was elected as the Member of Parliament for Havant in 1992 and was appointed to the Cabinet as Minister for Universities and Science in May 2010. Lord Willetts had previously served as Paymaster General and then in the Shadow Cabinet in a range of roles. He serves on the Board of the Biotech Growth Trust plc and also two Aim-listed companies, Tekcapital plc and also Verditek plc, which he chairs. He is also the independent director on the Board of Surrey Satellites, which is owned by Airbus. He is President of the Resolution Foundation and serves on the Board of UKRI. He is an Honorary Fellow of Nuffield College, Oxford and has a degree in Politics, Philosophy, and Economics.

The Board

Johannes Sikkens – S



Mr. Sikkens joined the Group on 14 July 2015 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Sikkens serves as Managing Director and Head of Europe at Summit Partners, a global alternative investment firm with more than \$23 billion in assets under management. Mr. Sikkens joined Summit Partners in 2004 and today manages the firm's London office. Mr. Sikkens focuses primarily on investments in the technology sector in Europe. In addition to Darktrace plc, Mr. Sikkens currently serves as a director at MUBI, Red Points and Synchron, and he is actively involved in Summit's investments in Akeneo, Ivalua, LearnUpon, Odoo and Solactive. His previous board and investment experience includes 360T Group, Acturis Limited, Avast (LON: AVST), Flow Traders (Euronext: FLOW), Multifonds, RELEX Solutions, SafeBoot, Siteimprove and Welltec International. Prior to Summit, Mr. Sikkens worked for Scotia Capital and IBM Corporation. Mr. Sikkens holds a BS in Business Administration from the University of Groningen, an MSc in international business from the University of Groningen, and an MSc in international finance from the CERAM Graduate School of Management & Technology.

Vanessa Colomar – S

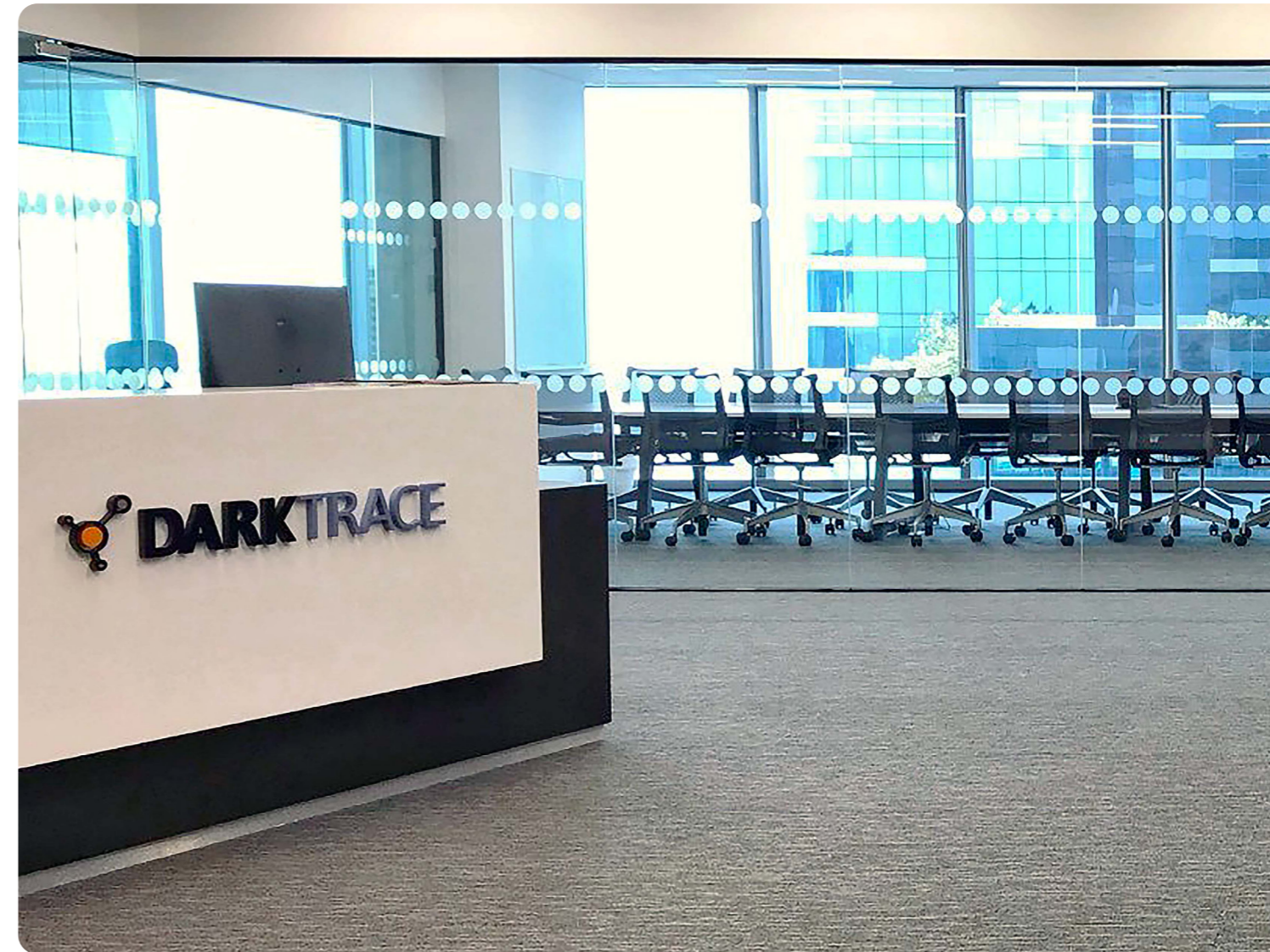


Ms. Colomar joined the Group on 14 July 2015 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Ms. Colomar has 24 years' experience in public relations and communications, having held senior positions at agency Edelman and Burston Marsteller in Madrid and New York. Previously, she has also served as SVP of Communications at Autonomy where she joined immediately prior to the HP acquisition in August 2011 and worked through May 2012. Ms. Colomar is a Partner and Co-Founder of Invoke Capital. At Invoke, Ms. Colomar is responsible for Communications and Investor Relations and oversees these functions for portfolio companies including Luminance. Ms. Colomar is also a member of the Board of Directors for Luminance, a leading AI platform for the legal industry and an Invoke portfolio company. Ms. Colomar holds a First-Class BA in Modern European Languages from Durham University, and an MA in Journalism from Universidad Autónoma de Madrid.

Stephen Shanley – S



Mr. Shanley joined the Group on 15 July 2016 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Shanley has worked at KKR since 2014 and currently serves as a Managing Director at KKR and as head of KKR's Technology Growth Equity business in Europe. Mr. Shanley serves or has served on the board of directors of several technology companies, including Feedzai – Consultadoria e Inovação Tecnológica, S.A., ReliaQuest, LLC, Zwiif Inc., KnowBe4, Inc., OutSystems Holdings S.A., iValua S.A.S., GetYourGuide AG and Clicktale (UK) Limited. Prior to joining KKR, Mr. Shanley was an investor with Technology Crossover Ventures, a technology focused growth equity firm. Prior to that, Mr. Shanley was with the TMT investment banking group of Needham & Company, LLC. He started his career in the transaction services group of KPMG US LLP. Mr. Shanley holds a B.S. and a B.Sc. from Santa Clara University.



“Darktrace is a critical technology for thousands of organisations around the world as they contend with increasingly sophisticated cyber-attackers. I am excited to be working with Darktrace’s Board of Directors to advance the company’s important mission and success.”

Sir Peter Bonfield CBE FREng

Report of the Board

The Board provides leadership to the Group, sets and monitors the implementation of its strategy and, with its standing Committees, oversees controls, risk management and senior remuneration in the Group. It aims to ensure that the Group has in place appropriate people, financial and other resources to enable value to be maximised for shareholders and other stakeholders over the long-term.

As part of its role, our Board provides both support and constructive challenge to management in the review of proposals, in the monitoring of performance and in the targeting of achievement of the Group's aims, over both the long and shorter terms.

Later in this Governance Report are specific reports from our Nomination, Audit & Risk and Remuneration Committees. This report summarises the role and activities of our Board.

Membership of the Board

The Board currently has nine members:

- its Non-Executive Chair, Gordon Hurst, who was independent on appointment;
- two Executive Directors, Poppy Gustafsson OBE (Chief Executive Officer) and Catherine Graham (Chief Financial Officer);
- three independent Non-Executive Directors, Lord Willetts, Sir Peter Bonfield CBE FREng and Paul Harrison, each appointed shortly before Darktrace's IPO; and
- three non-independent Non-Executive Directors, Vanessa Colomar, Stephen Shanley and Johannes Sikkens each of whom have been nominated by a major shareholder and served since before Darktrace's IPO.

Further details of our Directors are provided on [pages 64 to 66](#).

The diversity of our Directors provides the Board with a broad range of experience of both the Group's business and of other businesses, including in the publicly listed environment. This enables high quality, diverse and relevant input into Board discussions, enriching debates and allowing carefully considered judgements to be reached, consensus arrived at, and decisions then taken.

All Directors have a deep interest in helping the Group achieve its long-term objectives. They all devote sufficient time and attention to their Board duties and responsibilities. They take collective responsibility for the Board's performance. A proper balance of influence is maintained without one person or separate group of people having undue powers of decision-making. All the Non-Executive Directors bring strong and valuable judgement to bear on the Board's deliberations and decision-making process.

The Board believes that its current structure and membership is appropriate for this stage in the Group's development and represents a good balance of skills and experience necessary to manage Darktrace and its business in an effective and successful manner.

Role of the Board

Key activities of the Board include the following:

Responsibility for the overall leadership of Darktrace and setting the company's purpose, values and standards, assessing and monitoring Darktrace's culture and promoting the alignment of culture with purpose, values and standards.

The Board and its Committees meet regularly and review matters of strategic importance. This is usually done in the context of a presentation to the Board providing updates on business performance and updates from specific areas of the business. As part of Board discussions of strategic proposals Non-Executive Directors constructively challenge matters when they feel appropriate as part of reaching an overall consensus. In addition, the Board reviews and seeks to identify risks at a strategic level.

Approval of the Group's strategic aims and objectives.

As part of their regular meetings the Board and its Committees receive updates on strategic aims and objectives and performance against those objectives.

Approvals of the annual operating and capital expenditure and budgets and any material changes to them.

This includes regular reviews of the financial performance and requirements of the Group. It also includes regular updates from the CFO and CEO on developing plans and any material changes to existing annual operating and capital expenditure and budgets.

Review of the Group's performance in light of its strategic aims, objectives, business plan and budgets and ensuring that any necessary corrective action is taken.

As well as financial performance, the Board reviews the operational development of the Group and its markets to ensure its strategy remains appropriate and to consider and decide upon any adjustments that may improve this.



Report of the Board

Board and Committee Meetings

The Board meets at regular intervals through the year both at scheduled meetings and other meetings as required. At these meetings, it reviews:

- progress against previously agreed actions;
- business performance;
- shareholder communications and feedback;
- the Group's industry activity;
- operational matters of particular note for the Board;
- strategic considerations; and
- reports of proceedings of Board Committees.

Further details of the meetings of the Board and of our Directors' attendance at these are given in the adjoining table. Where a Director is unable to attend a particular meeting, full documentation for the meeting is issued to them, their views sought in advance and briefings are provided subsequent to the meeting as appropriate.

Members of management in addition to the Executive Directors may be invited to present relevant matters to the Board where considered appropriate. Executive Directors and members of management may also attend and present on relevant matters at Committee meetings at the invitation of the Committee Chairs.

Directors have the right to request that any concerns they may have are recorded in the appropriate Board or Committee minutes (although no such requests were made during the period). Minutes are circulated for comment by all Directors before being formally approved at the next relevant meeting.

Support to Directors

The Directors have free access to Darktrace's management and advisors and to visit Darktrace's operations. As part of our IPO process, on appointment the Directors received a comprehensive induction facilitated by the Company Secretary and external counsel. This induction included meetings with key members of management, the Company Secretary and external counsel together with briefings on the Group's business, its industry and their duties as directors of a public listed company generally. Directors will have access to ongoing training as required.

All Directors also have access to the advice and services of the Company Secretary. The Company Secretary acts as Secretary to each of the Board Committees reporting in these roles directly to their Chairs, and advises through their Chairs on compliance with Board and Committee procedures and applicable laws and regulations on governance matters. Directors are also able to take external advice at the expense of the Company, should they feel this is necessary.

Attendance at Meetings

The numbers of and attendance of current Board and Committee members at meetings and calls for the period since Darktrace IPO to the date of this Annual Report is as follows:

Total Meetings	Board	Audit & Risk	Remuneration	Nomination
Gordon Hurst	●●●*	●●●***	●●	●
Poppy Gustafsson OBE	●●●	●****	●**	●
Catherine Graham	●●●	●●●****	●●**	
Lord Willetts	●●●	●●●	●●	●*
Sir Peter Bonfield CBE FREng	●●●	●●●	●●*	
Paul Harrison	●●●	●●●*	●●	
Johannes Sikkens	●●			
Stephen Shanley	●●●			
Vanessa Colomar	●●●			

*Denotes Chair status.

**Although not members of the Remuneration Committee Poppy Gustafsson OBE and Catherine Graham are invited to attend part of Remuneration Committee meeting discussions on specific agenda items.

***Although not a member of the Audit & Risk Committee Gordon Hurst is invited to attend Audit & Risk Committee meetings.

****Although not members of the Audit & Risk Committee Poppy Gustafsson OBE and Catherine Graham are invited to attend meetings of the Audit & Risk Committee.



Report of the Board

Division of Responsibilities

Whilst the Directors take collective responsibility for the management of the Group, the effective operation of the Board in conjunction with management benefits from a clarity of responsibilities. Key elements of this are set out below.

Matters Reserved to the Board

The Board has adopted a formal schedule of matters specifically reserved for its or its Committees' decision which includes, amongst other things,:

- the Group's strategy, which is reviewed by the Board and management when appropriate during the year;
- the business plan and annual operating budget;
- internal controls and risk management, which are reviewed regularly by the Audit & Risk Committee;
- major investments and capital projects, in which the Board monitors their subsequent performance;
- shareholder communications, such as announcements of results, this annual report and the accompanying notice of AGM to shareholders;
- accounting policies, which are reviewed in detail by the Audit & Risk Committee;
- the Board structure, composition and succession planning, which are handled in more detail by the Nomination Committee;
- Executive remuneration policy and the remuneration of the Chair, which are handled by the Remuneration Committee;
- Corporate governance matters including group-wide policies; and
- the remuneration of the Non-Executive Directors.

Subject to such reserved matters, and any other matters which the Board determines are appropriate for its specific decision as they arise, authority for the operation of the Group is delegated to Executive and other management within a system of defined authority limits. The matters reserved for the Board's decision are reviewed periodically and updated as considered appropriate

The Chair, CEO and SID

Another important aspect of the division of responsibilities in any listed company is between the roles of Chair and the CEO. At Darktrace, these roles are separate and distinct with a clear division of responsibilities at the head of Darktrace established, agreed and set out in writing at the time of the IPO:

- the Chair is primarily responsible for managing the Board, facilitating the effective contribution of all Directors, and ensuring effective communication with shareholders, and that all Board members are aware of the views of major investors; and
- the CEO, together with the CFO, has been delegated appropriate responsibilities and authorities for the effective leadership of the senior management team in the day-to-day running of the business, for carrying out the agreed strategy and for implementing specific Board decisions relating to the Group's operations.

In addition, Lord Willetts, as Senior Independent Director, is available to fellow non-executive directors, either individually or collectively, should they wish to discuss matters of concern in an alternative forum.

Standing Board Committees

In addition, certain matters have been delegated to three principal Board Committees within clearly defined terms of reference which were approved at the time of the IPO. These remits, together with the composition of each Committee, will be reviewed periodically. The current terms of reference for the Audit & Risk, Remuneration and Nomination Committees are available on Darktrace's website at www.ir.darktrace.com. Summaries of the roles of each of these Committees are included later in this Corporate Governance Review.

Performance Reviews and Directors' Development

An evaluation of the performance of the Board, its individual Directors and its Committees, and of the Chair, will be undertaken following the first full year after Darktrace's IPO. This will be reported on further in next year's Annual Report. Part of the evaluation of the Board will assess the training activities and needs of Directors. Directors receive regular briefings on matters in relation to the Group and more generally.

During the period the Chair held both formal and informal discussions with the Non-Executive Directors without the Executive Directors being present.

Shareholder Relations

The Board is committed to maintaining good communications with existing and potential shareholders based on the mutual understanding of objectives. The Chief Executive Officer and Chief Financial Officer, supported by the Head of Investor Relations, have regular dialogue with institutional shareholders in order to develop an understanding of their views which is communicated back to, and discussed with, the Board.

Presentations given to analysts and investors along with all results and other regulatory announcements and further information for investors are included on Darktrace's website at www.darktrace.com. Additional Shareholder Information is also set out on [page 210](#).

Shareholders are able to contact Darktrace through the Company Secretary or Head of Investor Relations.

Lord Willetts, the Senior Independent Director, serves as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through the normal channels. He may be contacted through the Company Secretary.

Annual General Meetings

All shareholders are encouraged to attend, and have the opportunity to ask questions at, Darktrace's Annual General Meetings and at any other times by contacting Darktrace. As well as the Chair, CEO and CFO, the Chairs of the Audit & Risk, Nominations and Remuneration Committees will be available at the Annual General Meeting to answer questions relating to the responsibilities of those Committees. All Directors will retire at every AGM and, where considered appropriate by the Board, be proposed for reappointment by shareholders.

The Notice convening the 2021 AGM to be held on 24th November, 2021 will be issued along with this Annual Report at least 21 working days in advance of the meeting to provide shareholders with the appropriate time to consider matters. Separate resolutions will be proposed on each substantially separate matter. The results of the proxy votes on each resolution will be collated independently by Darktrace's registrars and will be published on Darktrace's website after the meeting.

On behalf of the Board

Gordon Hurst

Chair

Report of the Nomination Committee

The Nomination Committee comprises me, Lord Willetts as its Chair as well as Gordon Hurst, Chair of the Board, who was considered independent on appointment and Poppy Gustafsson OBE our Chief Executive Officer. The Committee is responsible for evaluating the balance of skills, knowledge and experience of the Directors. It also reviews the composition and structure of the Board and makes recommendations to the Board on retirements and appointments of additional and replacement Directors, including succession planning.

The appointment of our current independent Non- Executive Directors followed a formal, rigorous and transparent recruitment process after assessing the skills and character profile that would be required. This included candidates meeting ongoing Directors prior to their recommendation for appointment by the Board.

One of the key considerations on any appointment to the Board relates to diversity. The Board policy will be to continue to seek diversity, including with regard to gender, as part of the overall selection of the best candidates for Non-Executive Director roles. Any appointments to Executive Director roles will also be made within the Group's aims for its people and culture set out earlier in the Strategic Report.

In accordance with the provisions of the Code, all our Directors will retire at each AGM and, if decided appropriate by the Board, may be proposed for reappointment. In reaching its decision the Board acts on the advice of the Nomination Committee.

Given the short period that the Board has been in charge, no formal evaluation has yet been undertaken however the Chair confirms that the performance of each of the Non-Executive Directors continues to be effective and to demonstrate commitment to their role. The Committee considers that they each provide distinct and valuable input to the overall operation of the Board.

The Committee intends to undertake a formal evaluation of the Board and its Committees during the course of the next calendar year in accordance with the recommendations of the Code. Part of this evaluation will be to assess the training activities and needs of Directors. Directors receive regular briefings on matters in relation to the Group and more generally.

I look forward to reporting to you again next year on the Committee's progress in these areas and its other activities.

Lord Willetts

Chair of the Nomination Committee

15th of September 2021



Report of the Audit & Risk Committee

As the Audit & Risk Committee, we assist the Board in its oversight of financial reporting, internal control and risk management. This report summarises our membership and activities during 2021 since the IPO.

Membership

Our committee comprises three independent Directors, Sir Peter Bonfield CBE FREng, Lord Willetts and me, Paul Harrison, as Chair of the Committee.

Role and Activities

We met once as a Committee after the IPO prior to year-end to set our ways of working and initiate the external audit process, and we have met twice subsequently since the year-end. We considered this frequency of meetings appropriate during Darktrace's first few months as a public company although anticipate fewer meetings in the same period in the coming year. Poppy Gustafsson OBE our CEO and Catherine Graham, our Chief Financial Officer, and senior representatives of the financial management team also attend our meetings as do representatives of the external auditors as appropriate. At our meetings in the past year, we received presentations on, and reviewed and considered the following matters:

- the remuneration and proposed reappointment of our external auditors;
- the independence, objectivity and effectiveness of the external auditors;
- the plans for and outcome of the preparation of the Group's Full Year accounts including presentations from both management and the external auditors on these;
- the Group's accounting policies, procedures and its financial control environment;
- the Group's system of internal controls, including financial, operational and risk management, supplementing at a more granular level the Board's consideration of strategic risks;
- key internal policies including anti-bribery and related policies and whistleblowing arrangements;
- plans for the establishment of the internal audit function in the Group reporting directly to the Committee and drawing on and developing control and risk management procedures already being undertaken, (as a relatively young company Darktrace had not established an internal audit function prior to its IPO and the Committee will now work with management on the plans for the establishment of the internal audit function); and

- whether the Annual Report taken as a whole provides a fair, balanced and understandable assessment of the Group's position and prospects and whether it provides the necessary information to assess the Group's performance, business model and strategy, the ultimate decision on which is taken by the Board, as set out in the Directors' responsibility statement in the Directors' report on [page 116](#).

The Committee also meets privately with the external auditors at least once per year and did so prior to its recommendation to the Board on approval of the Annual Report.

Significant Risks

Prior to each meeting of the Audit & Risk Committee at which they are to be considered, management produces a paper providing details of any significant accounting, tax, HR and legal issues. Management are also invited to attend these meetings where further guidance is required. The significant issues considered by the Audit Committee in respect of the 2021 Annual Report are as follows.

Revenue Recognition

Most of the Group's revenue is derived from multi-period subscription or licence contracts. This revenue is recognised on a straight-line basis over the subscription or license period as the customer simultaneously receives and consumes the benefits from the products it purchased within the Group's Cyber AI Platform as the Group performs. The Group's efforts are expended evenly throughout the performance 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 separately from its software product deployments, but always to customers who have software product deployments. Similarly, in a small number of hardware deployments, ownership of hardware transfers to the customer. In these scenarios the revenue is recognised at the point in time when the training or appliance is delivered.

Management have assessed that the Darktrace contracts contain a single combined solution, with its services being delivered to end users equally over the period of the contract, because the products and ancillary services are significantly integrated to provide a single output. As raised during the IPO, there is a challenge raised that the training element included in some contracts is a separate performance obligation, delivered once at the beginning and not over the total contract term. On review management determined that it is an immaterial portion of the revenue on any single contract and in total, but that it would disclose this in the financial statements.

During the audit there has been renewed challenge over the training element of the contracts.

How the Issue was Addressed

The Committee requested an update on the control environment and on the progress made with respect to the control recommendation issued by the external auditors as a result of the IPO process. Control environment around the revenue generation process for new contracts and design and implementation of relevant controls has been enhanced through a combination of manual controls and exception reports.

Capitalised Research and Development

There is a risk that development costs could be incorrectly capitalised. The Group has continued to undertake development activities in the year and these activities needs to be compared against the criteria set out in IAS 38 to ensure that the capitalisation criteria are met.

How the Issue was Addressed

The Committee requested an update on the control environment and on the progress made with respect to the control recommendation issued by the external auditors as a result of the IPO process. Since the finalisation of the IPO, management have put in place more formalised procedures to identify triggers for capitalisation and amortisation.

Recognition and Conversion of the CLNs

The CLN's (\$163m) were issued on 1 July 2020 with annual interest at 9% if converted into equity rather than cash which would carry an 18% interest rate. The notes contained an embedded derivative due to their conversion at a 35% discount of the IPO price. The CLNs were therefore accounted for as a separate derivative and a host loan, which were accreted over the life of the contract with the financing costs being recognised monthly through the profit and loss.

The conversion of the loan notes happened on 30 April following the finalisation of pricing. At this point the price was known and therefore the number of shares the note holders would receive could be calculated. The conversion of the loan notes and the equity that they received was disclosed in the prospectus.

Due to the complexity of the loan note terms including discounts and early settlement incentives, there is a risk that the financial instrument (including the embedded derivative) have not been appropriately accounted for or presented within the financial statements.

How the Issue was Addressed

The Committee requested an update on key judgement areas and significant estimates affecting the annual report for the year ended 30 June 2021 and in particular on the CLNs conversion. An external expert was appointed to support in the accounting analysis and in the valuation of the financial instrument.

Key observations driving the fair value of the embedded derivative at inception and conversion: As the transaction was negotiated on the basis of an IPO/equity event, the fair value of the embedded derivative on the inception date should be a relatively high proportion of the overall value. As time moves towards the anticipated IPO date and absent any information contradicting the likelihood of an IPO on/around that date, the fair value of the embedded derivative would increase significantly. In particular the change in the value of the derivative from inception to prior conversion reflects the change in weight of the probability of IPO to virtually certain.

Date of Derecognition of the CLNs and Fair Valuation:

According to the CLNs agreement, in case of the underwritten IPO, the amount of conversion securities was equal to accrued entitlement amount divided by the offer price per share. The price offered on IPO was £2.50 per share. According to the Group legal advisers, the conversion became unconditional and was fixed at the £2.50 offer price per share at that date.

Derecognition was deemed to be at 00.45 on 30 April 2021. The share exchange deed was fully executed at 00.45 on 30 April 2021, shortly after pricing of the IPO, and superseded all previous CLNs agreements. Pursuant to the share exchange deed, it was unconditionally agreed that the CLNs would be converted on 4 May 2021. As there was no active market value at the point of derecognition, it is management judgment that the offer price represents the fair value at that date, being the price fixed for the Company's shares based on market information available at that time. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued interest of 9% and a discount of 35% implied by the terms.

Report of the Audit & Risk Committee

Share-Based Payment

There are a significant number of share options in existence on which there is a risk that the expense recognised in the year may be materially misstated due to error. In addition, there have been a number of new options issued in the year with new conditions including some with performance based vesting conditions. Each new issuance will require careful consideration to ensure assumptions used within the valuation models are accurate.

There is a significant estimate of provision for the employer tax liability for the share-based payment

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.

How the Issue was Addressed

The Committee requested an update on key judgement areas and significant estimates affecting the annual report for the year ended 30 June 2021 and in particular on the share-based payments. Management has involved an expert (BDO) for the valuation of the AIP awards and for the creation of two models to be used going forward for the measurement of the share-based payments charges and of the provision for related taxes.

Furthermore, management has consulted KPMG for the accounting of the AIP awards and of the top up awards in particular given the sensitivity of the assumptions in the valuation of the awards.

Significant judgement exist around the definition of the grant date and the price of the shares granted at the AIP.

On 30 April 2021 AIP awards were approved and finalised under five award schemes following the Company's admission to the London Stock Exchange on 6 May 2021 (the 'Admission Date').

IFRS 2 defines the grant date as the date on which the company and participants obtain a shared understanding of the key terms of the share-based payment, subject to any approvals and acceptance of the award. The parties involved in a share-based payment arrangement will generally have a shared understanding of the arrangement's terms and conditions. But some terms might need to be confirmed later. IFRS prescribes that the fair valuation of the awards should be calculated at grant date. Given the increase in share price after the initial offer, there would be a significant change in the valuation of the awards if the grant date would be considered at a later stage.

The awards were evidenced by the pre-IPO board minutes of 25 April and 29 April 2021 approving the conditional awards on those dates. A shared understanding of the terms of the awards was also obtained between the grantor and the participants by reason of an email sent by the CEO to participants on 30 April 2021. It is considered therefore, that an accounting grant date was achieved on 30 April 2021 in relation to the AIP awards.

Management used the offer price of £2.50 (\$3.5), as the appropriate share price at grant date to be used for the valuation. Paragraph 16 of IFRS 2 state that for transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. In this case, as the grant date was determined to have occurred on the date the Company's shares commenced trading, management considers appropriate to use the admission price on the basis that this price represents the price per share received by the Company and existing shareholders on the sell down of their stock on IPO on that date.

IPO Cost Accounting

The Group incurred various costs in issuing its own equity instruments, most of which are transaction costs. Transaction costs are incremental costs that are directly attributable to the equity transaction that otherwise would have been avoided if the equity instruments had not been issued. Transaction costs of an equity transaction should be accounted for as a deduction from equity.

Incremental costs that are directly attributable to the equity transaction that otherwise would have been avoided if the equity instruments had not been issued include registration and other regulatory fees, underwriting costs and brokerage fees, amounts paid to lawyers, accountants, investment bankers and other professional advisers, fees and commissions paid to agents, brokers and dealers, printing costs and stamp duties.

How the Issue was Addressed

The Committee requested an update on key judgement areas and significant estimates affecting the annual report for the year ended 30 June 2021 and in particular on the IPO cost accounting treatment. There is judgement in the definition of directly attributable to the equity transaction and in the consideration of those costs relate or not to the listing of new shares or existing shares and significant estimate in the identification of the portion of the cost

directly attributable to IPO activities. Furthermore, most of costs identified as directly attributable to the IPO have been apportioned to equity considering the portion of shares newly issued at IPO (19%) versus the existing shares admitted for listing, as applicable.

Costs for marketing the IPO, including the 'road show', do not meet the definition of a transaction cost and therefore have been accounted for in the income statement. Listing fees, even though directly attributable to IPO, do not relate to the issuance of new shares and therefore management has considered their deduction from the share premium inappropriate.

Overall, out of a total IPO cost of \$28.8m, \$13.5m has been deducted from the share premium and remaining accounted in the income statement for an amount of \$15.3m.

Going Concern

The Group and parent company's business activities, together with the factors likely to affect its future development, performance and position, have been considered in depth as part of the preparation of the financial statements and the Directors' assessment of the Group and parent company's ability to continue as a going concern. In particular, the Directors have reviewed detailed trading forecasts taking into account the Group and parent company's financial position, recent performance, and risk management policies in concluding on the Group and parent company's continuing viability. The Directors have further reviewed liquidity and covenant forecasts for the Group and parent company for the period to 30 September 2022 as part of their assessment of going concern.

How the Issue was Addressed

A paper was requested to management specifically addressing the viability statement and the going concern assumption.

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.

Meeting the New Reporting Requirements of Being a Listed Entity

In May 2021 Darktrace was admitted to listing on the London Stock Exchange, bringing with it additional regulatory and reporting requirements. Being a listed entity brings with it additional reporting requirements and the Group's 2020/21 Annual Report is the first prepared under such requirements.

How the Issue was Addressed

Management have employed experienced individuals to ensure all reporting requirements are met. The Audit & Risk Committee reviewed the disclosures in the Annual Report, including those included for the first time, and discussed them with management and the Group's auditors.

Report of the Audit & Risk Committee

Internal Controls and Risk Management Environment

The Board is ultimately responsible for the operation of an effective system of internal control and risk management appropriate to the business.

Darktrace has complied with the FRC's revised Internal Control Guidance for Directors on the Code published in 2005 (the Turnbull guidance) in the period from Admission to the date on which these financial statements were approved.

Day-to-day operating and financial responsibility rests with senior management and performance is closely monitored on a monthly basis.

Set out below is further comment on the areas of internal control and risk management.

Internal Control Environment

The following key elements comprise the internal control environment which has been designed to identify, evaluate and manage, rather than eliminate, the risks faced by the Group in seeking to achieve its business objectives and ensure accurate and timely reporting of financial data for Darktrace and the Group:

- an appropriate organisational structure with clear lines of responsibility;
- systems of control procedures and delegated authorities which operate within defined guidelines, and approval limits for capital and operating expenditure and other key business transactions and decisions;
- a robust financial control, budgeting and rolling forecast system, which includes regular monitoring, variance analysis, key performance indicator reviews and risk and opportunity assessments at Board level;
- procedures by which the Group's consolidated financial statements are prepared, which are monitored and maintained through the use of internal control frameworks addressing key financial reporting risks arising from changes in the business or accounting standards;
- an experienced and commercially focused legal function that supports the Group's operational and technical functions;
- established policies and procedures setting out expected standards of integrity and ethical standards which reinforce the need for all employees to adhere to all legal and regulatory requirements;

- an experienced and qualified finance function which regularly assesses the possible financial impact of the risks facing the Group; and
- an ongoing risk management programme.

Risk Management Framework

As part of the IPO process Darktrace implemented a robust risk management process that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities. A register is kept of all corporate risks and is monitored by senior management and reported to the Audit & Risk Committee.

The risk register and the methodology applied is the subject of continuous review by senior management which includes the ongoing process of categorising and prioritising risks already identified in addition to reflecting new and developing areas which might impact business strategy.

This risk management framework includes risks identified at the time it was implemented as part of the IPO process earlier in the year updated to the present and also seeks to capture emerging risks that might impact the business in the coming years.

The Audit & Risk Committee will continue to review the risk register throughout the year and assess the actions being taken by senior management to monitor and mitigate the risks. Those risks which are considered to be the principal risks of the Group are presented on [pages 54 to 59](#).

Review of Effectiveness

The Audit & Risk Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place from the date of Admission, taking account of any material developments (financial, operational and compliance) since the financial period end. Several issues have been identified of which the significant ones are mainly system related. Some of these have already been remedied by the implementation of new controls since the date of Admission and those remaining will be addressed by the implementation of a new ERP system (and the process of identifying the correct ERP system has already commenced)

The Audit & Risk Committee will continue to review the ongoing development of the internal control systems and risk management processes (including the selection and implementation of the new ERP system).

Independence and Performance of the Auditors

The Audit & Risk Committee will develop and recommend to the Board Darktrace's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

Since Admission, the Auditors have not provided any non-audit services to Darktrace. Prior to Admission, the audit-related assurance services provided by the Auditors to the Group related mainly to their work as Reporting Accountants in connection with Darktrace's IPO. They also included tax compliance and tax advisory work. Primarily due to their role as Reporting Accountants for the IPO the non-audit fees have exceeded the audit fees in the 2020/21 financial year.

The fees paid for these other services during the year represented 72.4% of the fees paid for the statutory audit and audit-related assurance services together. However, excluding the fees in relation to their role as Reporting Accountants, this proportion was 9.4%. Further details of these amounts are included in [note 8](#) of the accounts.

The Audit & Risk Committee has primary responsibility for conducting any tender process and making recommendations on appointment, reappointment and removal of auditors, and approving the terms of engagement and the remuneration of the external auditor. The Committee keeps under review the requirements on audit-tendering and rotation from the European Union and the Competition and Markets Authority. Darktrace will be required to change its audit firm for the year ending 25 July, 2041, at the latest.

The audit was last tendered in 2018 and Grant Thornton UK LLP has been in place as the Darktrace's auditor for more than three years. Auditors are required regularly to report on and confirm their independence in their role. Whilst we do not consider it necessary to have a policy for the rotation of the external audit firm given the short period of time since Darktrace's IPO, we plan to keep this possibility under review in the coming years and will continue to comply with the audit tender rules applying to Darktrace.

On behalf of the Audit & Risk Committee

Paul Harrison

Chair of the Audit & Risk Committee

15th of September 2021

Report of the Remuneration Committee

As Chair of the Remuneration Committee I am pleased to present this first Report on Directors' Remuneration since Darktrace's IPO in May 2021.

This report is divided into three sections:

- this Annual Statement, which summarises the work of the Committee and our approach to Directors' remuneration;
- the Remuneration Policy section, which is put to shareholders under a binding shareholder vote and provides the framework for Executive Remuneration; and
- the Annual Report on Remuneration, which is put to shareholders by an advisory shareholder vote and sets out the remuneration outcomes for the proportion of the financial year from 29 April when Darktrace plc was incorporated into the Group and the Directors commenced providing qualifying services, to 30 June 2021 and the proposed remuneration for the upcoming year.

Role of the Remuneration Committee

The Committee comprises me as Committee Chair, Lord Willetts, Paul Harrison and Gordon Hurst, all of whom are independent Non-Executive Directors and provide a balance of skills and experience. The full terms of reference of the Committee are available on Darktrace's corporate website at www.darktrace.com. In summary, the Committee's scope is as follows:

- to develop the Group's policy on executive remuneration and monitor its ongoing appropriateness;
- to determine the remuneration for the Executive Directors and the senior management plus the Chair of the Board;
- oversee the remuneration of our wider workforce and ensure that our policy for the senior team is consistently structured; and
- oversee the operation of the Group's share schemes.

Our response to COVID 19

As a business, we have been less directly impacted by COVID-19 than many other businesses although it nevertheless presented challenges in terms of managing our people. Our focus throughout has been ensuring staff wellbeing and providing support to them where needed. Business performance has been resilient and we have not received government support in any of the markets in which we operate.

Remuneration payable in respect of FY 2021

The Single Figure of Remuneration payable for the period ended 30 June 2021 shown in this report is based on the period from 29 April to 30 June 2021. The base salary, benefits and pension are the amounts payable over this period. The annual bonus (which, for the year ended 30 June 2021 was unaffected by Admission) is the pro rata amount of the full-year bonus. The bonus was determined based on the strong growth in Annualised Recurring Revenue Balance and Net Annualised Recurring Revenue Added combined with delivery of key strategic objectives over the year. In line with our policy prior to Admission the bonus has been paid in cash.

The Committee reviewed the bonus outturn in the context of the broader business performance and the experience of all stakeholders over the year and recognising that it has been a milestone year for Darktrace with its successful IPO and a strong first set of results, concluded that it was appropriate in all the circumstances.

Legacy Share Option Scheme and Growth Shares

As set out in the prospectus, prior to Admission the Group operated an employee share option scheme and certain growth share arrangements. Share options held by our employees that had not vested under their normal terms by Admission will continue to vest on their normal terms. Our CEO and CFO do not hold any unvested share options. Legacy share options will be satisfied, in the jurisdictions where local laws permit, by shares issued to our employee benefit trust prior to Admission and will not dilute shareholders through the issue of further shares.

Prior to Admission, certain employees, including the Executive Directors, held growth shares which were restricted shares with the lifting of restrictions subject to service. The growth shares were converted into ordinary shares in the Company, which remain subject to the same service based restrictions and are held subject to a nominee arrangement. The lifting of restrictions of these restricted shares does not require the issue of any shares. As part of the legacy growth share arrangements the Board granted on 30 April 2021 conditional on Admission legacy growth shareholders a rollover award in the form of a conditional award, with a share price performance condition.

These pre IPO share incentive arrangements do not form part of our new Directors' Remuneration Policy or forward-looking incentive arrangements. The conditional awards held by our CEO and CFO and the vested but not yet exercised share options held by our CEO are detailed in the table of share awards later in this report. Our legacy incentives have been an important part of our pre-Admission growth strategy building the business so that we can continue to deliver exceptional returns to our shareholders.

Wider employee incentives, employee benefit trust arrangements and share dilution limits

We are a global business with employees in countries where share incentive market practice is very different from that in the UK, for example in North America. To ensure that we are able to provide market competitive remuneration packages and incentivise our workforce appropriately we have adopted a global Award Incentive Plan ("AIP") which enables us to grant employees different share incentives (for example share options, conditional awards and restricted shares) as appropriate for the markets in which we operate. As part of this strategy our AIP contains a single maximum share dilution limit for all share awards of 10% in 10 years.

An employee benefit trust has been established and holds shares issued prior to Admission to facilitate the exercise of the legacy share options awards, where local laws permit.

Directors Remuneration Policy for FY 2022

Prior to Admission, the proposed Directors' Remuneration Policy was considered carefully to ensure that, after Admission, it incentivises and rewards long-term, sustainable growth of the Company, complies fully with the UK Corporate Governance Code and is in line with market best practice and the guidelines of UK institutional shareholders and advisory bodies.

The policy is designed to provide appropriate fixed pay levels with an emphasis on long-term incentives for the achievement of stretching performance targets. The weighting of the incentives is balanced to achieving the long-term business strategy, with payment in shares which must be held long-term. We are a high performing business with a significant amount of pay at risk and based on performance.

Our CEO and CFO's salaries are below the levels for comparable organisations and the Committee acknowledges that as our executives grow in role and experience it may be appropriate to review the current market positioning.

Full details on the Remuneration Policy are set on [pages 84 to 97](#) and this will be put forward for shareholder approval under Resolution 14 and 15.

Report of the Remuneration Committee

Operation of the Policy in FY 2022

The remuneration arrangements for the Executive Directors for FY 2022 is set out below:

- Salaries on Admission were set at £475,000 for the CEO and £375,000 for the CFO and these will remain unchanged for FY 2022.
- Executive pension rates are in line with the wider workforce at 4 per cent. of their base salary as an employer contribution.
- The maximum annual bonus payable is 150 per cent. of base salary for both the CEO and CFO, with one third of any bonus earned paid in shares to be held by the executives for at least two years and the remainder will be paid in cash. The performance conditions for the bonus are 80% financial metrics comprising 50 per cent. constant currency Net Annualised Recurring Revenue Added and 30 per cent. constant currency Gross Churn and 20% strategic objectives focusing on driving the evolution of salesforce and other corporate structures to support effective growth and scale.
- The Committee has determined that for FY 2022 it is appropriate to base the annual bonus on revenue metrics which are key to evaluating top line growth and business performance. The Committee will consider during the course of FY 2022 the likely timing for the introduction of additional financial measures into the bonus scheme as well as how and when ESG metrics might be included in our incentive schemes.
- On 30 April 2021 conditional on Admission, the Executive Directors were granted the first conditional share awards with performance conditions under the AIP ("AIP Awards"), over shares with a value of 250 per cent. of base salary for the CEO and 200 per cent. of base salary for the CFO. There will be no further awards in FY 2022. Vesting of these AIP Awards will be conditional on the total shareholder return (TSR) of Darktrace outperforming the companies in the FTSE 350 Index excluding investment trusts. The TSR performance condition will be measured from Admission until 30 June 2024 and will provide a focus on ensuring that our strong operational and financial performance translates to superior levels of share price growth, compared to the UK stock market. Shares from vested awards must be held for a further two years, to help ensure that the excellent performance delivered over the initial performance period is sustainable.

- There is a strong alignment of interest between Executive Directors and shareholders through their significant shareholdings, well beyond the minimum shareholding requirement of 200 per cent. of base salary (which extends for a period of two years after cessation of employment).

Wider employee context

The Committee takes an active interest in the pay and benefits offered to employees across the whole of our workforce as well as other related workforce policies practices. We are a newly listed company with the Committee established with effect from Admission, but our annual agenda will ensure there is sufficient time allocated to focus on these matters.

Our culture and remuneration philosophy is aligned across the business. Base pay and benefits for all employees are market competitive and all employees participate in a bonus and/or commission scheme.

As we described earlier in the people and culture section of this report, we continue to build on our employee engagement, our diversity and inclusion initiatives and monitor our gender pay gap.

We are taking steps to establish an employee forum as a critical part of our employee engagement and it is through this that the Committee will be talking to employees in the year ahead to explain the alignment of executive pay to the wider group reward policy.

Closing remarks

The Committee has achieved a significant amount in the first few months since Admission and we look forward to the year ahead as we review and develop the operation of the Executive Directors' remuneration policy and increase our understanding of workforce policies and practices to ensure a cohesive Group approach to remuneration which supports the culture of our business and enhances returns for our shareholders.

On behalf of the Committee, thank you for reading this report and we look forward to receiving your support at the AGM on 24 November, 2021 in relation to the pay-related Resolutions 14 and 15.

On behalf of the Remuneration Committee

Sir Peter Bonfield, CBE, FREng

Chair of the Remuneration Committee

15th of September 2021



“Darktrace is a critical technology for thousands of organizations around the world as they contend with increasingly sophisticated cyber-attackers”

Sir Peter Bonfield CBE FREng

Report of the Remuneration Committee

Overview of Remuneration Policy for FY 2022

	CEO Poppy Gustafsson OBE	CFO Catherine Graham
Annual Base Salary	£475,000	£375,000
Pension and Benefits	Executive Directors receive a contribution to pension arrangements in line with that available to the majority of the workforce in the country of appointment. This is currently equal to 4% of base salary. Benefits comprise family private health cover and life assurance cover and for the CFO as a US tax payer, an allowance towards the cost of personal tax and accounting advice.	
Annual Bonus	Maximum opportunity: 150% of base salary	Max opportunity: 150% of base salary
	Performance conditions: 50% constant currency Net Annualised Recurring Revenue Added, 30% constant currency Gross Churn and 20% strategic objectives. Structure: One third earned will be paid in shares with a 2 year holding period, the remaining two thirds will be paid in cash.	
Award Incentive Plan ("AIP")	Award level: 250% of base salary	Award level: 200% of base salary
	Performance conditions: Relative TSR vs FTSE 350 index (excluding investment trusts) Structure: Performance period Admission to 30 June 2024 and post-vesting holding period such that there is a period of 5 years from the date of grant to the earliest opportunity to dispose of shares (except to pay taxes on vesting of an award).	
Minimum Share Ownership Guidelines	In-employment: 200% of base salary. Post-employment: the lower of shares held on cessation of employment and shares to the value of 200% of base salary, for 2 years post-cessation of employment.	

Directors' Remuneration Policy

This Directors' Remuneration Policy which has been prepared in accordance with the Large and Medium-sized Companies and Groups Accounts and Reports Regulations 2008 (as amended) (the "Regulations will be subject to a binding shareholder vote at the 2021 AGM. Subject to shareholder approval, it will apply from the date of the 2021 AGM and is intended to apply for a period of three years. The Policy, as set out in this section, is consistent with the information provided in the prospectus published when the Company was admitted to trading on the London Stock Exchange ("Admission").

The Directors' Remuneration Policy has been designed to encourage long-term, sustainable growth, provide market competitive overall remuneration for the achievement of stretching performance targets aligned to the business strategy and to enable the cascade of incentives throughout the business to ensure that

employee incentives overall are linked to the Company's performance and provide alignment between employees and shareholders. The policy further provides a framework for the Company to provide market competitive rewards to enable the business to attract and retain the best talent.

The policy has been tested against the six factors listed in Provision 40 of the UK Corporate Governance Code, namely: clarity, simplicity, risk, predictability, proportionality and alignment to culture.

Pay Element and Purpose	Operation	Opportunity	Performance Metrics, Weighting and Assessment
Base Salary			
To provide a base level of remuneration to help us acquire, retain and engage top talent ensuring no over reliance on variable pay.	Salaries are set and normally reviewed annually taking into account several factors including (but not limited to): <ul style="list-style-type: none"> - The Executive Director's role, responsibilities, experience and skills; - The remuneration policies, practices and philosophy of the Company; - Pay conditions in the Group; - Business performance; - Market data for similar roles and comparable companies; and - The economic environment. 	Salary increases will normally be in line with increases made to the wider workforce. Higher increases may be made where appropriate, for example but not limited to where an Executive Director is appointed on a salary lower than the targeted policy to recognise experience gained and performance in role with a view to aligning to market over time, there is a change to role or there is additional responsibility or complexity.	None
Benefits			
To provide a market competitive level of benefits based on the market in which the Executive is employed	Executive Directors receive benefits which include, but are not limited to, family private health cover and life assurance cover and an allowance towards personal tax and accounting advice. The Remuneration Committee may include other benefits including (but not limited to) car allowance, relocation expenses, tax equalisation and support in meeting specific costs incurred by Executive Directors in carrying out their duties and tax payable through reimbursement of business related expenses.	The maximum will be set at the cost of providing the benefits described.	None
Pensions			
To provide retirement benefits	Executive Directors are eligible to receive a contribution to pension arrangements or cash in lieu.	The maximum amount is that available to the majority of the workforce in the country of appointment (currently 4% of base salary which is the contribution available to the UK workforce).	None

Report of the Remuneration Committee

Pay Element and Purpose	Operation	Opportunity	Performance Metrics, Weighting and Assessment
Annual Bonus			
To reward annual performance against financial and non-financial KPIs and to encourage long-term sustainable growth and alignment with shareholders' interests through payment in shares	<p>The Remuneration Committee will determine the Annual Bonus payable after the year-end, based on performance against targets.</p> <p>No more than two thirds of the Annual Bonus will be paid out in cash after the end of the financial year. The remaining amount will be used to purchase shares which the Executive Director is required to hold for two years.</p> <p>Malus and clawback provisions will apply up to the date of the Annual Bonus determination and for three years thereafter. Malus and clawback triggers are set out in a separate section below.</p>	The maximum Annual Bonus opportunity for the Executive Directors is 150% of base salary.	<p>Performance measures will be determined by the Remuneration Committee and set each year in line with Company strategy. Performance will normally be measured over a one-year period.</p> <p>The majority of the bonus will be based on financial performance. For financial targets no more than 25% of the bonus is payable for delivering a threshold level of performance rising on a graduated scale to 100% for maximum performance. Payment for threshold performance to be determined at the time targets are set.</p> <p>In relation to non-financial objectives the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full.</p> <p>The Remuneration Committee has the discretion to adjust the formulaic outcome of the bonus if the Remuneration Committee believes it is not a fair and accurate reflection of business performance, wider stakeholder considerations and any other relevant factors.</p>

Pay Element and Purpose	Operation	Opportunity	Performance Metrics, Weighting and Assessment
Award Incentive Plan ("AIP")			
To encourage long-term sustainable growth and to provide alignment with shareholders' interests	<p>AIP awards will be made under the AIP rules. Executive Directors will only be eligible to receive conditional awards and nil cost share options under the AIP (and not the other forms of equity awards that can be granted under the AIP).</p> <p>Awards will normally vest on the third anniversary of the date of grant to the extent performance conditions over a three-year performance period are met and subject to continued employment.</p> <p>The net of tax number of shares that vest will be subject to a holding period such that the period from grant of the award to the end of the holding period is five years and during which the shares cannot be sold.</p> <p>An additional payment may be made equal to the value of dividends which would have accrued on vested shares. The award will be subject to clawback and malus provisions and discretion to adjust formulaic outcome (see Annual Bonus above).</p>	<p>The normal maximum award level will be 250% of base salary per annum, based on the face value of shares at the date of grant.</p> <p>If exceptional circumstances arise, including but not limited to the recruitment of an individual, awards may be granted up to a maximum of 300% of base salary.</p>	<p>Performance measures will be determined by the Remuneration Committee for each award and will measure performance over a three-year (or longer) period.</p> <p>In relation to financial targets not more than 25% of the total award will vest for threshold performance rising on a graduated scale to 100% for maximum performance. In relation to non-financial targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale and so vesting may take place in full if specific criteria are met in full.</p> <p>The Remuneration Committee has the discretion to adjust the formulaic outcome of the AIP outcome if the Remuneration Committee believes that such outcome is not a fair and accurate reflection of business performance, wider stakeholder considerations and any other relevant factors.</p>
All-employee Share Plans			
To provide alignment with group employees and to promote share ownership	The Executive Directors may participate in any all-employee share plan operated by the Company.	Participation will be capped by any HMRC or other limits applying to the respective plan	None

Report of the Remuneration Committee

Pay Element and Purpose	Operation	Opportunity	Performance Metrics, Weighting and Assessment
Shareholding Requirement			
To provide alignment with shareholders' interests	<p>During employment Executive Directors are required to build up and retain a shareholding equivalent to 200% of their base salary subject to the Remuneration Committee in exceptional circumstances amending this requirement.</p> <p>Until the shareholding requirement is met, Executive Directors will be required to retain 50% of the net of tax shares they receive under any incentive plan.</p> <p>Post-employment Any Executive Director leaving the Company will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary for a period of two years subject to the Remuneration Committee in exceptional circumstances amending the requirement.</p>	200% of base salary	None
Non-Executive Directors			
To provide an appropriate fee level to attract and retain Non-Executive Directors and to appropriately recognise the responsibilities and time commitment.	<p>Non-Executive Directors are paid an annual base fee and additional fees for serving on board committees, acting as Senior Independent Director and as Chair of Board Committees (or to reflect other additional responsibilities and/or additional/unforeseen time commitments).</p> <p>The Chairman of the Board receives an all-inclusive fee.</p> <p>There is no performance based variable pay or pension provided to the non-executive Chairman or non-executive Directors.</p>	<p>The fee for the Chair of the Board is set by the Remuneration Committee, the Non-Executive Directors' fees are set by the Board (excluding the applicable Non-Executive Directors).</p> <p>Fee level increases will be guided by general increases in Non-Executive Director fees and the increase in salaries for the workforce although higher increases may be appropriate depending on the specific circumstances.</p> <p>The Company will reimburse any reasonable travel and other business related expenses incurred (and related tax, if applicable).</p>	None

Notes to the Remuneration Policy Table

Choice of Performance Measures

Each year the Remuneration Committee will select the most appropriate performance measures and targets for the Annual Bonus and awards under the AIP. The measures selected will be aligned with Darktrace's strategy and key performance indicators and may also be based on total shareholder return. The Remuneration Committee sets demanding targets for variable pay in the context of Darktrace's trading environment and strategic objectives and considering Darktrace's internal financial planning, and market forecasts.

Discretions Retained by the Remuneration Committee

The Remuneration Committee operates the Group's variable pay plans according to their respective rules. In administering these plans, the Remuneration Committee may apply certain operational discretions.

These include the following:

- determining the extent of vesting/ payments based on the assessment of performance;
- determining the status of leavers and, where relevant, the extent of vesting/ payment;
- determining the extent of vesting of awards under share based plans in the event of a change of control;
- making appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); and
- adjusting existing targets if events occur that cause the Remuneration Committee to determine that the targets set are no longer appropriate and that amendment is required so the relevant award can achieve its original intended purpose, provided that the new targets are not materially less difficult to satisfy.

The Remuneration Committee also retains discretion to make non-significant changes to the Remuneration Policy without reverting to shareholders (for example, for regulatory, tax, legislative or administrative purposes).

Malus and Clawback

The Remuneration Committee may, at any time within three years of AIP awards vesting or annual bonus payment, determine that malus or clawback provisions may apply, including in the following circumstances:

1. material financial misstatement;
2. gross misconduct by the participant;
3. an error in available financial information or misleading data which results in an error in calculating the grant or pay-out of an award;
4. significant reputational damage; or
5. corporate failure or failure of risk management

There are robust mechanisms in place to ensure that these provisions are enforceable.

Remuneration Scenarios for Executive Directors

The charts below provide an indication of the level of total annual remuneration that would be received by each Executive Director under different scenarios in respect of minimum pay (fixed pay), an assumed on-target and maximum performance based on assumptions set out below.

Minimum: Comprises fixed pay only using base salary on Admission, the estimated value of benefits in FY 2022 and a 4% base salary employer pension contribution.

On-Target: Comprises fixed pay plus an Annual Bonus pay-out at 50% of maximum award (i.e. 75% of salary for the CEO and 75% of salary for the CFO) and the FY 2022 AIP award vesting at 50% of face value (i.e. 125% and 100% of base salary for the CEO and CFO respectively).

Maximum: Comprises fixed pay and assumes full pay-out under the Annual Bonus (i.e. 150% of base salary for the CEO and CFO) and the FY 2022 AIP award vesting in full (i.e. 250% and 200% of base salary for the CEO and CFO respectively). The maximum scenario includes an additional element to represent 50% share price growth on the AIP award from the date of grant to vesting.

We are a high performing business with a significant amount of pay at risk and based on performance as subsequently demonstrated.

Report of the Remuneration Committee

The Remuneration Policy of the Executive Directors and employees and consideration of employment conditions elsewhere in the Group.

Darktrace provides a market competitive package to all employees with an element of reward through incentive payments linked to the achievement of stretching performance targets. This reward philosophy applies to all levels of the business and is a key component of Darktrace attracting and retaining the best talent. In view of the greater potential remuneration, the Executive Directors have a greater proportion of their pay at “risk” and subject to deferral and holding periods. The Committee considers as appropriate market data, the CEO pay ratio and other comparative measurements as relevant.

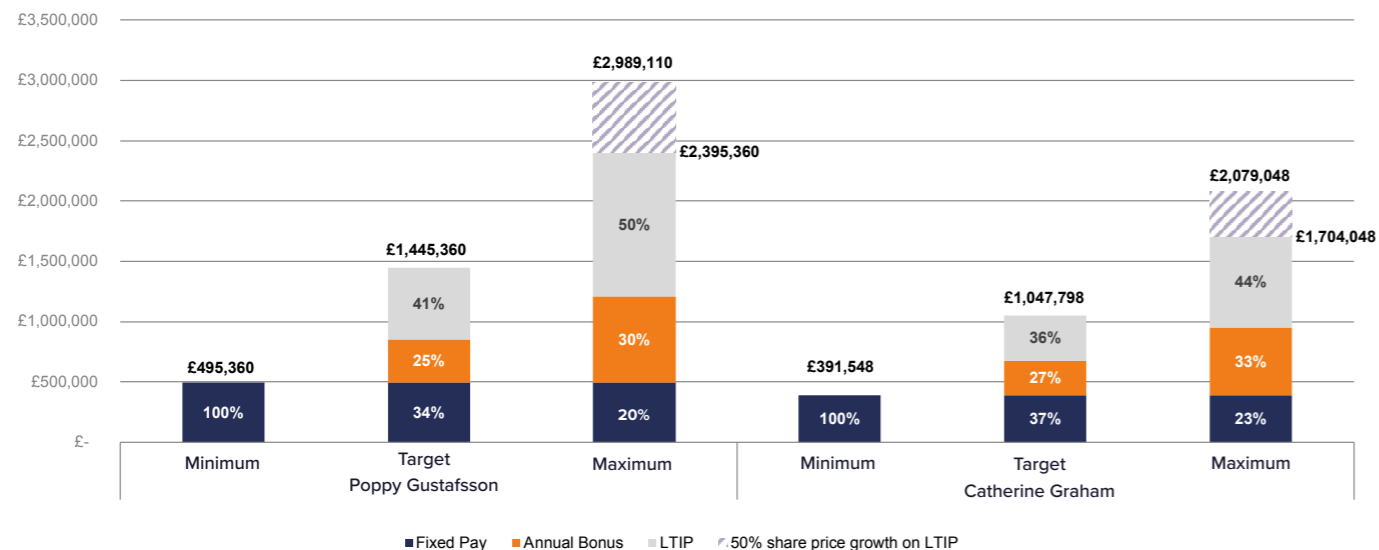
The Remuneration Committee will take into account general workforce remuneration and related policies, and the alignment of incentives and rewards with culture when setting and operating the policy for Executive Directors’ remuneration and the Remuneration Committee will receive regular updates on any changes to wider company remuneration policy.

As set out in the Corporate Governance section, Darktrace has put in place mechanisms for employee engagement and as part of the engagement agenda for the year ahead will explain the alignment of executive pay with that of the general workforce. There has been no consultation or engagement to date on alignment or the setting of the Directors’ Remuneration Policy given the short period from Admission to the end of the financial year.

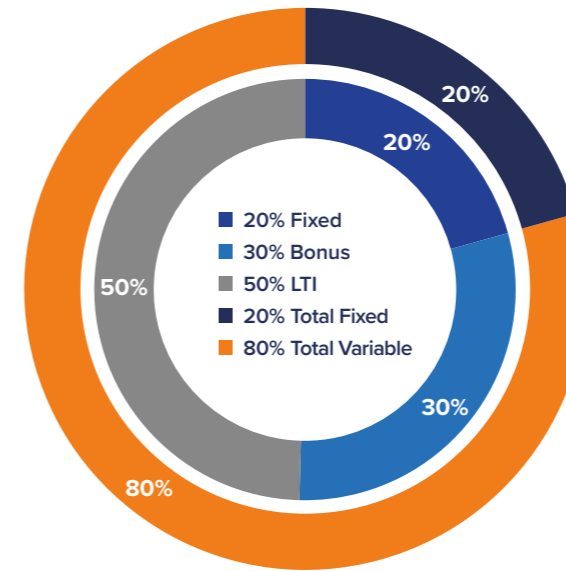
Consideration of Shareholder Views

In considering the operation of the Remuneration Policy, the Remuneration Committee will take into account the published remuneration guidelines and specific views of shareholders and proxy voting agencies. The Remuneration Committee will consult with Darktrace’s larger shareholders, where considered appropriate, regarding changes to the operation of the Remuneration Policy and when the Remuneration Policy is being reviewed and brought to shareholders for approval. Furthermore, the Remuneration Committee will consider specific concerns or matters raised at any time by shareholders on remuneration. In devising the Remuneration Policy, consideration was given to market practice and proxy agency guidelines and the views of pre-Admission shareholders were also taken into account.

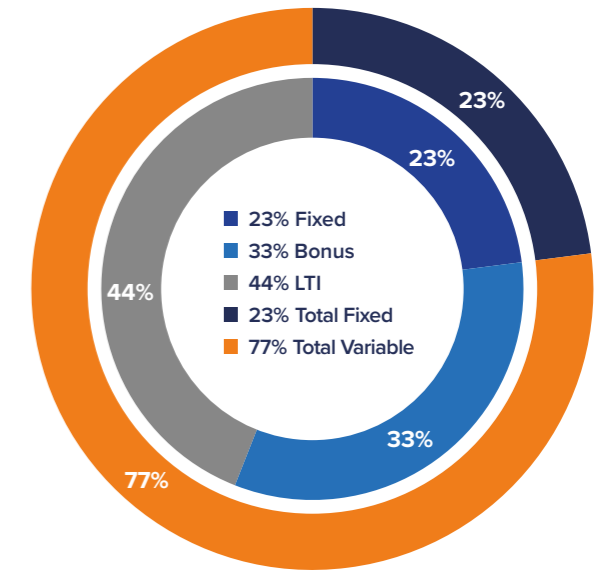
Remuneration Scenarios for Executive Directors



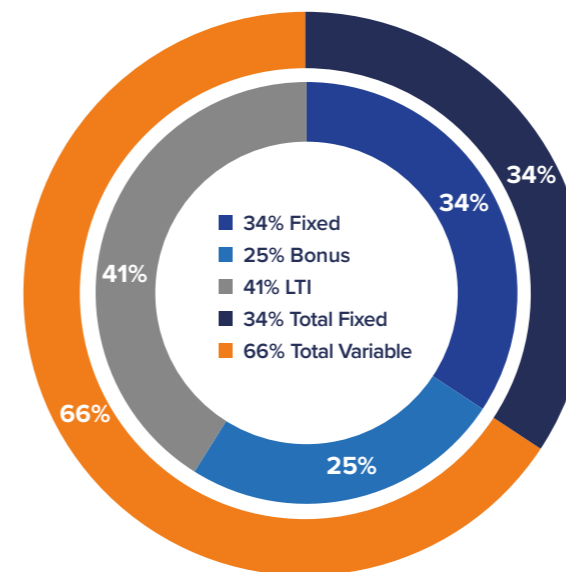
CEO at Max



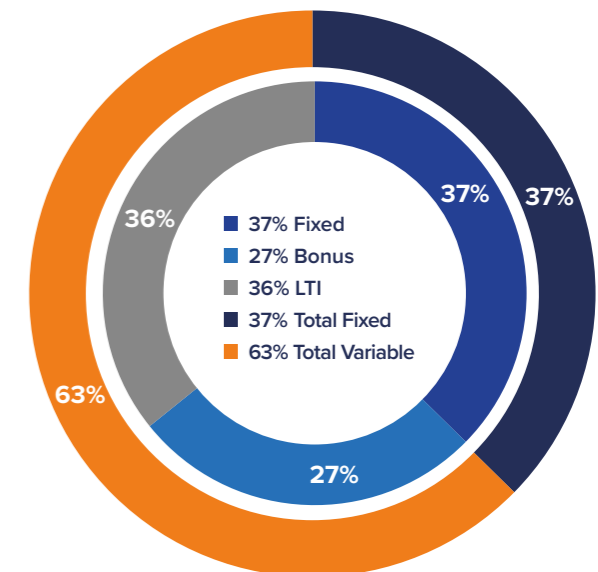
CFO at Max



CEO at Target



CFO at Target



Report of the Remuneration Committee

Recruitment Policy

When setting remuneration packages for new Executive Directors, pay will be set in line with the Remuneration Policy outlined previously. Several factors will be considered. The geography in which the role competes or is recruited from, the candidate's experience and skills, as well as the remuneration levels of other Executive Director and colleagues in the business. The Remuneration Committee is mindful that Darktrace should avoid paying more than is necessary to recruit the desired candidate.

Remuneration Element	Policy
External Appointment to the Board	
Salary	Base salary would be set at an appropriate level considering the factors mentioned above.
Relocation	If an Executive Director needs to re-locate in order to take up the role, Darktrace may pay to cover the costs of relocation including but not limited to, actual relocation costs, temporary accommodation and travel expenses.
Buy-out Awards	For external appointments, the Remuneration Committee may (if it is considered appropriate) provide a buy-out award equivalent to the value of any outstanding incentive awards that will be forfeited on cessation of an Executive Director's previous employment. To the extent possible, the buy-out award will be made on a broadly like for like basis. The award will take into account the performance conditions attached to the vesting of the forfeited incentives, the timing of vesting, the likelihood of vesting and the nature of the awards (cash or equity). Any such buy-out award may be granted under the AIP or the provision available under UKLA Listing Rule 9.4.2. to enable awards to be made outside the AIP in exceptional circumstances.
Annual Bonus	New joiners may receive a pro-rated Annual Bonus based on their employment as a proportion of the financial year and targets may be different to those set for other Executive Directors subject to a maximum annual bonus opportunity of 150% of base salary.
AIP	Grants under the AIP will be made in line with the Remuneration Policy in the year of joining, subject to the maximum award limit of 300% of base salary.
Other Elements	Benefits and pension will be set in line with the Remuneration Policy.
Internal Appointment to the Board	When existing employees are promoted to the Board, the above policy will apply, from appointment to the Board and not retrospectively. In addition, any existing incentive awards will be honoured and form part of ongoing remuneration arrangements.
Non-Executive Directors	Fees will be in line with the Remuneration Policy and the fees provided for the other Non-Executive Directors.

Service Contracts and Letters of Appointment

Executive Directors

The Executive Directors have a service contract requiring 12 months' notice of termination of employment from either party as shown below and it is Darktrace's policy to set notice periods not exceeding 12 months:

Executive Director	Date of Appointment	Date of Service Contract	Notice from the Company	Notice from the Individual	Unexpired Period of Service Contract
Poppy Gustafsson OBE	1 April 2021	6 May 2021	12 months	12 months	Indefinite term
Catherine Graham	12 March 2021	6 May 2021	12 months	12 months	Indefinite term

Payment for Loss of Office

In the event of termination for cause (e.g. gross misconduct), Darktrace is entitled to terminate their employment immediately without notice or payment in lieu of notice.

Treatment of other elements of the Remuneration Policy (including Annual Bonus and AIP), will vary depending on whether an Executive Director is categorised as a "good" or "bad" leaver. The Remuneration Committee has the discretion to determine whether an Executive Director is a "good" leaver, reasons for good leaver treatment include, but are not limited to death, ill-health, injury or disability and retirement.

The treatment of the various elements of pay on termination of employment are summarised below.



Report of the Remuneration Committee

Remuneration Element	Treatment
Salary, Benefits and Pension	<ul style="list-style-type: none"> ○ If notice is served by either party, the Executive Director can continue to receive base salary, benefits and pension for the duration of their notice period. The Executive Director may be asked to perform their normal duties during their notice period, or they may be put on garden leave. Darktrace may, at its sole discretion, terminate the contract immediately, including at any time after notice is served, by making a payment in lieu of notice equivalent to base salary, benefits and pension, with any such payments being paid in monthly instalments over the remaining notice period. The Executive Director will normally have a duty to seek alternative employment and any outstanding payments will be subject to offset against earnings from any new role.
Annual Bonus	<ul style="list-style-type: none"> ○ Good leavers will be eligible to receive Annual Bonus at the usual time with performance measured at the usual time. The Annual Bonus will normally be pro-rated for service during the financial year. ○ Bad leavers will not be eligible to receive Annual Bonus. ○ The Remuneration Committee has the discretion to apply an alternative treatment to the Annual Bonus where exceptionally it deems it to be appropriate. ○ Shares that have been awarded as part of the Annual Bonus are beneficially owned by the Executive Director from the date they are issued and so they are not at risk of forfeiture, other than in relation to clawback. Shares subject to a holding period will normally be released at the normal time.
AIP	<ul style="list-style-type: none"> ○ Awards are forfeited on cessation of employment except for “good leavers” (where awards vest subject to performance conditions and are normally scaled back pro rata to the proportion of the performance or vesting period served). The Remuneration Committee has the discretion to apply an alternative treatment to awards where exceptionally it deems it to be appropriate. ○ Shares subject to a holding period will normally be released at the normal time.
Change of Control	<ul style="list-style-type: none"> ○ There are no enhanced contractual provisions on a change of control. ○ AIP awards will vest based on performance and are normally scaled back pro rata to the proportion of the performance or vesting period served, with the Remuneration Committee having the discretion to reduce the scale back in exceptional circumstances if it deems it to be appropriate.
Other Matters	<ul style="list-style-type: none"> ○ Darktrace may also pay outplacement costs, legal costs and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination of employment by exercise of its discretion. Payment may also be made in respect of accrued benefits, including untaken holiday. ○ On termination of employment, the CFO Catherine Graham, is entitled to relocation to the U.S. to reimbursement for the cost of a U.S. healthcare plan substantially similar to the Company’s then-current employee sponsored healthcare plan for a period of up to 18 months (or until the CFO obtains a similar employee-sponsored plan, whichever is the earlier).

Legacy Arrangements

Payments may be made to satisfy commitments made prior to the approval of this Remuneration Policy. This includes the matters set out in the Prospectus for example, the legacy incentive arrangements or payments made to satisfy legacy arrangements agreed prior to an employee (and not in contemplation of) being promoted to the Board of Directors. All outstanding obligations may be honoured and payment will be permitted under this Remuneration Policy.

Chair and Non-Executive Directors

The Chair of the Board and Non-Executive Directors have letters of appointment with Darktrace for an initial three-year term and, in line with market practice, there is typically an expectation for Non-Executives to serve two three-year terms but they may be invited by the Board to serve an additional three-year term subject to annual re-appointment at the AGM. Appointments are terminable by either party on three months’ written notice. The appointment letters provide that no compensation is payable on termination, other than accrued fees as at the date of termination and expenses.

The table below details the appointments for each Non-Executive Director.

Non-Executive Directors	Date of Appointment	Date of Current Letter of Appointment	Notice from the Company	Notice from the Individual
Gordon Hurst (Chair)	1 April 2021	1 April 2021	3 months	3 months
Vanessa Colomar	1 April 2021	1 April 2021	3 months	3 months
Stephen Shanley	1 April 2021	1 April 2021	3 months	3 months
Johannes Sikkens	1 April 2021	1 April 2021	3 months	3 months
Lord Willetts	1 April 2021	1 April 2021	3 months	3 months
Paul Harrison	1 April 2021	1 April 2021	3 months	3 months
Sir Peter Bonfield CBE FEng	1 April 2021	1 April 2021	3 months	3 months

All Non-Executive Directors are in their initial term.

External Appointments

With the approval of the Board, Executive Directors may accept external appointments as a Non-Executive Director and retain the fees.

Annual Report on Remuneration

This section of the annual report describes the operation of the Remuneration Policy during the period 29 April 2021 when Darktrace plc was incorporated into the Group and the Directors commenced providing qualifying services, to 30 June 2021.

Remuneration Committee

Roles and Responsibility

The role of the Remuneration Committee is outlined in the Committee's Terms of Reference and is to set the Annual Fee for the Chairman of the Board, determine and establish a remuneration policy for the Executive Directors and Senior Management and to set the remuneration packages for those individuals. When determining remuneration arrangements, the Committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, and takes these into account when determining remuneration of the Executive Directors and Senior Management.

Further details on the role and responsibilities of the Remuneration Committee are disclosed in the Terms of Reference which can be found on Darktrace's corporate website - www.darktrace.com.

Remuneration Committee Membership and Meetings

The Remuneration Committee was established with effect from Admission. The Remuneration Committee comprises the four independent Non-Executive Directors listed below. The Remuneration Committee Chair has many years of experience both chairing and serving on remuneration committees of listed companies. The Remuneration Committee met once between Admission and the financial year-end. Meetings were attended by all members of the Remuneration Committee. The General Counsel acts as secretary to the Remuneration Committee and the CEO, CFO and other members of management are invited to attend as appropriate, although no individual is in attendance when their own remuneration is set.

Remuneration Committee Chair	Sir Peter Bonfield CBE FREng
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Remuneration Committee Member	Lord Willetts
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Remuneration Committee Member	Paul Harrison
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Remuneration Committee Member	Gordon Hurst
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Key Activities of the Remuneration Committee

Over the period since it was constituted, the Remuneration Committee has carried out the following activities:

- Approved the new Remuneration Policy and certain elements of its operation effective from Admission, such as the base salary levels for the Executive Directors and Senior Management and the first annual grants of AIP awards;
- Determined Annual Bonus for FY 2021;
- Considered the operation of the Annual Bonus for FY 2022;
- Considered the remuneration policy to apply to management more generally below the Executive Directors and Senior Management; and
- Considered end of year reporting including reviewing this report.

External Advisers

Independent advice was provided to the Remuneration Committee by Korn Ferry, who were appointed by the IPO Committee on 11 January 2021 following a tender process on the new remuneration policy and remuneration packages for the Executive Directors and senior management team. Korn Ferry is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Remuneration Committee that it adheres in all respects to the terms of the Code. The fees for the advice provided from 29 April to 30 June 2021 were charged on an hourly basis and came to £5,400 in total. Other than Remuneration Consultancy, Korn Ferry provided no other advice or services to the Company during the period from 29 April to 30 June 2021. Taking these matters into account the Remuneration Committee is comfortable that the advice received from Korn Ferry was objective and independent.



Annual Report on Remuneration

Audited Information

The following table sets out the total remuneration for Executive and Non-Executive Directors for the period from 29 April 2021 to 30 June 2021 (the period they provided qualifying services to Darktrace plc) and therefore does not reconcile to the amounts disclosed in note 9 of the financial statements, which are for the entirety of FY2021.

	Salary and Fees £000	Benefits £000	Pension £000	Total Fixed pay £000
Poppy Gustafsson OBE	77.4	0.3	3.1	80.8
Catherine Graham	63.3	0.3	2.5	66.1
Gordon Hurst	48.8	-	-	48.8
Johannes Sikkens	-	-	-	-
Stephen Shanley	-	-	-	-
Vanessa Colomar	-	-	-	-
Sir Peter Bonfield CBE FREng	20.6	-	-	20.6
Lord Willetts	21.6	-	-	21.6
Paul Harrison	20.6	-	-	20.6

Notes to the Table

- Benefits total represents the taxable value of benefits paid. Benefits provided to Executive Directors include family private health cover and life assurance cover and for the CFO as a US tax payer, an allowance towards personal tax and accounting advice. The benefits provided remain the same as prior to Admission.
- Executive Directors receive a pension contribution of 4% of base salary.
- The table includes the annual bonus for the period from 29 April to 30 June 2021, the total amount for the year is £246k for the CEO and £235k for the CFO. This bonus is based on earnings for the period and differences arise on FX. The above does not include the bonus paid on admission for a total amount of £225k for the CEO and CFO.

Annual Bonus £000	AIP (Long-term incentive awards) £000	Total Variable pay £000	Total Remuneration £000	Total Remuneration \$000
81.3	-	81.3	162.1	227.5
49.7	-	49.7	115.8	162.5
-	-	-	48.8	68.4
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	20.6	28.9
-	-	-	21.6	30.3
-	-	-	20.6	28.9

- Legacy pre-Admission equity and incentive arrangements: As detailed in the prospectus, the Executive Directors and other members of management participated in various legacy incentive schemes operated by the Group prior to Admission. Some of these schemes crystallised on Admission and others have been rolled over into post Admission equity incentives. Prior to Admission, the Group operated certain growth share arrangements pursuant to which employees of the Group held restricted shares with the lifting of the restrictions subject to service. In connection with Admission the growth shares were converted into ordinary shares (and the portion of the growth shares that were unvested at Admission continue to be subject to the same service restrictions which applied to the growth shares prior to Admission). The lifting of restrictions on

these ordinary shares does not require the issue of any new ordinary shares. As part of the legacy growth share arrangements, the Board granted on 30 April 2021 conditional on Admission on 6 May 2021 that legacy growth shareholders received a rollover award in the form of a conditional award over ordinary shares on Admission, that vests in accordance with performance conditions. In addition, as part of the legacy, pre-Admission incentive arrangements, the CEO holds vested but unexercised market value share options. The shares and share awards held by the Executive Directors are disclosed in the Share Awards table later in this report.

Annual Report on Remuneration

Total Pension Entitlements

As set out above, Executive Directors receive a pension contribution of 4% of base salary. No additional benefits are provided to the Executive Directors if they retire early.

Annual Bonus Plan

The FY 2021 Annual Bonus structure was set at the beginning of the 2021 financial year and was unaffected by Admission. The Remuneration Committee determined payment based on the following financial performance and strategic objectives.

Measure	Budget	Actual
Constant currency Net Annualised Recurring Revenue Added	\$82.9m	\$107.8m
Constant currency Annualised Recurring Revenue Balance	\$318.6m	\$343.5m

Achievement of Strategic Objectives

- Managing entire workforce to remote working to achieve significant business growth targets;
- Creating and establishing new approaches to working with customers and prospects to achieve significant business growth targets;
- Significant achievements in rebuilding, growing and developing the sales and technology teams;
- Product adaptation to deliver increased cloud deployment; and
- Successful targeting and management of risk created by remote work.

Based on the strong financial performance as well as the achievement of strategic objectives during the year the Executive Directors' pro-rata Annual Bonus payable, based on the salaries set on Admission and payable in cash is set out below.

Executive	% of Base Salary	Value Pro Rata for Proportion of Year Since 29 April 2021 (£'000)
Poppy Gustafsson OBE	100%	81.3
Catherine Graham	75%	49.7

AIP vesting during the period from 29 April to 30 June 2021

There were no long-term incentive awards vesting based on performance periods ending in the period from 29 April to 30 June 2021.

Scheme interests awarded during the period from 29 April to 30 June 2021

The first annual AIP award in the form of a conditional award was granted on 30 April conditional to Admission on 6 May 2021. The targets for this award were set out in the Prospectus as detailed below:

Performance measure	Weighting	Targets	
		Threshold	Maximum
Relative TSR vs. FTSE 350 (excluding investment trusts) from Admission to 30 June 2024	100%	Median	Upper Quartile and above

The details for the conditional awards granted to each Executive Director is shown below:

Executive	Basis of the Award (% of Salary)	Threshold Vesting (% of Salary)	Number of Shares Granted	Face Value of Award at Offer Price (£'000)	Grant Date	Vest Date
Poppy Gustafsson OBE	250%	25%	475,000	1,188	30 April 21	30-Jun-24
Catherine Graham	200%	25%	300,000	750		

1. AIP awards were granted in the form of conditional share awards over ordinary shares of £0.01 each in Darktrace plc. As disclosed in the Prospectus, the number of ordinary shares awarded was calculated using the Offer Share Price of £2.50.
2. The performance period for these first awards is longer than 3 years and ends on 30 June 2024. The awards vest at the end of the performance period as soon as performance and the vesting amount is determined.
3. There is a post-vesting holding period such that the shares may not be sold (except to pay taxes due on vesting) until the fifth anniversary of the date of grant.

Annual Report on Remuneration

Legacy Incentives

As disclosed in the Prospectus, the CEO and CFO held growth share awards under the pre Admission legacy incentive schemes and as detailed above as part of the legacy growth share arrangements, the Board granted on 30 April 2021 conditional on Admission legacy growth shareholders a rollover award in the form of a conditional award over ordinary shares of £0.01 each in Darktrace, that vests in accordance with performance conditions.

Executive	Number of Ordinary Shares Granted	Face Value of Award at Offer Price (£'000)	Grant Date	Vest Date	Performance Period
Poppy Gustafsson OBE	2,812,661	£7,032	30 April 2021 subject to Admission on 6 May 2021	6 May 2022	Ending 6 May 2022
Catherine Graham	2,098,093	£5,245			

The conditional award will vest on the one year anniversary of Admission (with the performance conditions being based on the average closing share price for the 30 day period ending 6 May 2022, with minimum vesting at a share price per ordinary share of £2.50 and maximum vesting at a share price per ordinary share of £5.00 and above, and straight line vesting in between).

Payments to Former Directors and for Loss of Office

No payments were made to former Directors of Darktrace or in relation to loss of office during the period from 29 April to 30 June 2021.

Directors' Shareholder and Share Interests

The shareholder and share interests of the Directors' and their connected persons in the shares in Darktrace as at 30 June 2021 is set out below. Since 30 June 2021 there have been no changes in the Directors' interests in shares.

Director	Ordinary Shares Held at 30 June 2021
Poppy Gustafsson OBE	3,115,220
Catherine Graham	306,747
Gordon Hurst	617,368
Han Sikkens	-
Stephen Shanley	-
Vanessa Colomar	7,155,000
Sir Peter Bonfield CBE FREng	49,000
Lord Willetts	49,000
Paul Harrison	49,000

Directors' Shareholding Requirements

During employment, Executive Directors are required to build and maintain a shareholding equivalent to 200% of their base salary. The shareholdings of the CEO and CFO on 30 June 2021 exceed this requirement. The table below summarises each Director's current shareholding, vested share options, and share awards subject to performance conditions, and whether or not the shareholding requirement has been met.

Director	Beneficially Owned Shares on 30 June 2021	Vested Shares Subject to Holding Periods	Options Exercised in Year	Vested Unexercised Share Options	Unvested Share Awards Subject to Performance Conditions	Shareholding Requirement (% of Base Salary)	Current Shareholding (% of Base Salary)	Requirement Met
Poppy Gustafsson OBE	3,115,220	-	-	375,000	3,287,661	200%	3,101%	Yes
Catherine Graham	306,747	-	-	-	2,398,093	200%	375%	Yes
Gordon Hurst	617,368	-	-	-	-	-	-	n/a
Johannes Sikkens	-	-	-	-	-	-	-	n/a
Stephen Shanley	-	-	-	-	-	-	-	n/a
Vanessa Colomar	7,155,000	-	-	-	-	-	-	n/a
Sir Peter Bonfield CBE FREng	49,000	-	-	-	-	-	-	n/a
Lord Willetts	49,000	-	-	-	-	-	-	n/a
Paul Harrison	49,000	-	-	-	-	-	-	n/a

Notes: Poppy Gustafsson OBE holds 274,147 ordinary shares which are subject to service-based restrictions. These restrictions will be lifted in four equal tranches on 1 March 2022; 1 September 2022; 1 March 2023; and 1 September 2023.

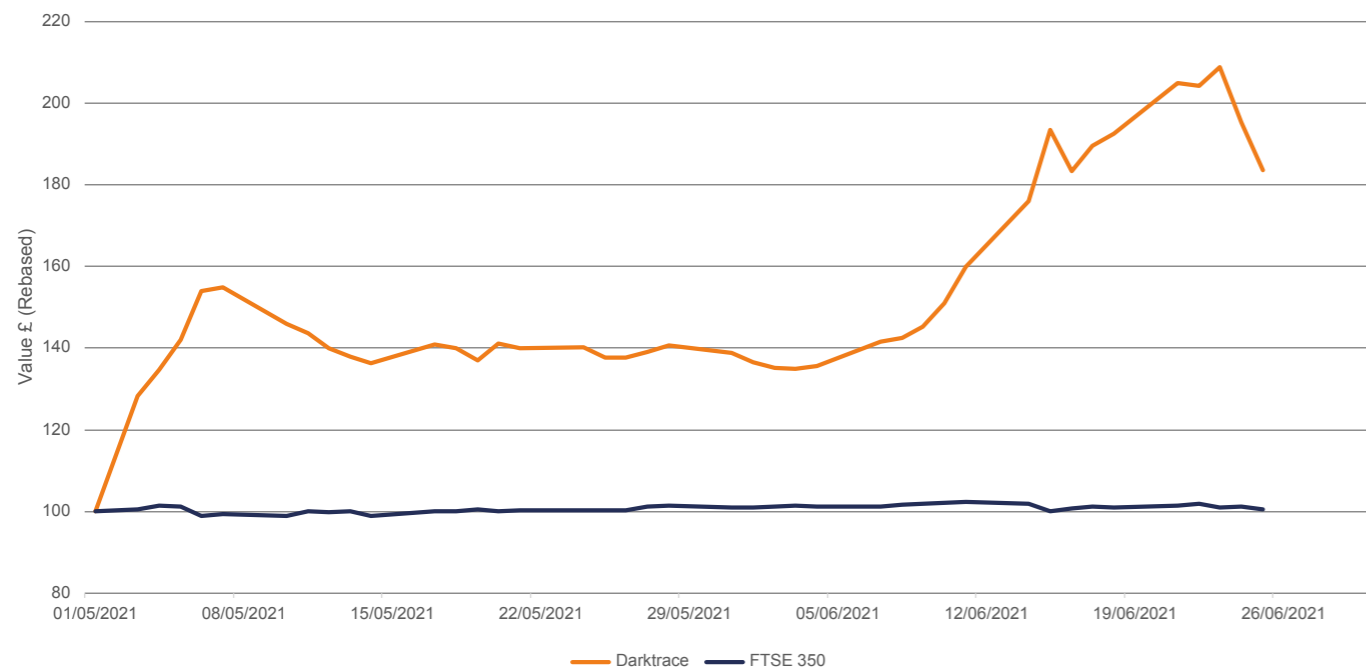
Catherine Graham holds 153,373 ordinary shares which are subject to service-based restrictions. These restrictions will be lifted in three equal tranches on 10 February 2022; 10 August 2022; and 10 February 2023.

Post-cessation of employment, Executive Directors must retain shares to the value of 200% of base salary for a period of two years in accordance with the Remuneration Policy.

Annual Report on Remuneration

Performance Graph and Table

Darktrace shares began unconditional trading on the London Stock Exchange's main market on 6 May 2021. The chart below shows the TSR performance of £100 invested in Darktrace from 30 April 2021 at the commencement of conditional trading using the offer price of £2.50 per share to 30 June 2021 against the FTSE350 index. The FTSE350 index is considered an appropriate comparison as Darktrace is a constituent of the index.



	2021
CEO single figure total remuneration (£000s)	162.1
Annual Bonus (as % of maximum opportunity)	100% of salary*
Long-term incentive vesting (as % of maximum opportunity)	N/A

The single figure of total remuneration is for the period 29 April 2021 to 30 June 2021.

**The CEO has requested that one-third of her Annual Bonus for FY21 be directed to Darktrace's charitable giving program.*

Annual Percentage Change in Directors and Employee Remuneration

As Darktrace was incorporated into the Group on 29 April 2021 and admitted to trading on the London Stock Exchange on 6 May 2021, there is no comparable remuneration to disclose for the prior year. Full disclosure on the percentage change for Director and employee remuneration, in line with Regulations, will be provided in future remuneration reports.

CEO Pay Ratio

UK regulation requires companies with more than 250 UK employees to publish a ratio to show CEO pay versus that of its UK employees. We have provided the ratio for the period from 29 April to 30 June 2021 calculated using the methodology set out in Option B (although our Gender Pay data will not be published until later this year as permitted under the relevant regulations). The Gender Pay data to determine the individuals representative of the quartiles is as at 5 April 2021. To provide the actual remuneration we have used actual salaries paid for the period and pro-rated bonus and sales commission. We have reviewed individuals above and below those people representative of the quartiles, the methodology for arriving at the Gender Pay data and participation of individuals in incentive pay plans and are comfortable that the remuneration shown for the CEO pay ratio is reasonably representative of the quartiles. This methodology has been used as it enables us to use the remuneration data we have available and we are comfortable it provides a robust reflection of remuneration across our UK employees.

Financial Year*	Method	Lower Quartile	Median	Upper Quartile
2021	Option B	22:1	19:1	12:1

**Details provided in respect of period between 29 April to 30 June 2021.*

The total pay and benefits for the CEO and the employees at the percentiles are set out below:

	CEO	Lower Quartile	Median	Upper Quartile
Basic Salary	77,331	5,588	7,328	10,574
Total pay and benefits	161,973	7,271	8,638	13,327

The employee pay figures were calculated by reference to the period from 29 April to 30 June 2021.

The Remuneration Committee is comfortable that the pay ratio shown above is consistent with our pay, reward and progression policies for the Company's UK employees as a whole. Variable pay for our Executive Directors will vary from year to year including when our long-term incentives start to vest and it is anticipated that the CEO pay ratios will be volatile due to the variable nature of the CEO remuneration structure.

	£m
Distribution to shareholders	0
Total employee pay	17.6

Relative Importance of Spend on Pay

The table to the left shows Darktrace's expenditure on employee pay compared to distributions to shareholders from 29 April to 30 June 2021. As the Company was incorporated into the Group on 29 April and listed on 6 May 2021, there is no comparable information to disclose for the prior year.

Annual Report on Remuneration

Implementation of Remuneration Policy in FY 2022

Executive Director remuneration

Annual Base Salary

There will be no change to the annual base salaries for the Executive Directors set on Admission which are:

- Chief Executive Officer £475,000
- Chief Financial Officer £375,000

Pension and Benefits

Executive Directors will continue to receive an employer pension contribution of 4% of base salary. Other benefits include family private health cover and life assurance and for the CFO an allowance towards the cost of personal tax and accounting advice.

Annual Bonus

The maximum Annual Bonus opportunity is 150% of base salary for the CEO and CFO.

Performance is based 80% on financial metrics comprising 50% on constant currency Net Annualised Recurring Revenue Added and 30% on constant currency Gross Churn and 20% strategic objectives focusing on driving the evolution of salesforce and other corporate structures to support effective growth and scale.

The Remuneration Committee considers the specific financial performance targets and specific targets for the strategic objectives are commercially sensitive, and they are not therefore disclosed at this time. There will be full retrospective disclosure of the specific targets in next year's Annual Report with performance against them.

Award Incentive Plan ("AIP")

An AIP award was granted on 30 April subject to Admission, on 6 May 2021 with a performance period from Admission to 30 June 2024. Further details of the AIP award are set out in the section on Scheme interests granted in the period from 29 April to 30 June 2021. Accordingly, there will be no further awards to Executive Directors in FY 2022.

Non-Executive Director Remuneration

Non-Executive Director fees were set on Admission, as set out below. These fees will not be increased for FY 2022.

Non-Executive Director	Annual Fee	Statement of voting at general meeting
Chair of the Board	£215,000	As the Company was admitted to trading on the London Stock Exchange on 6 May 2021, this is the first year that the Company is required to comply with the Regulations and therefore there has been no prior shareholder vote to approve the directors' remuneration report or directors' remuneration policy.
Non-Executive Director base fee	£60,000	
Member of any Board Committee	£7,500	
Audit Committee Chair's fee	£7,500	
Remuneration Committee Chair's fee	£7,500	
Nomination Committee Chair's fee	£3,750	

Approved by the Board on 27th of August 2021.
Sir Peter Bonfield CBE FREng
Remuneration Committee Chair



Non-Executive Director Annual Fees



Directors' Report

The Directors have pleasure in presenting their Annual Report and audited financial statements of the Company and the Group for the year ended 30 June, 2021.

The Directors' report contains certain statutory, regulatory and other information and incorporates, by reference, the Strategic Report, Corporate Governance Report, Directors' Remuneration Report included elsewhere in this document.

Corporate Details

Darktrace was incorporated under the UK Companies Act 2006 (the "Act") on 12 March 2021 as a public company limited by shares under the name Srenoog plc with registered number 13264637 and was renamed Darktrace plc on 30 June 2021.

Strategic Report

The Strategic Report is a requirement of the Act and can be found on pages 4 to 59. Darktrace has chosen, in accordance with section 414C(11) of the Act, to include the following matters of strategic importance in its Strategic Report that would otherwise be disclosed in the Directors' Report. This information should be read in conjunction with this Directors' Report.

- A fair review of the Group's performance during the year and of its position at the end of the financial year, is set out in the Strategic Report on pages 33 to 37;
- information on principal risks and uncertainties is set out on pages 54 to 59;
- key performance indicators are set out on pages 28 to 32;
- information on greenhouse gas emissions, energy consumption and energy efficiency is set out on pages 50; and
- a summary of the Group's approach to business ethics, employee welfare and practice, environmental and community matters is set out in the People & Culture and Sustainability sections on pages 44 to 53;

The Corporate Governance Report including the Directors' Remuneration Report summarise the Company's Governance and Directors' remuneration arrangements.

Future Development and Prospects

Darktrace has a strong financial profile and a fast-growing customer base as a result of which it is well-placed to take advantage of a rapidly expanding market. Darktrace is focused on accelerating the deployment of its technology worldwide and investing in long-term growth. Darktrace has a huge opportunity to capture with a talented, growing workforce and a strong management team driving its strategy forward.

Darktrace's unique Self-Learning AI technology, its talented people and a large addressable market puts it in a strong position as it looks to the future. In this new era of cyber-threat, Darktrace's existing and potential customers have never needed its technology more, and Darktrace will continue to focus on meeting their needs and helping them to adapt as the threat landscape evolves.

Results and Dividends

The audited financial statements of the Group and of Darktrace for the year under review are set out on pages 136 to 197 and pages 198 to 208 respectively. Darktrace intends to retain any earnings to expand the growth and development of its business and, therefore, does not anticipate paying dividends in the foreseeable future.

2021 Annual General Meeting ("AGM")

An explanation of the resolutions to be proposed at the AGM, and the recommendation of Directors in relation to these, is included in the circular accompanying this Annual Report to shareholders. Resolutions regarding the authority to issue shares are commented upon under the share capital section later in this report.

The Company's AGM will be held at the offices of Latham & Watkins, 99 Bishopsgate, London EC2M 3XF at 9.00am on 24th November, 2021.

Research and Development

The Group has over 240 employees working in research and development. Research and development costs were \$28.8 million for the financial year ended 30 June 2021. These are the costs associated with the Group's efforts to develop new products for its platform, expand the features of its platform, and ensure the platform's continuing reliability, availability and scalability. These costs are primarily made up of the labour and related costs remaining after capitalisation of allowable labour and related development costs, and the amortisation of such costs capitalised in prior periods. Given the Group's rapid growth, for each of the periods presented, the value of costs being capitalised to the statements of financial position have been between two and three times the value of the amortisation of such costs capitalised in prior periods recorded as research and development costs in the statement of comprehensive income. Additionally, research and development does contain allocated overhead costs, primarily rents and other facilities costs that are allocated on a per employee basis.

Change of Control

In the event of a takeover, a scheme of arrangement (other than a scheme of arrangement for the purposes of creating a new holding company) or certain other events, unvested executive Director and employee share awards may in certain circumstances become exercisable. Such circumstances may, although do not necessarily, depend on the achievement of performance conditions or the discretion of the Remuneration Committee. Darktrace does not have any agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover.

The Group has facility agreements with its bank lenders which contain provisions giving those lenders certain rights on a change of control of the Company.

Save as otherwise disclosed above, there are no other significant agreements to which Darktrace is a party that take effect, alter or terminate upon a change of control following a takeover bid.

Financial Instruments

The Group's financial risk management is controlled by a central treasury department ("Group treasury") under policies approved by the Board. Group treasury identifies and evaluates financial risks in close co-operation with the Group's CFO and other Executive Directors and Senior Managers. The Board authorises written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

In addition, the overall risk framework and strategy for the Group is included within the Strategic Report on pages 54 to 59.

Employment of Disabled Persons

Darktrace's policy for the employment of disabled persons is to provide equal opportunities with other employees to train for and attain any position within the Group and is set out within Darktrace's Equality and Diversity policy.

Directors' Report

Stakeholder and Employee Engagement

Details of Darktrace's stakeholder and employee engagement is described in the People & Culture section of the Strategic Report. In addition, Darktrace is taking steps to establish an employee forum as a critical part of its employee engagement and it is through this and a designated NED that employees' views can be put forward to the Board.

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.

Substantial Shareholdings

As at 10 September 2021, Darktrace had been notified in accordance with the Disclosure and Transparency Rules of the UK Listing Authority, or was aware, of the shareholders holding, or were beneficially interested in, 3% or more of Darktrace's shares at that date.

See information provided at [page 210](#).

Directors

The Directors of Darktrace who served throughout the period and up to the date of signing of this Annual Report (except where noted) were:

- Gordon Hurst (Chair) (appointed 1 April, 2021)
- Poppy Gustafsson OBE (CEO) (appointed 1 April, 2021)
- Catherine Graham (CFO) (appointed 12 March, 2021)
- Lord Willetts (Senior Independent NED) (appointed 1 April, 2021)
- Sir Peter Bonfield CBE FREng (appointed 1 April, 2021)
- Paul Harrison (appointed 1 April, 2021)
- Stephen Shanley (appointed 1 April, 2021)
- Johannes Sikkens (appointed 1 April, 2021)
- Vanessa Colomar (appointed 1 April, 2021)
- Richard Eaton (appointed 12 March, 2021 resigned 1 April 2021)

Certain key matters in connection with the Directors are shown below:

- The business of Darktrace is managed by its Directors who may exercise all powers of Darktrace subject to the provisions of the Articles of Association of Darktrace (the "Articles"), the Act, and such directions as may be given by Darktrace at a general meeting by special resolution.
- Unless otherwise determined by ordinary resolution, the number of Directors at any time must not be more than 15 and must not be less than two. Directors may be appointed by ordinary resolution of shareholders or by the Board either to fill a vacancy or as an additional director provided that the Director is willing to act as a Director. A Director need not be a shareholder of Darktrace. No person other than a Director retiring at a general meeting will, unless recommended by the Directors, be eligible for appointment to the office of Director at any general meeting unless a member has notified Darktrace in advance in accordance with the Articles of his or her intention to propose such person for appointment and that person has signed a notice in writing indicating his or her willingness to be appointed. Under the Articles, a Director is required to retire at each annual general meeting but will be eligible for re-election and a Director who is re-elected will be treated as continuing in office without a

break. A Director who is not re-elected shall cease to be a Director at the close of the meeting at which he or she retires. If Darktrace, at any meeting at which a Director retires in accordance with the Articles, does not fill the office vacated by the retiring Director, the retiring Director, if willing to act, shall be deemed to be re-elected unless a resolution is passed at the meeting not to fill the vacancy or to elect another person in the retiring Director's place or unless the resolution to re-elect the resigning Director is put to the meeting and not passed. Darktrace may by special resolution, or by ordinary resolution of which special notice has been given in accordance with the Act, remove any Director before his or her period of office has expired. The Directors may remove a Director from office by giving him or her notice to that effect signed by or on behalf of not less than three-quarters of the other Directors or their alternates.

- Biographical details of the current Directors are set out on [pages 64 to 66](#).
- Darktrace has made qualifying third party indemnity provisions for the benefit of its Directors in relation to certain losses and liabilities that they may incur in the course of acting as Directors of Darktrace, its subsidiaries or associates, which remain in force at the date of this report. In addition, Darktrace has in place appropriate directors' and officers' liability insurance. This cover also extends to employees of the Group who serve on the board of Darktrace's subsidiaries.
- No member of the Board had a material interest in any contract of significance with Darktrace or any of its subsidiaries at any time during the year, except for their interests in shares and in share awards and under their service agreements and letters of appointment disclosed in this Directors' Report and in the Report of the Remuneration Committee commencing on [page 82](#). Details of those members of the Board with interests in the Convertible Loan Notes are disclosed in the related party section of the financial statements.
- No member of the Board has waived or agreed to waive any emoluments from any Group company.
- The Directors' remuneration arrangements are summarised in the Directors' Remuneration Report.

Directors' interests

The interests in the share capital of the Group of the Directors are as follows:

There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors.

Gordon Hurst	484,000
Sir Peter Bonfield CBE FREng	49,000
Paul Harrison	49,000
Lord Willetts	49,000
Vanessa Colomar	7,155,000
Poppy Gustafsson OBE	2,704,000

Share Capital

Certain key information relating to Darktrace's shares is shown below:

- On incorporation the share capital of Darktrace was one ordinary share of £0.01 and 50,000 redeemable preference shares of £1.00 each. The initial subscriber for such shares was the sole shareholder of Darktrace upon incorporation. On 4 May 2021, Darktrace Holdings Limited re-designated its existing classes of shares (other than the redeemable preference shares issued to the Initial Subscriber and the existing deferred shares) as ordinary shares and senior unsecured convertible loan notes with an aggregate principal amount of \$162,821,388 issued by Darktrace Holdings Limited in July 2020 were converted into ordinary shares of Darktrace Holdings Limited. Each shareholder of Darktrace Holdings Limited transferred its shares to Darktrace in consideration for the allotment and issue of new shares in Darktrace on the basis of an agreed number of shares in Darktrace for each one existing ordinary share in Darktrace Holdings Limited. As a result, Darktrace became the holding company of Darktrace Holdings Limited and the Group
- Darktrace's shares as at 30 June 2021 comprised 697,630,127 ordinary shares of £0.01 each which rank equally in all respects, 50,000 redeemable preference shares of £1.00 each and 120,063 deferred shares of £0.01 each.

Directors' Report

- Every holder of an ordinary share is entitled to receive notice of all general meetings of Darktrace and to attend, speak and vote on any resolution proposed at a general meeting of Darktrace. At a general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before, or immediately after the declaration of the result of, the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by: (i) the chairman of the meeting; (ii) at least five shareholders present in person or by proxy having the right to vote on the resolution; (iii) a shareholder or shareholders presents in person or by proxy representing in aggregate not less than 10% of the total voting rights of all the shareholders having the right to vote on the resolution (excluding any voting rights attached to any shares in Darktrace held in treasury); or (iv) a shareholder or shareholders present in person or by proxy holding shares conferring the right to vote on the resolution on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right (excluding any voting rights attached to any shares in Darktrace held in treasury). On a show of hands, every holder of an ordinary share or authorised corporate representative present has one vote and every proxy present has one vote except if the proxy has been duly appointed by more than one member and has been instructed by (or exercises his discretion given by) one or more of those members to vote for the resolution and has been instructed by (or exercises his discretion given by) one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.
- Neither holders of redeemable preference shares nor holders of deferred shares is entitled to receive notice of, or attend and vote at, any general meeting of Darktrace and shall not be an eligible member for the purposes of any written resolution of Darktrace.
- The Board may, in its absolute discretion, refuse to register any instrument of transfer of a certificated share: (i) which is not fully paid up (provided that where shares of the same class have been admitted to official listing by the Financial Conduct Authority, such refusal does not prevent dealings in that class of shares from taking place on an open and proper basis); or (ii) on which Darktrace has a lien. The Board may also refuse to register any instrument of transfer of a certificated share unless it is (a) left, duly stamped (if stampable), at the office, or at such other place as the Board may decide, for registration; (b) accompanied by the certificate for the shares to be transferred and such other evidence as the Board may reasonably require to prove the title of the intending transferor of his or her right to transfer the shares; and (c) in respect of only one class of shares.
- The Group has an employee benefit trust (the "EBT") and operates employee share plans as set out in the Report of the Remuneration Committee commencing on [page 82](#) and in [note 1 and 30](#) of the financial statements. If the EBT holds less than 5% of Darktrace's ordinary share capital (after deducting any shares held as nominee for beneficiaries under the EBT), the trustees of the EBT shall abstain from voting the shares. However, if the EBT holds more than 5% of Darktrace's ordinary share capital (after deducting any shares held as nominee for beneficiaries under the EBT), the trustees will be required to vote the shares in excess 5% by appointing the chairperson at a general meeting as a proxy to vote those shares pro rata to the other votes cast for and against the relevant resolutions at the meeting, to ensure that the voting power of the EBT does not disproportionately impact on shareholder voting. The EBT will not hold more than 10% of Darktrace's ordinary share capital, without prior shareholder approval.
- Save as described above, shares acquired through Darktrace's employee share plans rank pari passu with all other shares in issue and have no special rights.
- Darktrace is permitted, pursuant to the terms of the Articles, to allot shares in Darktrace or to grant rights to, subscribe for, or to convert any security into, shares of Darktrace on such terms and conditions it may determine. On 29 April 2021, Darktrace was generally and unconditionally authorised to exercise all powers of Darktrace to allot shares in Darktrace and to grant rights to subscribe for or to convert any security into shares of Darktrace:
 - ◆ up to a maximum aggregate nominal value of £2,292,415.30 representing one-third of the aggregate issued share capital of Darktrace; and

- ◆ comprising equity securities (as defined in section 560 of the Companies Act) up to a maximum aggregate nominal value of £4,584,830.60 representing two-thirds of the aggregate issued share capital of Darktrace (such amount to be reduced by any shares allotted or rights granted under sub-paragraph (i) above) in connection with an offer by way of a rights issue:
 - ▶ to holders of shares in proportion (as close as may be practicable) to their existing holdings; and
 - ▶ to holders of other equity securities as required by the rights of those securities or subject to such rights, as the Board otherwise considers necessary.

The Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical matters in, or under the laws of, any territory or any other matter. The authority will expire at the earlier of the end of the 2021 Annual General Meeting ("AGM") and 29 June 2022. Darktrace will seek to renew this authority at the AGM.

- Darktrace is permitted, subject to the Act, to purchase all or any of its shares of any class, including any redeemable shares. On 29 April 2021, Darktrace was authorised, for the purpose of section 701 of the Act, to make one or more market purchases (as defined in section 693(4) of the Act) of its shares up to a maximum aggregate number of shares representing 10% of Darktrace's issued share capital. The minimum price which may be paid for a share is its nominal value; and the maximum price which may be paid for a share is the higher of: (i) 105% of the middle market quotations for the shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue or venues where the purchase is carried out, in each case, exclusive of expenses. The authority will expire at the earlier of the end of the AGM and 29 June 2022. Darktrace will seek to renew this authority at the AGM. Darktrace did not repurchase any of its shares during the financial year to which this Report relates.

- Save as described under the Shareholder Agreements described below, Darktrace is not aware of any agreements or control rights between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Further information regarding Darktrace's share capital including the changes to this during the year is set out in [note 21](#) to the financial statements.

Articles of Association

The Articles were adopted by special resolution on 29 April 2021. Any amendment to the Articles may be made in accordance with the provisions of the Act, by way of special resolution.

Shareholder Agreements / Lock-Up Arrangements

Darktrace entered into shareholder agreements with its certain shareholders to help ensure that Darktrace will be capable of operating and making decisions independently for the benefit of shareholders as a whole.

On 30 April 2021, Darktrace entered into separate shareholder agreements with KKR Dark Aggregator L.P. ("KKR"), Summit DT Equity Holdings 3 LP and Summit DT CLNs Holdings 4 ("Summit") and Angela Bacares, Michael Lynch, Sushovan Hussain, Peter Menell, Vanessa Colomar, Andrew Kanter, Philip Pearson, James Loxam, Charlotte Golunski, Elizabeth Harris, Maha Kadirkamanathan, Ruth Angus, Ella Mamelok, Adam Guthrie and Graham Sills (the "Invoke Shareholders") (KKR, Summit and the Invoke Shareholders together, the "Significant Shareholders") (the "Shareholder Agreements"), pursuant to which, among other things, each of KKR, Summit and the Invoke Shareholders (acting jointly) has the right to nominate one non-executive director to the Board for so long as they and their respective associates are entitled to exercise, or to control, directly or indirectly, 10% or more of the voting rights attaching to the issued share capital of Darktrace. Each of the Significant Shareholders has confirmed to Darktrace its compliance with the terms of its respective Shareholder Agreement in the period from 30 April 2021 to 30 June 2021 (being the period from entry into the Shareholder Agreements until the end of the period under review in this Directors' Report).

Further, employees of the Group who hold shares, KKR, Summit, the Invoke Shareholders and certain other significant shareholders entered into lock up deeds (the "Lock-up Deeds") on 30 April 2021, pursuant to which they agreed that, subject to certain customary exceptions, during the period of 360 days in respect of the employee shareholders and 180 days in respect of other shareholders, they will not, without prior written consent dispose, or agree

Directors' Report

to dispose, of shares. Similarly, the Directors, Darktrace and certain other non-employee shareholders agreed pursuant to an underwriting agreement dated 30 April 2021 that, subject to certain customary exceptions, during the period of 360 days in respect of the Directors and 180 days in respect of Darktrace and the non-employee shareholders, they will not, without prior written consent dispose, or agree to dispose, of shares.

Financial Risk Management

Details of financial risk management are disclosed earlier in this Directors Report on [page 111](#) and in [note 25](#) to the financial statements.

Corporate Governance

Darktrace is committed to high standards of corporate governance. Its application of the principles of good governance in respect of the UK Corporate Governance Code for the period under review is described in the Corporate Governance Report on [pages 62 to 63](#).

The Statement of Directors' Responsibilities in respect of this Annual Report and the financial statements is reported below.

Political Donations

Darktrace did not make any political donations or incur any political expenditure during the year ended 30 June 2021.

Greenhouse Gas Emissions

Information on the Group's greenhouse gas emissions, energy consumption and energy efficiency is set out in the Sustainability section on [page 50](#).

Related Party Transactions with Directors

Details of related party transactions with Directors are disclosed in the Financial Statements on [note 24](#).

Overseas Branches

Darktrace has held no branches outside the UK but Darktrace Holdings Limited had a branch in Dubai since 2019.

Post Balance Sheet Events

Details of important events affecting Darktrace since 30 June, 2021 are disclosed in [note 31](#) to the financial statements.

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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements of Darktrace plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). 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's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of Darktrace 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 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 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 64 to 66](#) confirm that, to the best of each person's knowledge and belief:

- the Annual Report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Darktrace's and the Group's performance, business model and strategy;
- the Group financial statements, which have been prepared in accordance with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and Darktrace financial statements prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101), give a true and fair view of the assets, liabilities, financial position, profit and loss of the Group and Darktrace; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of Darktrace and Group, together with a description of the principal risks and uncertainties that they face.

Disclosure of Information to Auditors

Each of the Directors of Darktrace at the time when this Report was approved confirmed that:

- so far as the Director is aware, there is no relevant audit information of which Darktrace's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that Darktrace's auditors are aware of that information.

This confirmation is given in accordance with section 418(2) of the Act.

Auditors

Grant Thornton UK LLP, the Group's auditors, have indicated their willingness to continue in office and, on the recommendation of the Audit & Risk Committee and in accordance with Section 489 of the Act, a resolution to re-appoint them will be put to the 2021 AGM.

	Applicable sub-paragraph within LR 9.8.4R	Disclosure provided
1.	Interest capitalised by the Group	166
2.	Publication of unaudited financial information	n/a
3.	Details of long-term incentive schemes only involving a Director	86
4.	Waiver of emoluments by a Director	113
5.	Waiver of future emoluments by a Director	113
6.	Non pro-rata allotments for cash (issuer)	n/a
7.	Non pro-rata allotments for cash by major subsidiaries	n/a
8.	Parent participation in a placing by a listed subsidiary	n/a
9.	Contracts of significance	115
10.	Provision of services by a controlling shareholder	111
11.	Shareholder waivers of dividends	111
12.	Shareholder waivers of future dividends	111
13.	Agreements with controlling shareholders	115

By order of the Board

James Sporle

General Counsel & Company Secretary

15th of September 2021

Chapter 3: Financial Statements



Chapter 3 – Financial Statements Index

Independent Auditor's Report to the Members of Darktrace plc	120	Company Financial Statements	198
Consolidated Financial Statements	136	Statement of Company Financial Position	198
Consolidated Statement of Comprehensive Income	136	Statement of Company Changes in Equity	200
Consolidated Statement of Financial Position	138	Notes to the Company Financial Statements	202
Consolidated Statement of Changes in Equity	140	Darktrace plc Information	209
Consolidated Statement of Cash Flows	142	Shareholders	210
Notes to the Consolidated Financial Statements	144	Glossary	211

“Darktrace has a strong value proposition and a vast new customer runway. There is a significant opportunity to capture and we are well-placed to take advantage of a rapidly expanding market.”

Catherine Graham, Chief Financial Officer, Darktrace

Independent Auditor's Report to the Members of Darktrace plc

Opinion

Our Opinion on the Financial Statements is Unmodified

We have audited the financial statements of Darktrace plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2021 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included, but was not restricted to:

- obtaining and reviewing management's assessment of going concern and challenging the assumptions used in the cash flow forecasts, which have been approved by the Board;
- obtaining management's base case scenario for the period to 30 September 2022, together with supporting evidence for all key trading, working capital and cash flow assumptions;
- obtaining management's downside scenarios, which reflect management's assessment of uncertainties. We evaluated the assumptions regarding the forecast period and reduced trading levels under each of these scenarios;

- considering whether the assumptions are consistent with our understanding of the business obtained during the course of the audit and the changing external circumstances arising from the impact of Covid-19;
- considering management's historic forecasting ability and accuracy and the extent to which this impacts the forecasts produced;
- obtaining post year end management accounts and comparing against amounts forecasted to assess accuracy of forecasts;
- reviewing post year end board minutes to ensure any post year end events have been factored into management's forecasts; and
- reviewing the policies and disclosures in respect of going concern given in the financial statements for appropriateness.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.


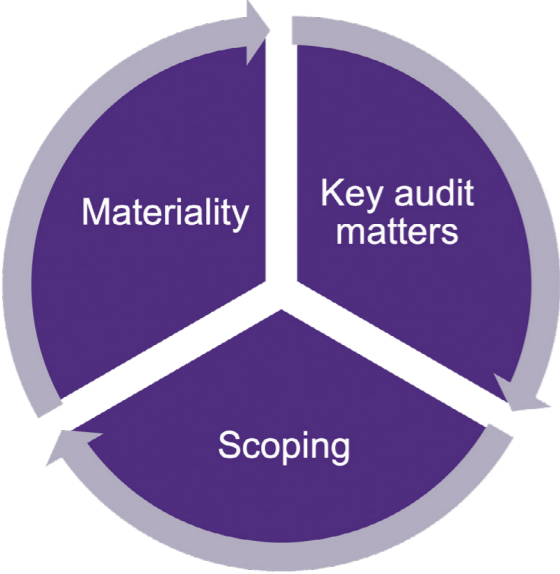
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the group's and the parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

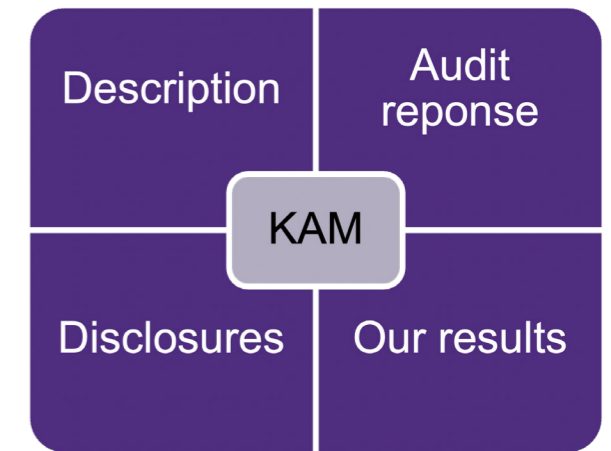
Independent Auditor's Report to the Members of Darktrace plc

Our Approach to the Audit

 	<p style="text-align: center;">Overview of our Audit Approach</p> <p>Overall Materiality: Group: \$2,700,000 which represents approximately 1% of the group's total revenue. Parent company: \$2,699,000, which represents 1% of the parent company's net assets, capped at an amount less than group materiality.</p> <p>Key Audit Matters Were Identified as:</p> <ul style="list-style-type: none"> Revenue recognition; Accuracy of share-based payment expense; and Accuracy and presentation of convertible loan note finance cost. <p>We performed an audit of the financial information of the parent company and the other significant component using component materiality (full-scope audit procedures on Darktrace Holdings Limited) and an audit of one or more account balances, classes of transactions or disclosures (specific-scope audit procedures) of two further components (Darktrace Inc. and Darktrace Canada, Inc) to gain sufficient appropriate audit evidence at the Group level. We performed analytical procedures on the financial information of the remaining 11 components in the Group during the year.</p>
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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters and other significant risks relevant to the audit.



Independent Auditor's Report to the Members of Darktrace plc

Key Audit Matter – Group

Revenue Recognition

We identified revenue recognition as one of the most significant assessed risks of material misstatement due to the risk of fraud.

The Group has reported revenues of \$281.3m (2020: \$199.1m). The nature of the Group's revenue involves the processing of multi-year contracts which are recognised over time.

The audit team's assessment is that the vast majority of revenue transactions are non-complex, with no judgement applied over the amount recorded as revenue recognised equates to the value of the service, spread evenly over the period of each contract.

We have therefore focused our significant fraud risk assessment in two areas. Firstly, on new contracts entered into within the year, both for revenue and deferred revenue recognition as we consider this to be where the opportunity and incentive for revenue misstatement could occur.

Secondly, we focussed on the increased fraud risk in partner channels due to immaterial findings relating to existence of end users in the prior year.

How our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Performed walkthrough tests of new contracts and evaluated the design effectiveness of relevant controls.
- Performed a walkthrough of the processes and controls implemented in the partner process to ensure consistently applied in the current period.
- Used data analytics including visualisations, matching and transactional scoring to identify unusual revenue transactions for further substantive testing.
- Performed analytical procedures on revenue trends to identify potentially unusual contracts and deferred revenue.
- Selected a sample of new contracts entered in the year and agreed to signed customer contract to corroborate key information used in determining recognition of revenue and deferred revenue balances. Agreed each item to appliance delivery information or previously existing contracts (where no additional appliances are required for the new contract).
- Selected a sample of new contracts and sent direct confirmations to the end customer in order to corroborate key terms of the contract.
- Inspected credit notes raised post-period end which relate to the 30 June 2021 year, assessing the size and qualitative nature of these and determining whether they were raised appropriately.
- In respect of deferred revenue, for products and services where revenue is earned over a contractual term, tested a sample of transactions to determine whether the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract.
- Agreed a sample of revenue invoices which do not appear in the period end deferred revenue balance to signed revenue contract and/or purchase orders to determine whether the non-deferral of revenue is accurate and reasonable.

Key Audit Matter – Group

Relevant Disclosures in the Annual Report and Accounts 2021

- **Financial statements:** note 2 Accounting Policies, note 3 Key judgments and estimates and note 4 Operating Segments, note 5 Revenue from contracts with customers.
- **Audit committee report:** page 76

Accuracy of share-based payment expense

We identified the risk of the share based payment expense being materially misstated as one of the most significant assessed risks of material misstatement due to error.

The share based payment expense was \$17.0m in the year (2020: \$10.4m) and share-option related employer tax charge was \$21.5m (2020: \$67k credit).

There are a significant number of share options in existence and the new options issued in the year have differing conditions. There is a risk that the expense recognised in the year may be materially misstated.

In the determination of fair values of options, there are a number of estimates and judgements that management have taken, of which we consider the most significant to be:

- The grant date and share price used for the IFRS 2 valuation of new Award Incentive Plan ("AIP") awards granted after IPO.
- Share price used to calculate the provision for social security costs on share-based payments.

How our Scope Addressed the Matter – Group

- From a list of partner deals from the contract register and the receivables listing, obtained direct confirmations from a sample of end-users to confirm the existence of that end user as well as key contract information such as the commencement date, the term and the existence of the partner relationship.
- Obtained the trade receivables ledger as at 30 June 2021 and performed an analysis of outstanding balances related to partner deals.
- Assessed the revenue accounting policy and treatment of partner deals against the criteria of IFRS 15 to determine appropriate recognition and demonstrate that Darktrace operate as the principal in all deals.

Our Results

Our audit testing did not identify any material misstatements in relation to revenue recognition.

In responding to the key audit matter, we performed the following audit procedures:

- Performed a walkthrough test on share option processes and evaluated the design effectiveness of relevant controls.
- Gained an understanding from management of the key assumptions underpinning the share option valuation model (IFRS 2). With the assistance of our technical team, we challenged management on key assumptions including the selected grant date and share price of AIP options awarded.
- Obtained, considered and challenged management expert's IFRS 2 valuation report and evaluated the competence, capabilities and objectivity of that expert.
- Utilised internal valuations experts, testing the key inputs and assumptions made by management in the valuation model for new share options granted in the year.

Independent Auditor's Report to the Members of Darktrace plc

Key Audit Matter – Group

We consider there to be a risk of management bias within the estimates and judgements noted above.

Relevant Disclosures in the Annual Report and Accounts 2021

- **Financial statements:** [note 2](#) Accounting policies, [note 3](#) Key judgments and estimates, [note 8](#) Loss for the year before tax, [note 9](#) Employee costs, [note 22](#) Share based payments and [note 24](#) Related party transactions.
- **Audit committee report:** [page 76](#)

How our Scope Addressed the Matter – Group

- For a sample of options, obtained signed employee contracts, or for AIP options, viewed terms on the employee portal and agreed key details from the contract or portal through to the underlying calculations.
- Assessed the underlying calculations for accuracy and re-calculated formulae to ensure the correct flow through of information. We re-calculated the vesting expense for a sample of employees, with consideration to the cancellation rate.
- Agreed social security rates used by management to relevant tax rates and considered the appropriateness and accuracy of the associated social security provision related to awards at the year end.
- Assessed the accounting policy and disclosures for compliance with IFRS 2 and evaluated disclosures for completeness and accuracy.

Our Results

Our audit testing did not identify any material misstatements in relation to accuracy of share-based payment expense.

Key Audit Matter – Group

Accuracy and presentation of convertible loan note finance cost

We identified the accuracy and presentation of the interest expense and fair value movement relating to the convertible loan note being materially misstated as one of the most significant assessed risks of material misstatement due to error.

The total convertible loan note related finance cost was \$107m (2020: nil) in the year.

Due to the complexity of the loan note terms including discounts and early settlement incentives, there is a risk that the financial instrument has not been appropriately accounted for or related finance costs have not been accurately recognised and presented within the financial statements in accordance with relevant accounting standards.

There are a number of estimates and judgements that management have taken in determining the convertible loan accounting, of which the most significant relates to the conversion of the notes and determining the appropriate derecognition date and the market value of the shares at that date.

In addition, there is a risk that the embedded derivative within the notes may not have been appropriately measured at inception or at conversion and the resultant fair value movement, presented within finance costs, may be materially misstated due to the judgements involved in the calculations.

Relevant Disclosures in the Annual Report and Accounts 2021

- **Financial statements:** [note 2](#) Accounting policies, [note 3](#) Key judgments and estimates, [note 7](#) Finance costs and finance income, [note 18](#) Convertible loan notes, [note 21](#) Share capital and share premium and [note 24](#) Related party transactions.
- **Audit committee report:** [page 76](#)

How our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Performed a walkthrough test on the assessment and calculation of financial instruments and evaluated the design effectiveness of relevant controls.
- Obtained management's paper detailing the treatment of the instrument, identification of derivatives and conversion into shares and assessed against the requirements of relevant accounting standards, challenging the key judgements therein.
- Obtained the convertible loan note contract and share exchange deed and considered whether all key terms and conditions have been appropriately incorporated within the accounting treatment and valuations.
- Recalculated the unwinding of the non-derivative liability to the date of conversion.
- Evaluated the competence, capabilities and objectivity of management's expert used in accounting for and providing the valuation of derivatives at inception and at conversion.
- Gained an understanding from management and their experts, including legal opinion, on the appropriate date of derecognition and the fair value of shares at that date in accordance with IFRS 13. With the assistance of our technical specialists, we challenged management on the judgements, in particular whether the derecognition clauses within the share exchange deed were substantive in nature.
- Engaged an auditor's expert to calculate an expected valuation for the derivative at inception and conversion and compared it to the value used by management.
- Recalculated fair value movement of the embedded derivative and the loss on conversion.
- Assessed the disclosures in the annual report for completeness and appropriateness.

Our Results

Our audit testing did not identify any material misstatement in relation to the accuracy and presentation of the convertible loan note finance cost.

Independent Auditor's Report to the Members of Darktrace plc

Our Application of Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

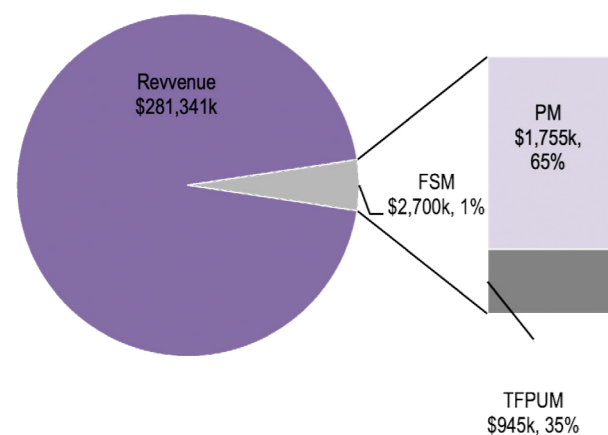
Materiality Measure	Group	Parent Company
Materiality for Financial Statements as a Whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	\$2,700,000 which represents approximately 1% of the group's total revenue.	\$2,699,000 which represents 1% of the parent company's net assets, capped at an amount less than group materiality.
Significant judgements made by auditor in determining the materiality	This benchmark is considered the most appropriate because this is a key measure used by the Directors to report to investors on the financial performance of the Group. Loss before tax or adjusted loss before tax has not been used due to the volatility of these metrics as compared to the prior year.	This benchmark is considered the most appropriate because its principal activity is that of a holding company (with the largest financial statement line items being investments and intercompany balances).
Performance Materiality Used to Drive the Extent of our Testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	\$1,755,000 which is 65% of financial statement materiality.	\$1,754,000 which is 65% of financial statement materiality.

Materiality Measure	Group	Parent Company
Significant Judgements Made by Auditor in Determining the Performance Materiality	<p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> Whether there were any significant adjustments made to the group financial statements in prior years Whether there were any significant control deficiencies identified in prior years Whether there were any changes in senior management of the group during the period Whether there were any significant changes in business objectives/strategy 	In determining performance materiality, we considered the group's performance materiality and the requirement that the parent company performance materiality should be incrementally below the group's performance materiality.
Specific Materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific Materiality	<p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> Related party transactions, including Directors remuneration and related disclosures 	<p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> Related party transactions, including Directors emoluments and related disclosures
Communication of Misstatements to the Audit Committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for Communication	\$135,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	\$134,950 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

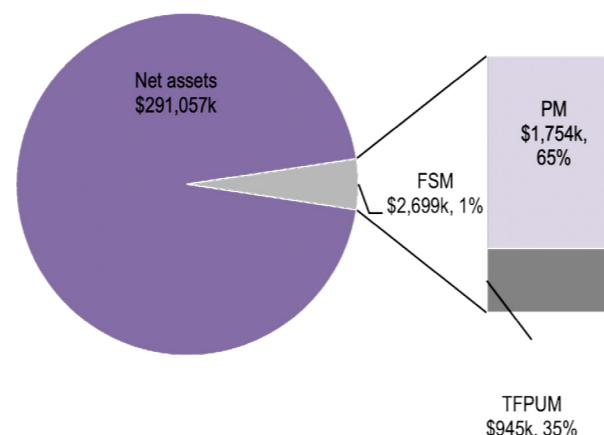
Independent Auditor's Report to the Members of Darktrace plc

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall Materiality – Group



Overall Materiality – Parent Company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An Overview of the Scope of our Audit

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

Understanding the Group, its Components, and Their Environments, Including Group-Wide Controls

- The engagement team obtained an understanding of the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group level;
- The engagement team obtained an understanding of the effect of the group organisational structure on the scope of the audit, identifying that the group financial reporting system is centralised and that there is a use of management experts where required;

Identifying Significant Components

- Significant components were identified through assessing their relative share of key financial metrics including total revenue, absolute loss before taxation and total assets. If any of the individual metrics above were >15% of the Group total, then that component was classified as 'individually financially significant to the Group' and an audit of the financial information of the component using component materiality (full-scope audit) was performed.
- Other components were selected where we determined there to be a specific risk profile in those components and were included in the scope of our group reporting work in order to provide sufficient coverage over the group's results. For these components, an audit of one or more account balances or class of transactions (specific scope procedures) was performed.
- All other components of the group were selected as 'neither significant nor material' and analytical procedures performed.

Performance of our Audit

- The majority of the year-end audit was conducted remotely due to Covid-19 restrictions and social distancing requirements at the head office. This was supported through the use of software collaboration platforms for the secure and timely delivery of requested audit evidence. The audit team held weekly pre-scheduled conference calls throughout the audit fieldwork and visited the head office once restrictions were lifted in July 2021.
- Despite restrictions, we were still able to physically attend and observe the year end count of Proof of Value appliances at the head office in Cambridge.

Type of Work to be Performed on Financial Information of Parent and Other Components (Including how it Addressed the Key Audit Matters)

- Performance of full-scope audits of the financial information of Darktrace plc and Darktrace Holdings Limited.
- Specific-scope audit procedures were performed for Darktrace, Inc. and Darktrace Canada, Inc. using component materiality.
- Analytical procedures were performed for all other components using group materiality.

Audit Approach	No. of Components	% Coverage Total Assets	% Coverage Revenue	% Coverage Absolute PBT
Full-scope Audit	2	94	100	97
Specified Audit Procedures	2	5	-	2
Analytical Procedures	11	1	-	1
Total	15	100	100	100

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Darktrace plc

Our Opinions on Other Matters Prescribed by the Companies Act 2006 are Unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on Which we are Required to Report Under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's and the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects of the group and the parent company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group and the parent company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the parent company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the group and the parent company (including the impact of Brexit and Covid-19) and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated (including the impact of Brexit and Covid-19);

- the section of the annual report that describes the review of the effectiveness of group's and the parent company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of Directors for the Financial Statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what Extent the Audit was Considered Capable of Detecting Irregularities, Including Fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We enquired of management, the finance team, legal counsel and the Board of Directors about the Group's and Company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations;
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Company. We determined that the most significant frameworks that are directly relevant to specific assertions in the financial statements are those related to financial reporting and taxation laws, being international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, international accounting standards in conformity with the requirements of the Companies Act 2006, Financial Reporting Standard 101 (for the Company), the Companies Act 2006, the Listing Rules and the UK Corporate Governance Code including the application of local sales and use taxes and overseas permanent establishments;
- We enquired of management and the Board of Directors whether they were aware of any instances of non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud;

Independent Auditor's Report to the Members of Darktrace plc

- We assessed the susceptibility of the Group's and Company's financial statements to material misstatement, consulting with our Forensic specialists to inform this assessment, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
 - ◆ Enquiring of management, the finance team, legal counsel and the Board about the risks of fraud at the Group and Company and the controls implemented to address those risks. Assessing the design and implementation of controls relevant to the audit that management has in place to prevent and detect fraud, including updating our understanding of the internal controls over journal entries, including those related to the posting of non-standard entries used to record non-recurring, unusual transactions or other non-routine adjustments;
 - ◆ Making specific inquiries of each member of the finance team to ascertain whether they had been subject to undue pressure or had been asked to make any unusual postings or modifications to reports used in financial reporting;
 - ◆ Identifying and testing journal entries selected based on risk profiling;
 - ◆ Running specific keyword searches (including to related parties and of those previously connected to related entities) over the journal entry population to identify descriptions that could indicate fraudulent activity or management override of controls. In addition, journal entries by user were evaluated to identify types of entries posted that were not in line with expectations of their role. Unusual entries noted from these searches were agreed to supporting documentation to verify the validity of the posting;
 - ◆ Planning specific procedures responding to the risk of fraudulent recognition of revenue as detailed within the Key Audit Matters section, above;
- ◆ In relation to Management's assessment of the 'brand and reputation risk' presented on page 59 related to the actions of its people and the nature of its business associations, by gaining an understanding of the roles, activity, and influence of those involved with Darktrace who had connections with those previous business associates. This included inquiries with senior management, legal counsel and personnel outside of the finance team to ascertain the potential level of involvement and influence. This also included attendance at two board meetings by the audit partner and review of board meeting minutes for evidence of intervention or non-independent activity by investor directors and/or ex-employees, directors and business associates;
- ◆ We also assessed the disclosures within the annual report including principal and emerging risks;
- ◆ Challenging assumptions and judgements made by management in its significant accounting estimates (as referenced in the Key Audit Matters section above); and
- ◆ Identifying and testing related party transactions.
- In assessing the potential risks of material misstatement, we obtained an understanding of the Group's and Company's operations, including the nature of income sources and of its objectives and strategies in order to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations; and
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation.

Other Matters Which we are Required to Address

Following the recommendation of the audit committee, we were appointed by the audit committee on 13 July 2021 to audit the financial statements for the year ended 30 June 2021 and subsequent financial periods. However, we have been auditors to subsidiaries of the group since the year ended 30 June 2014.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our Report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Naylor

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

15th September 2021

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

	Notes	FY 2021 \$'000	FY 2020 \$'000
Revenue	5	281,341	199,076
Cost of sales		(28,456)	(17,477)
Gross Profit		252,885	181,599
Sales and marketing costs		(188,936)	(163,052)
Administrative Expenses			
- Research and development costs		(28,814)	(12,030)
- Other administrative expenses		(56,440)	(26,887)
- IPO transaction costs	8	(15,250)	-
- Expected credit loss charge		(3,324)	(5,344)
Other operating income	6	1,365	811
Operating loss	8	(38,514)	(24,903)
Finance costs	7	(109,157)	(2,405)
Finance income	7	50	382
Loss for the year before taxation	8	(147,621)	(26,926)
Taxation	10	(1,967)	(1,746)
Net loss for the year attributable to shareholders of Darktrace plc		(149,588)	(28,672)
Items that are, or may be, subsequently reclassified to profit or loss:			
Other comprehensive (loss)/income		-	-
Total comprehensive loss for the financial year		(149,588)	(28,672)
Earning per share			
Basic loss per share	13	\$(0.290)	\$(0.054)
Diluted loss per share	13	\$(0.290)	\$(0.054)

The notes on pages 144 to 196 are an integral part of these financial statements.

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Financial Statements

Consolidated Statement of Financial Position

	Notes	FY 2021 \$'000	FY 2020 \$'000
Non-current assets			
Intangible assets	11	7,087	6,049
Property, plant and equipment	12	52,896	49,462
Right-of-use assets	14	29,421	31,411
Capitalised commission	15	22,711	14,659
Deferred tax assets	29	544	-
Deposits		6,109	4,895
		118,768	106,476
Current assets			
Trade and other receivables	16	76,867	60,363
Capitalised commission	15	16,303	10,890
Tax receivable		1,119	1,267
Cash and cash equivalents	17	342,358	53,944
		436,647	126,464
Total assets		555,415	232,940
Current liabilities			
Trade and other payables	19	(51,100)	(50,482)
Deferred revenue	5	(158,265)	(96,769)
Lease liabilities	14	(4,285)	(4,903)
Tax payable		-	(508)
Provisions	20	(22,430)	-
		(236,080)	(152,662)
Non-current liabilities			
Deferred revenue	5	(29,599)	(25,779)
Lease liabilities	14	(30,963)	(30,643)
Provisions	20	(515)	-
		(61,077)	(56,422)
Total liabilities		(297,157)	(209,084)
Net assets		258,258	23,856

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Statement of Financial Position

	Notes	FY 2021 \$'000	FY 2020 \$'000
Equity			
Share capital	21	9,756	29
Share premium	21	224,782	170,402
Merger reserve	21	305,789	-
Foreign currency translation reserve		(4,398)	(4,398)
Stock compensation reserve	22	35,723	20,868
Treasury shares	21	(761)	-
Retained earnings		(312,633)	(163,045)
Total equity attributable to equity shareholders of Darktrace plc		258,258	23,856

These financial statements were approved by the Board of Directors and authorised for issue on 15th September 2021. They were signed on its behalf by:

Catherine Graham

Chief Financial Officer

Company No. 13264637

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

	Notes	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Foreign currency translation reserve \$'000
Balance at 30 June 2019		27	170,264	-	(4,398)
Net loss		-	-	-	-
Total comprehensive loss		-	-	-	-
Shares issued	21	2	138	-	-
Credit to equity for share based compensation	22	-	-	-	-
Transactions with shareholders		2	138	-	-
Balance at 30 June 2020		29	170,402	-	(4,398)
Net loss		-	-	-	-
Total comprehensive loss		-	-	-	-
Share purchased for cancellation	20	(2)	(127,061)	-	-
Convertible loan conversion	18	1,076	269,016	-	-
Shares issued	21	1,872	238,506	-	-
Transactions cost	8	-	(13,511)	-	-
Share for share exchange	21	6,781	(312,570)	305,789	-
Shares held for option holders	21	-	-	-	-
Credit to equity for share based compensation	22	-	-	-	-
Transactions with shareholders		9,727	54,380	305,789	-
Balance at 30 June 2021		9,756	224,782	305,789	(4,398)

The notes on pages 144 to 196 are an integral part of these financial statements.

Stock compensation reserve \$'000	Treasury shares \$'000	Retained earnings \$'000	Total equity \$'000
10,512	-	(134,373)	42,032
-	-	(28,672)	(28,672)
-	-	(28,672)	(28,672)
-	-	-	140
10,356	-	-	10,356
10,356	-	-	10,496
20,868	-	(163,045)	23,856
-	-	(149,588)	(149,588)
-	-	(149,588)	(149,588)
-	-	-	(127,063)
-	-	-	270,092
-	-	-	240,378
-	-	-	(13,511)
-	-	-	-
-	(761)	-	(761)
14,855	-	-	14,855
14,855	(761)	-	383,990
35,723	(761)	(312,633)	258,258

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Financial Statements

Consolidated Statement of Cash Flows

	Notes	FY 2021 \$'000	FY 2020 \$'000
Cash generated from operations			
Loss for the period after tax	8	(149,588)	(28,672)
Depreciation of PPE* and Right of Use Assets	12,14	24,475	21,055
Amortisation of intangible assets	11	2,729	1,429
Amortisation of capitalised commission	15	14,101	10,441
Impairment of capitalised commission		1,091	-
Loss on disposal of PPE*		1,556	376
Impairment of PPE*		158	-
Unrealised foreign exchange differences		(4,026)	(148)
Credit loss charge	16	3,324	5,344
Share based compensation charge	22	17,045	10,356
Finance costs	7	109,157	2,405
Finance income	7	(50)	(382)
Other operating income	6	(1,365)	(81)
Taxation	10	1,967	1,746
Operating cash flows before movements in working capital		20,574	23,139
Increase in trade and other receivables	16	(17,657)	(25,641)
Increase in capitalised commission	15	(28,657)	(19,064)
(Decrease) Increase in trade and other payables	19	(1,191)	10,758
Increase in Provisions	20	22,945	-
Increase in deferred revenue	5	65,316	27,294
Net cash flow from operating activities before tax		61,330	16,486
Tax (paid)/received	10	(1,438)	2,894
Net cash inflow from operating activities		59,892	19,380
Investing activities			
Development costs capitalised	11	(2,691)	(2,788)
Purchase of property, plant and equipment	12	(22,641)	(20,389)
Finance income	7	50	382
Cash outflow from investing activities		(25,282)	(22,795)

*Property, Plant, and Equipment

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Notes	FY 2021 \$'000	FY 2020 \$'000
Financing activities			
Proceeds from share issues	21	237,427	140
Share issue costs	8	(13,511)	-
Repurchase of shares	21	(127,063)	-
Convertible loan issuance	18	162,821	-
Repayment of lease liabilities	14	(6,259)	(4,519)
Payment of interest on lease liabilities	14	(2,800)	(2,405)
Cash inflow/(outflow) from financing activities		250,615	(6,784)
Net changes in cash and cash equivalents	17	285,225	(10,199)
Cash and cash equivalents, beginning of year	17	53,944	64,443
Unrealised exchange difference on cash and cash equivalents		3,189	(300)
Cash and cash equivalents, end of year	17	342,358	53,944

The notes on pages 144 to 196 are an integral part of these financial statements.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

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.

Basis of Preparation

These consolidated financial statements are for the year ended 30 June 2021. They have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 financial statements and notes have been rounded off to the nearest thousand USD, unless otherwise stated.

Predecessor Accounting

Darktrace plc was incorporated on 12 March 2021 and became the parent entity of the Group on 4 May 2021 when Darktrace plc acquired the entire shareholding of Darktrace Holdings Limited by way of share for share exchange agreement.

This does not constitute a business combination under IFRS 3 'Business Combinations' as it is effectively a combination among entities under common control. There is currently no guidance in IFRS on the accounting treatment for combinations among entities or businesses under common control. IAS 8 requires management, if there is no specifically applicable standard or interpretation, to develop a policy that is relevant to the decision-making needs of users and that is reliable. The entity first considers requirements and guidance in other international standards and interpretations dealing with similar issues, and then the content of the IASB's Conceptual Framework for Financial Reporting (Conceptual Framework). Management might consider the pronouncements of other standard-setting bodies that use a similar conceptual framework to the IASB's, provided that they do not conflict with the IASB's sources of guidance.

Considering facts and circumstances management has decided to apply a method broadly described as predecessor accounting. The principles of predecessor accounting are:

- Assets and liabilities of the acquired entity are stated at predecessor carrying values. Fair value measurement is not required.
- No new goodwill arises in predecessor accounting.
- Any difference between the consideration given and the aggregate carrying value of the assets and liabilities of the acquired entity at the date of the transaction is included in equity in retained earnings or in a separate reserve

Management has used the retrospective presentation method or merger accounting. Under merger accounting principles, the assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements and the consolidated reserves of the Group have been adjusted to reflect the statutory share capital of Darktrace with the difference presented as the merger reserve.

These consolidated financial statements of the Group are the first set of financial statements for the newly formed Group and the prior period has been presented as a continuation of the former Darktrace Holdings Limited Group on a consistent basis as if the Group reorganisation had taken place at the start of the earliest period presented. The prior period comparatives are those of the former Darktrace Holdings Limited Group since no substantive economic changes have occurred.

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 2021 that have a material impact on Darktrace's financial statements.

New Standards and Interpretations not yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group for future reporting periods or foreseeable future transactions:

- Amendments to IAS 1, Presentation of financial statements on classification of liabilities.
- Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, 'Property, plant and equipment'.
- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'.
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'. For annual periods beginning on or after 1 January 2022.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, have been considered in depth as part of the preparation of the financial statements and the Directors' assessment of the Group's ability to continue as a going concern. In particular, the Directors have reviewed detailed trading forecasts taking into account the Group's financial position, recent performance, and risk management policies in concluding on the Group's continuing viability. The Directors have further reviewed liquidity and covenant forecasts for the Group for the period to 30 September 2022 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:

- ARR/revenue scenarios: The impact of material reputational damage on new customer acquisition and existing customer churn as a result of significant operational disruption, such as a data breach, combined with the impact of a significant reduction in salesforce productivity, materially reducing ARR and revenues. For example, it was assumed that there would be zero new logo ARR growth across the entire period along with a material deterioration in Net ARR retention trends. No cost saving measures were implemented throughout the period.
- Cost scenarios: The impact of a severe increase in employee churn and hiring-related costs interrupting business operations. For example, expected employee churn rates for the entire salesforce and the remaining wider workforce were increased respectively by 25% and 10% vs the base case forecast. Meanwhile hiring and compensation costs were increased, particularly for technical personnel, and extended general cost inflation was considered, with additional increases to key unit costs (such as appliance and hosting costs). No cost saving measures were implemented throughout the period.

Consolidated Financial Statements

- Balance sheet scenarios: The impact of changes to customer payment terms and increased customer insolvencies for extended period of time. For example, forecast collection rates were modelled to drop lower than at any point during the worst of the COVID uncertainty and corresponding payment delays. Meanwhile estimated bad debt expense for the period was tripled vs the base case forecast.
- Combined, 'worst case' scenario: This fourth scenario sought to present an extreme and unreasonable 'worst case' outcome by combining the three aforementioned scenarios. No 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 severe stress scenarios, the Group 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, 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 Group 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 which would be required to trigger a breach in the Group'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 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 the last 18 months. The robust consolidated statement of financial position, with over \$342.3m of cash available and continued strong receivables collection rate of the Group demonstrated during the COVID-19 pandemic gives further support to the resilience of the Group's business model.

The results of these assessments have enabled the Directors to assert a reasonable expectation 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis of Consolidation

These financial statements present the results of Darktrace 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 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 can direct decisions through its ownership and, if applicable, voting rights. To date, all Darktrace's subsidiaries have been created by, rather than acquired by, Darktrace, and no subsidiaries have been closed or otherwise disposed of. Were subsidiaries to be acquired during the year, the profit or loss attributable to shareholders would include 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 do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited is the trustee of the Darktrace plc Employee Benefit Trust. 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 Equiniti Trust (Jersey) Limited has been consolidated.

Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Segment Reporting

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 include the Executive Directors and certain Senior Managers, 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.

Revenue Recognition

The Group does not recognise any revenue until there is a legally binding contract in place with a customer or partner acting on behalf of a customer, the commencement date of that agreement has passed, and the obligations to fulfil that contract have been met. It applies the IFRS 15 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, being to deliver a Cyber Security software and related services to its customers (see [note 5](#)) 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. This revenue is recognised on a straight-line basis over the subscription or license period as the customer simultaneously receives and consumes the benefits from the products it purchased within the Group's Cyber AI Platform as the Group performs. 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.

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.

Customers are generally billed in advance, with credit term 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.

For further information around critical judgement in revenue recognition and consideration of the single performance obligation see [note 3](#).

Consolidated Financial Statements

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 recognized in Cost of sales. Where the Group deploys software to a contracted customer virtually, the associated hosting costs are also recognized 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 11 for additional detail) to Sales and marketing. Similarly, for POVs of virtually deployed products, the associated hosting costs are recognized 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 consist 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. The associated amortisation is also recognized in R&D. 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.

Share based payment cost and related share-option employer tax charges are apportioned on a direct basis depending on the department the employee reports into.

Commission Cost Recognition

Commission costs are all recognized 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. Sales staff receive the first 50% 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.

Research and Development

The Group capitalises the costs of development work that meets the criteria for capitalisation and amortises those costs once the software is released for production and/or brought into use. Research and development expenditures that do not meet the criteria for capitalisation, are recognised as expense 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 recognized as R&D cost (note 11).

Notes to the Consolidated Financial Statements

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.

Employee Options

The fair value of options 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 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 are exercised, the appropriate number of shares is issued to the employee. The proceeds received, net of any directly attributable transaction costs, are credited directly to equity.

The pre- IPO share-based payment scheme has been in place since 2013. All Awards vest over three years from the grant date (or contractual commencement date in the case of Growth Shares) in six-month intervals, (i.e. 1/6 of the Awards will vest every six months over 36 months) subject to continued employment. At the time of IPO the options originally in shares of Darktrace Holdings Limited, converted into options in shares of Darktrace plc, retaining the same conditions; the growth shares in Darktrace Holdings Limited, converted into shares of Darktrace plc at same conditions.

Growth Shares in Darktrace Holdings Limited

Growth shares are equity instruments that allow the holder to participate in the value of a business only where the overall equity value exceeds a hurdle rate. Growth shares are therefore economically similar to vanilla share options where the hurdle acts as a quasi-exercise price. The strike price applying to the Options is the same as the hurdle applying to the Growth Shares. The Board's intention has been for the terms of the Growth Shares to mirror the terms of the Options, as such they are accounted for in the same way as share options.

Growth shares usually crystallise value on an exit where sales proceeds are apportioned to the holders of different share classes in accordance with a company's value waterfall. By contrast employee option schemes typically crystallise value on the exchange of a strike price for the underlying equity.

Growth shares in Darktrace Holdings Limited have been converted into ordinary shares in Darktrace Holdings Limited and then exchanged for ordinary shares in Darktrace plc before IPO. The ordinary shares in Darktrace plc have been transferred to the employee holders at the same condition as the growth shares.

On 30 April 2021 four new award schemes were granted to the employees. None of the awards incorporate an exercise price. However, three carry market-based vesting criteria which must be incorporated into the valuation, per the requirements of IFRS 2.

Performance Based Conditional Award (the 'Performance Awards')

Vesting of Tranche 1 is dependent on Group total shareholder return ('TSR') performance over the period from the Admission Date to the end of the Financial Year 2023, 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 Admission Date to the end of the Financial Year 2024 (i.e. an additional year). Awards do not incorporate an exercise price.

Executive Director Conditional Awards ('Executive Awards')

The Executive Awards carry the same market-based vesting criteria as Tranche 2 of the Performance Awards. Additionally, they have a holding period which determines vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

Consolidated Financial Statements

Top-Up Awards

These awards vest 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 is £2.50 or less, where closing share price is £5.00, 100% of the shares vest and where the closing share price is between £2.50 and £5.00 the number of awards vests on a straight-line basis. Awards do not incorporate an exercise price.

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.

Finance Income and Costs

The Group earns interest on its cash balances through its deposits with banks.

Interest income on financial assets at amortised cost is calculated using the effective interest method and is recognised in the statement of comprehensive income as part of other income.

R&D Tax Credit / Government Grants

The Group has made claims for tax credits under the HMRC RDEC scheme since 2019 which is reflected as other income on the consolidated statement of comprehensive income. This accounting treatment is in accordance with IAS 20 Government grants.

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 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 local tax advisor 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. As a consequence, a consolidated deferred tax asset has not been recognised for brought forward tax losses, capital allowances (tax written down value being in excess of the respective net book value) and estimated tax relief on share based payments.

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 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 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 or directly in equity, respectively.

Notes to the Consolidated Financial Statements

Intangible Assets

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.

Property, Plant and Equipment

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 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.

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 and other tangible property.

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
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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. For more details around the critical judgement and significant estimates around appliances see [note 3](#).

Consolidated Financial Statements

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.

Leases

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 6 months to 8 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. Under IFRS 16 'Leases' the Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the Group's exercising of that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by subsidiaries, which do not have recent third-party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.
- if a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as the basis to determine the incremental borrowing rate.

Right-of-use Assets

Right-of-use assets are measured at cost considering the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life (typically first expected break clause to be executed if this is expected) and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Notes to the Consolidated Financial Statements

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets are generally comprised of IT equipment and small items of office furniture.

Extension and Termination Options

Extension and termination options are included in several property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Most of the extension and termination options held are exercisable only by the Group and not by the respective lessor.

COVID-19-Related Rent Concessions Amendment

The Group has not applied the practical expedient as per the IFRS 16 amendment to any rent concession as the Group did not receive rent concessions from landlords during this period.

Deposits

Deposits are financial assets at amortised cost, primarily related to cash deposits in connection to leases for the Group's offices. Where the agreement is for a term longer than one year, the related deposit is classified as long term. Refer to [note 17](#) for accounting treatment of short-term deposits instead.

Trade and Other Receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

The Group has adopted the simplified model of recognising lifetime expected credit losses for all trade receivables on a collective basis as there are shared credit risk characteristics, grouped on basis of geography and days past due. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. See [note 16](#) for a description of the Group's impairment policies.

The Group writes off trade receivables when in its view there is no reasonable expectation of recovery.

Short term deposits represent the short-term portion of deposits mostly related to lease deposits for the Group's offices or future marketing events.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, 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.

Provisions

The Group accounts for a provision on tax payments when the employer has primary liability to pay for social security-type contribution on share-based payments. In some jurisdictions, the employer rather than the employee has the legal obligation to pay taxes on employee awards. Darktrace plc recognises the cost and liability in relation to those countries where this type of payments 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.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year or any other period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Commission Accruals

The second 50% of sales commission is paid at the earlier of full payment of the contract or most frequently, after one year. As payment requires additional service and performance requirements, this cost is not eligible to be capitalised. This cost is accrued over the expected period between the sale and the payment to the sales staff, with the accrual released when the commission is paid or earlier if commission is recouped due to customer defaulting on payments. Estimation of the effect of leavers has been incorporated into the commission accrual calculation in-line with IAS 19 'Employee Benefits'.

Consolidated Financial Statements

Convertible Loan Notes

In July 2020, Darktrace Holdings Limited issued convertible loan notes ("CLNs") to certain existing shareholders. The transaction completed when funds were received in early July 2020. The rate at which interest accrues on the CLNs is dependent on the mechanism by which it will ultimately be redeemed:

- 18% per annum compounded monthly if the CLNs are settled in cash; or
- 9% per annum compounded monthly if the CLNs are converted to equity plus the discount factor noted below.

In both cases, interest will be accrued until such time as the notes are redeemed.

If redemption occurred prior to June 2021, this discount would have been 35%. If no redemption occurred by that date, the amount of the discount would increase by 1% per month up to a maximum of 55%. The accrued interest would also convert at the applicable discount rate.

The principal and interest components of the CLNs do not meet the criteria for recognition as equity and therefore, the CLNs have been recognised as a financial liability.

The equity conversion and early settlement features included in the CLNs' terms constitute an embedded derivative. The CLNs have, therefore, been treated as hybrid instruments. Given the embedded derivative is not closely related to the debt host contract, the derivative must be separated from the host and recorded at fair value through the statement of consolidated income on initial recognition. The host contract is measured at amortised cost using the effective interest rate over its expected life.

The conversion of the CLNs was approved on 30 April 2021.

Host Contract - Borrowing

The host debt instrument is measured at amortised cost based on the effective interest rate ("EIR") calculated at initial recognition. For a financial liability, the EIR is the rate that exactly discounts estimated future cash payments to the instrument's amortised cost. The EIR is calculated by estimating the instrument's expected cashflows considering all contractual terms of the instrument.

The calculation of the EIR in the case of an embedded derivative takes into account the presence of a conversion feature and where that embedded derivative is not closely related to the host debt instrument, the impact and timing of the cashflows of the conversion feature may be excluded from the estimated cashflows of the host debt instrument.

In the case of the CLNs, this may lead to a situation where the host debt instrument's EIR is calculated based on cashflows up to its contractual maturity in the absence of an expectation that any other contractual feature may impact the instrument's estimated future cashflows.

Fair Value of Embedded Derivative

The fair value of the embedded derivative is calculated at initial recognition and the balance of the transaction proceeds received by Darktrace on issue of the CLNs (after deducting the fair value of the embedded derivative) is allocated to the host debt instrument.

We have considered the approach to the calculation of the EIR as that of an embedded derivative which arises due to the presence of a conversion feature and where that embedded derivative is not closely related to the host debt instrument. In this case, the impact and timing of the cashflows of the conversion feature may be excluded from the estimated cashflows of the host debt instrument, in compliance with IFRS 9. In the case of the CLNs, this leads to the host debt instrument's EIR being calculated based on cashflows up to its contractual maturity in the absence of an expectation that any other contractual feature may impact the instrument's estimated future cashflows.

Notes to the Consolidated Financial Statements

The valuation of the embedded derivative at inception and conversion considers the following process and factors:

- determine the cash-based return, and separately the equity-based return, over a spectrum of time between the expected IPO date as at the Valuation Date and 4 years from initial recognition.
- discount the cash redemption amount to the expected conversion date at a market yield which assumes there is no conversion feature.
- compute the 'gain' on the equity conversion, being the additional return over and above the cash-based return.
- include the likelihood of the cash repayment after 4 years in the overall assessment.
- discount the 'gain' to its net present value, over the estimated time period using market yield.
- probability-adjust the outcomes based upon the following expected time horizon of:
 - ◆ an IPO or equity event; and
 - ◆ cash repayment after 4 years undiscounted.
- take the weighted average outcome as the fair value of the embedded derivative.

Refer to **note 4** for more details on the significant estimates and judgments in the valuation.

CLNs Conversion

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss. In order to calculate the gain or loss on settlement of CLNs it is necessary to establish the fair value of equity instruments issued, the carrying amount of the financial liability and the fair value of the embedded derivative recognised.

Refer to **note 3** for more details on the significant estimates and judgments in the valuation and conversion.

Borrowings are classified as current liabilities unless Darktrace has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred. Since the issuance of the CLNs in July 2020, the effective interest rate of the CLNs has been applied to the value of development costs that have been capitalised up until conversion.

Employees Benefits

Short-Term Obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

Post-Employment Obligations - Defined Contribution Plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Company operates a stakeholder pension scheme and contributes to several personal pension schemes on behalf of its employees. The Group also contributes to State-sponsored pension schemes in multiple countries as legislated.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Bonus Plans

The Group recognises a liability and an expense for bonuses based on management's best estimate of the expected payment for discretionary bonuses and then will make the appropriate adjustments if necessary, at the time these bonuses are paid. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

- a. when the Group can no longer withdraw the offer of those benefits; or
- b. when the Group recognises costs for a restructuring that is within the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options 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.
- 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 (see [note 3](#) for judgement applied).
- Merger reserve: As Darktrace issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, 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 Holding 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 2020.
- Stock compensation reserve: this reserve is used to recognise the grant date fair value of options issued to employees but not exercised, the grant date fair value of growth shares issued to employees and the grant date fair value of deferred shares granted to employees but not yet vested.
- Treasury shares are shares in Darktrace plc that are held by the Equiniti Trust (Jersey) Limited for the purpose of issuing shares under the Darktrace plc employee share scheme (see [note 21](#) for further information). Shares issued to employees are recognised on a first in, first out basis.
- Retained earnings: represents retained profits and losses.

Foreign Currency Translation

Functional and Presentation Currency

Items included in these financial statements are measured using the functional currency for Darktrace and all of its subsidiaries. The functional currency of Darktrace is also the functional currency of the subsidiaries, as they are deemed to be extensions of Darktrace's operations. The consolidated financial statements are presented in U.S. Dollars ("USD") which, since 1 July 2019, has been the functional currency of Darktrace and all of its subsidiaries.

Transactions and Balances

Foreign currency transactions are translated into the functional currencies of Darktrace 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 statement of comprehensive income. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other gains or losses. 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.

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

Consolidated Financial Statements

3. 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 period 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 recognized 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

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 not a material performance component of a 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.

Significant Judgement in the Share-Based Payments Valuation

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 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 a proxy for exercise price. Therefore, Black-Scholes is still an appropriate model.

Where market-based performance conditions attached to the awards, a Monte Carlo model is typically appropriate. This model has been used for the awards granted at IPO: executive awards, top-up awards and the performance awards.

Both models utilise various inputs, some of these, subject to management judgement, in particular with reference to the grant date of the AIP awards at IPO.

Grant Date for new AIP Awards at IPO (Significant Judgement)

On 30 April 2021 AIP awards were approved and finalised under five award schemes preceding Darktrace's admission to the London Stock Exchange on 6 May 2021 (the 'Admission Date').

IFRS 2 defines the grant date as the date on which the company and participants obtain a shared understanding of the key terms of the share-based payment, subject to any approvals and acceptance of the award. The parties involved in a share-based payment arrangement will generally have a shared understanding of the arrangement's terms and conditions. But some terms might need to be confirmed later. IFRS prescribes that the fair valuation of the awards should be calculated at grant date. Given the increase in share price after the initial offer, there would be a significant change in the valuation of the awards if the grant date would be considered at a later stage.

The awards were evidenced by the pre-IPO board minutes of 25 April and 29 April 2021 approving the conditional awards on those dates. A shared understanding of the terms of the awards was also obtained between the grantor and the participants by reason of an email sent by the CEO to participants on 30 April 2021. It is considered therefore, that an accounting grant date was achieved on 30 April 2021 in relation to the AIP awards.

Notes to the Consolidated Financial Statements

Management used the offer price of £2.50 (\$3.5), as the appropriate share price at grant date to be used for the valuation. Paragraph 16 of IFRS 2 state that for transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. In this case, as the grant date was determined to have occurred on the date Darktrace's shares commenced trading, management considers appropriate to use the admission price on the basis that this price represents the price per share received by Darktrace and existing shareholders on the sell down of their stock on IPO on that date.

This estimate does not result in a significant risk of a material adjustment as the grant date fair value estimate for existing awards is not revised in subsequent periods. However, given the sensitivity of the valuation with respect to the share price, we have included sensitivity analysis.

	FY 2021
Share price at grant date	\$ 3.5 (£2.50)
Current valuation (\$'000)	24,115
- 10% in share price at grant date – variance in overall valuation (\$'000)	(5,673)
+ 10% share price value at grant date - variance in overall valuation (\$'000)	7,020

The Expected Volatility of the Share Price on all Schemes (Significant Estimate)

Before the Group was listed, Management considered the volatility of comparable listed companies when valuing the awards, as sourced from their published accounts. Volatility is a subjective input. Darktrace is at an earlier stage in its development compared to the other listed companies and its volatility would therefore be expected to be towards the upper end of the range. Given the average share value at grant has significantly increased over the years, the valuation of the share-based payments is particularly sensitive to the volatility.

Management has used a range of values to derive a high volatility input for the year as follows:

	Options	Growth shares
Expected volatility by management (%)	40%	50%
Higher volatility – sensitivity (%)	45%	55%
Variance in overall valuation (\$'000)	3,353	438
Lower volatility - sensitivity (%)	35%	45%
Variance in the overall valuation (\$'000)	(2,867)	(441)

Significant Estimates in the Convertible Loan Note Valuation and Significant Judgement in Accounting Treatment

On 8 June 2020, Darktrace Holdings Limited executed a 'Note Subscription Agreement' in order to issue convertible loan notes which generated proceeds (excluding transaction costs) of \$162.8m. The convertible loan notes were issued on 1 July 2020. The CLNs redemption features required the instrument to be converted into ordinary equity in the event of either an IPO, a trade sale of business or following an issue of additional equity. If none of the conversion features were triggered, the CLNs was to be settled by redemption in cash on the fourth anniversary of its issue. A coupon interest was payable at 18% per annum for settlement in cash or 9% per annum for conversion into equity. At initial recognition, the CLNs was accounted for as a financial liability in respect of a debt host contract which was subsequently measured at amortised cost and an embedded derivative measured at FVTPL. The following values were assigned to the derivative and the host loan liability at inception.

In order to calculate the gain or loss on settlement of CLNs it is necessary to establish the fair value of equity instruments issued, the carrying amount of the financial liability and the fair value of the embedded derivative recognised. Gain or loss on settlement of CLNs will be disclosed separately from the gain or loss on settlement of the embedded derivative.

Consolidated Financial Statements

The key assumptions driving the fair value of the embedded derivative at inception and before conversion included the timing and likelihood of a transaction that would lead to its settlement. It was, therefore, highly sensitive to the probability assessments, which are ultimately a best estimate and clearly an area of judgement. At conversion, the convertible loan note resulted in a number of shares being issued. The number of shares issued depended on the timing of the settlement event and was driven by the 9% interest plus the discount factor applied at the time of the event.

The selection of an appropriate discount rate required judgement. There are a number of observable Internal Rate of Return ("IRRs") which the holder will achieve depending upon the timing of conversion, ranging from c.20% to c.80%. The earlier the conversion the higher the return to the holder. To derive an appropriate rate to discount cash flows, a mid-point of 40% has been used and is considered a reasonable basis for calculating the discount rate that a market participant would apply to a similar instrument with no conversion feature.

Recognition of the CLNs at Inception and Fair Valuation:

Management has prepared the following sensitivities, flexing the discount rates and the probability of a May 2021 IPO by 10% up and down. This shows how much the value at inception would have changed depending on the change in the assumptions:

	Actual \$'000	Discount* \$'000	Discount** \$'000	Probability*** \$'000	Probability*** \$'000
1st July 2020					
Embedded derivative	79,535	85,188	68,970	80,661	78,410
Host loan	83,286	77,633	93,851	82,160	84,411
	162,821	162,821	162,821	162,821	162,821

*This is increasing the discount rate by 10%

**This is decreasing the discount rate by 10%

***This involves increasing the probability of the May 2021 IPO date by 10%. Aggregate 70% probability of IPO (July) unchanged.

****This involves decreasing the probability of the May 2021 IPO date by 10%. Aggregate 70% probability of IPO (July) unchanged.

Date of Derecognition of the CLNs and Fair Valuation:

According to the CLNs agreement, in case of the underwritten IPO, the amount of conversion securities was equal to accrued entitlement amount divided by the offer price per share. The price offered on IPO was £2.50 per share. According to the Group legal advisers, the conversion became unconditional and was fixed at the £2.50 offer price per share at that date.

Derecognition was deemed to be at 00.45 on 30 April 2021. The share exchange deed was fully executed at 00.45 on 30 April 2021, shortly after pricing of the IPO, and superseded all previous CLNs agreements. Pursuant to the share exchange deed, it was unconditionally agreed that the CLNs would be converted on 4 May 2021. As there was no active market value at the point of derecognition, it is management judgment that the offer price represents

the fair value at that date, being the price fixed for Darktrace's shares based on market information available at that time. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued interest of 9% and a discount of 35% implied by the terms.

The following table presents the valuation at conversion and the related impact on equity and on statement of comprehensive income.

Notes to the Consolidated Financial Statements

	Host loan \$'000	Embedded derivative \$'000	CLNs \$'000
1 July 2020 valuation	83,286	79,535	162,821
Accrued interests	27,239	-	27,239
Fair value movement	-	57,976	57,976
29 April 2021 valuation	110,525	137,511	248,036
Loss on conversion			22,026
Fair value CLNs at conversion (£2.50 equalising \$3.5 per share for 77,475,499 shares)			270,062

Significant Judgement in the Classification of the Transaction Costs Associated with the Issue of Shares

The Group incurred various costs in issuing its own equity instruments, most of which are transaction costs. Transaction costs are incremental costs that are directly attributable to the equity transaction that otherwise would have been avoided if the equity instruments had not been issued. Transaction costs of an equity transaction should be accounted for as a deduction from equity.

Incremental costs that are directly attributable to the equity transaction that otherwise would have been avoided if the equity instruments had not been issued include registration and other regulatory fees, underwriting costs and brokerage fees, amounts paid to lawyers, accountants, investment bankers and other professional advisers, fees and commissions paid to agents, brokers and dealers, printing costs and stamp duties.

There is judgement in the definition of directly attributable to the equity transaction and in the consideration of those costs relate or not to the listing of new shares or existing shares and significant estimate in the identification of the portion of the cost directly attributable to IPO activities. Furthermore, most of costs identified as directly attributable to the IPO have been apportioned to equity considering the portion of shares newly issued at IPO (19%) versus the existing shares admitted for listing, as applicable.

Costs for marketing the IPO, including the 'road show', do not meet the definition of a transaction cost and therefore have been accounted for in the statement of comprehensive income. Listing fees, even though directly attributable to IPO, do not relate to the issuance of new shares and therefore management has considered their deduction from the share premium inappropriate.

Overall, out of a total IPO cost of \$28.8m, \$13.5m has been deducted from the share premium and remaining accounted in the statement of comprehensive income for an amount of \$15.3m.

Consolidated Financial Statements

Significant Judgement in the

Definition of the Ultimate Controlling Party

The Directors have determined that no entity or party controlled Darktrace and the Group throughout the periods covered by these financial statements. The Company and the Group had no ultimate controlling party or parent company, and no other entity has financial statements or results included in the results of Darktrace or the Group.

In reaching this conclusion, the Directors have applied judgement, specifically in assessing whether a significant investor, Invoke Capital Partners ("Invoke"), controlled Darktrace and the Group at any point from 1 July 2019 to 30 June 2021. The table below illustrates the changes in the shareholdings held by Invoke from 1 July 2019 to 30 June 2021.

For the purpose of this disclosure, Invoke means ICP Darktrace Holdings Limited from 1 July 2019 to 30 June 2021.

% of ordinary and preference shares held by Invoke	Period
42%	1 July 2019 - 30 June 2020
30.6%*	After convertible loan conversion
29.1%*	After IPO
26.1%*	At 30 June 2021

* Group of individual shareholders acting collectively as the on 7 August 2020, most of the shares of the Company held by ICP Darktrace Holdings Limited were distributed to the individual shareholders of ICP Darktrace Holdings Limited following liquidation of the company. The remaining shares were distributed on 30 November 2020.

During the period from 1 July 2019 to 30 June 2020, Invoke had three representatives on the Board of directors. Invoke had affiliations with three of the other Board members. From 1 April 2021 only one director out of 9 is representing Invoke and 4 are independent directors: significantly reinforcing the independence of the Board to any shareholder singularly taken, if existing.

In assessing whether Invoke controlled Darktrace and the Group, the Directors considered whether Invoke directly or indirectly had the ability to make decisions over the relevant activities of Darktrace and the Group. Decisions over the relevant activities were made by the Board of directors and the Board representation by Invoke and the associated voting rights did not provide Invoke power over the relevant activities.

Given the relationships of the other Board members with Invoke, the Directors evaluated different mechanisms, that could, in isolation or combination, have given Invoke the ability to make decisions over the relevant activities. The Directors applied judgement in evaluating the nature of the relationships, the interaction of these Board members with Invoke and whether these Board members could have been acting on behalf of Invoke. The Directors concluded that these Board members acted independently of Invoke when making decisions about Darktrace and the Group.

After assessing all relevant factors in their totality, the Directors concluded that Invoke did not control Darktrace and the Group but was deemed to have had significant influence over Darktrace and Group during the period from 1 July 2019 to 31 March 2021. From 1 April 2021 Darktrace and the Group are independent from Invoke.

Notes to the Consolidated Financial Statements

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 at time of exercise, is the share price and for this reason the Group has prepared the following sensitivity analysis:

	FY 2021	FY 2020
	\$'000	\$'000
+/- 10% share price value – change in value of provision for the year (\$'000 absolute value)	2,797	211

Significant Estimate in the Expected Useful Life 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 Groups experience to date), and the appliances being an immaterial portion of the total contract value 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.

Given the sensitivity around the estimated useful life of the appliances, management has prepared an analysis to determine the impact on the financial position and in the statement of comprehensive income, from a change in the estimated useful life considering 3 years and 7 years as follows:

	FY 2021	FY 2020
	\$'000	\$'000
3 years useful life applied		
Variance in appliances net book value	(19,598)	(5,798)
Variance in depreciation	(7,686)	4,514
7 years useful life applied		
Variance in appliances net book value	11,242	2,412
Variance in depreciation	2,323	(2,782)

Consolidated Financial Statements

4. Operating Segment

The Group has concluded that it operates only one operating segment as defined by IFRS 8 Operating Segments being the development and sale of cyber-threat defence technology. The information used by the Group's CODM's to make decisions about the allocation of resources and to assess performance is presented on a consolidated Group basis. Accordingly, no segment analysis is presented. Refer to [note 5](#) for disaggregated analysis on revenue from contract with customers.

No single customer accounted for more than 10% of revenue in any of the periods presented.

	FY 2021	FY 2020
Non-current assets by geographical market	\$'000	\$'000
United Kingdom	36,193	32,219
USA and Canada	39,286	38,364
Europe	17,712	15,086
Rest of World	25,033	20,807
	118,224	106,476

USA non-current asset is \$38.4m, 32.5% of total non-current assets (as at 30 June 20 \$35.9m, 33.7%).

5. Revenue From Contract With Customers

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. As at 30 June 2021 this revenue amounted to \$1.1m (30 June 2020 \$0.4m).

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. There are no significant contracts with a single customer.

	FY 2021	FY 2021	FY 2020	FY 2020
	\$'000	% of revenue	\$'000	% of revenue
USA and Canada	109,358	38.9%	81,207	40.8%
United Kingdom	50,433	17.9%	38,272	19.2%
Europe	61,922	22.0%	37,943	19.1%
Rest of World	59,628	21.2%	41,654	20.9%
	281,341	100%	199,076	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 2021 and 2020. USA generated \$99.0m, 35.2% of total revenue (as at 30 June 20 \$74.1m, 37.2%) but the business manages to be above regions.

Notes to the Consolidated Financial Statements

Contract Assets and Liabilities Related to Contracts with Customers

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

	FY 2021	FY 2020
	\$'000	\$'000
Accrued income	1,713	754
Total accrued income	1,713	754
Current deferred revenue	158,265	96,769
Non-current deferred revenue	29,599	25,779
Total deferred revenue	187,864	122,548

Deferred revenue has increased year on year in line with the increase in revenue.

Contracts are 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.

Details of costs to obtain contracts with customers are shown in [note 15](#).

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 2021	FY 2020
Revenue Recognised in Relation to Contract Liabilities	\$'000	\$'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	96,769	72,552

Revenue Expected to be Recognised

The following are the aggregated amounts of future revenues that relate to contracts that are unsatisfied or partially unsatisfied:

	FY 2021	FY 2020
	\$'000	\$'000
Due within 12 months	330,006	223,481
Due within 1-2 years	238,110	159,730
Due within 2-3 years	147,435	95,150
Due within 3-4 years	58,904	41,493
Due over 4 years	5,952	14,007
	780,407	533,861

Consolidated Financial Statements

6. Other Operating Income

	FY 2021	FY 2020
	\$'000	\$'000
R&D Tax credit under HMRC RDEC scheme	1,365	811

7. Finance Costs and Finance Income

	FY 2021	FY 2020
	\$'000	\$'000
Finance Costs		
Total interest on financial liabilities measured at amortised cost (CLNs – host contract) – note 18	27,239	-
Fair value movement on derivative (CLNs – embedded derivative) – note 18	57,976	-
Loss on conversion of the CLNs – note 18	22,026	-
Interest on lease liabilities	2,800	2,405
Capitalised borrowing costs	(884)	-
Total finance costs	109,157	2,405
Finance Income		
Interest income from cash and cash equivalents	50	382
Total finance income	50	382

Capitalised Borrowing Costs

A 40% capitalisation rate applicable to the CLNs, was used to determine the amount of borrowing costs to be capitalised. This is the weighted average interest rate applicable to the CLNs during the year. For the year ended 30 June 2020 the Group had no material borrowing costs for capitalisation.

Notes to the Consolidated Financial Statements

8. Loss for the Year Before Taxation

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.

The loss for the year for the Group is stated after charging/crediting:

	FY 2021	FY 2020
	\$'000	\$'000
Research and development: payroll cost	18,625	7,527
Short term property and low value lease rentals	2,482	2,997
Depreciation and Amortisation		
- Capitalised development costs (note 11)	2,729	1,429
- Property, plant and equipment (note 12)	18,447	15,628
- Right-of-use assets (note 14)	6,028	5,427
- Capitalised commission (note 15)	14,101	10,441
US sales tax	1,264	2,304
IPO cost	15,250	-
Share-based payment charge (note 22)	17,045	10,356
Share-option related employer tax charges (note 20)	21,527	(67)
Credit loss charge	3,324	5,344
Other legal and professional fees	2,359	2,953
Net foreign exchange (gains)/losses	(845)	448

Research and development costs' increase was primarily attributable to an increase in research and development staffing to expand the Group's technical departments focused on research and new product development efforts to enhance its existing product offerings. The increase was also partially due to the share-based payments related to people working in this function and the associated provision for taxes which was recognised in FY 2021 ([note 22](#)).

Property lease rentals includes the cost for short term lease contracts or low value lease contracts.

US Sales tax is related to sales taxes in years prior to the Group being required to be registered in certain states. The Group has now obtained, or is in the process of obtaining, registrations in the relevant US states in which historically an obligation to collect and remit taxes existed.

IPO cost includes registration and other regulatory fees, underwriting costs and brokerage fees, amounts paid to lawyers, accountants, investment bankers and other professional advisers, fees and commissions paid to agents, brokers and dealers, printing costs and stamp duties. Most of cost directly attributable to the IPO have been apportioned to equity ([note 21](#)) considering the portion of shares newly issued at IPO versus the existing shares admitted unless specific allocation has been possible. Refer to [note 3](#) for the judgement around the classification of the IPO cost.

Share-based payment expense includes \$2.2m related to the shares granted to non-executive directors at IPO at £nil cost and therefore the distribution falls within the definition of equity-settled share-based payment under IFRS 2 Share-Based Payments and there are no vesting conditions attached to these shares and they vest immediately on distribution. Refer to [note 21 and 22](#) for further details.

Consolidated Financial Statements

Auditors' Remuneration

	FY 2021	FY 2020
	\$'000	\$'000
Audit of the Group and parent company accounts	471	554
Audit of the accounts of the Company's subsidiaries by the Group auditors	394	28
Total audit fees	865	582
Tax compliance services	11	7
Tax advisory services	282	100
Corporate finance services	1,970	-
Other non-audit services not covered elsewhere	2	6
Total non-audit fees	2,265	113

Corporate advisory services and tax advisory services are attributable mainly to the IPO and the related compliance activities.

Notes to the Consolidated Financial Statements

9. Employee Costs

Employee Benefits Expense

Expenses recognised for the Group's employee compensation and benefits is presented below:

	FY 2021	FY 2020
	\$'000	\$'000
Wages and salaries	133,300	90,251
Social security	37,205	9,323
Pension	2,066	2,078
Employee cost	172,571	101,652
Share based payment charge (note 22)	17,045	10,356
Total cost	189,616	112,008

The average number of employees, including Executive Directors, during the year was as follows:

	FY 2021	FY 2020
	Number	Number
Sales	983	849
Research and development	210	150
Administration and operations	247	126
	1,440	1,125

Directors' emoluments and benefits were as follows:

	FY 2021	FY 2020
	\$'000	\$'000
Emoluments	3,560	490
Gains on exercise of share options	4,940	-
	8,500	490

Total amounts payable to the highest paid director were \$1,624,495 (2020: \$309,098) in respect of emoluments. Three Directors were members of the Group's defined contribution pension scheme in 2021.

Information on Directors' remuneration for the year ended 30 June 2021 is set out on pages 100 to 101. This discloses the amounts paid to the directors for qualifying services provided to the company from 29 April 2021. note 9 includes these amounts combined with amounts paid to the directors for services provided to former parent company (Darktrace Holdings Limited) prior to that date. The comparative information relates to directors' remuneration of the former parent company.

Consolidated Financial Statements

10. Tax Expense

	FY 2021	FY 2020
	\$'000	\$'000
Current tax (credit)/expense:		
Current period	2,667	1,449
Adjustments for prior period	(156)	297
Total current tax (credit)/expense	2,511	1,746
Deferred tax (credit)/expense	(544)	-
Total tax (credit)/expense in income statement	1,967	1,746

The relationship between the expected tax expense based on the UK effective tax rate of the Group at 19% (2020: 19%), and the tax expense recognised in the statement of comprehensive income can be reconciled as follows:

	FY 2021	FY 2020
	\$'000	\$'000
Loss for year before taxation	(147,621)	(26,926)
Tax rate	19%	19%
Tax using the UK corporation tax rate of 19%	(28,048)	(5,116)
Effect of tax rates in foreign jurisdictions	549	359
Non-deductible expenses	24,663	2,504
Research and development tax credit	259	(3)
Current year deferred tax assets not recognised	4,689	3,559
Foreign tax deducted at source being expensed	145	133
Fixed Asset Differences - Ineligible depreciation	(14)	13
(Over) / under provided in prior years	(276)	297
Total tax on loss on ordinary activities for the year	1,967	1,746

The tax charge in the current and prior years primarily relates to overseas tax. With reference to the unrecognised tax asset on losses carried forward please refer to [note 29](#).

Notes to the Consolidated Financial Statements

11. Intangible Assets

Software consists of capitalised development costs being an internally generated intangible asset. The amortisation expense related to this intangible asset is included as a part of research and development costs. Due to the future expected revenues of the capitalised development costs, the Group has not identified any impairments to the intangibles.

Version 3 of the Cyber AI Platform and related products were launched in August 2017 when the related cost (\$1.6m) has started to be amortised. Version 4 of Cyber AI Platform and related products (\$5.5m) was released in December 2019 when the related cost has been reclassified as software and the amortisation started. Version 5 was launched in January 2021 when the related cost (\$5.2m) has been reclassified and amortisation started.

	FY 2021			FY 2020		
	Software	Software	Total	Software	Software	Total
	\$'000	under development \$'000	\$'000	\$'000	under development \$'000	\$'000
Cost						
As at 1 July	8,051	1,468	9,519	2,603	4,128	6,731
Additions	-	3,767	3,767	-	2,788	2,788
Reclassification	5,235	(5,235)	-	5,448	(5,448)	-
As at 30 June	13,286	-	13,286	8,051	1,468	9,519
Amortisation						
As at 1 July	(3,470)	-	(3,470)	(2,041)	-	(2,041)
Charge for the year	(2,729)	-	(2,729)	(1,429)	-	(1,429)
As at 30 June	(6,199)	-	(6,199)	(3,470)	-	(3,470)
Net book value as at 30 June	7,087	-	7,087	4,581	1,468	6,049

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

Consolidated Financial Statements

12. Property, Plant and Equipment

			FY 2021		FY 2020	
	Equipment \$'000	Appliances \$'000	Total \$'000	Equipment \$'000	Appliances \$'000	Total \$'000
Cost						
As at 1 July	8,910	76,119	85,029	7,100	56,376	63,476
Additions	3,402	20,193	23,595	1,827	20,757	22,584
Disposals	(151)	(3,706)	(3,857)	(16)	(1,014)	(1,030)
As at 30 June	12,161	92,606	104,767	8,910	76,119	85,030
Depreciation						
As at 1 July	4,214	31,354	35,568	2,121	18,473	20,594
Charge for the period	2,524	15,923	18,447	2,093	13,535	15,628
Impairment loss	-	158	158	-	-	-
Disposals	(104)	(2,198)	(2,302)	-	(654)	(654)
As at 30 June	6,634	45,237	51,871	4,214	31,354	35,568
Net book value as at 30 June	5,527	47,369	52,896	4,696	44,765	49,462

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 Proof of Value ("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 \$0.2m.

	FY 2021 \$'000	FY 2020 \$'000
Depreciation in cost of sales	11,639	9,392
Depreciation in sales and marketing	4,284	4,143
Total appliance depreciation	15,923	13,535

Notes to the Consolidated Financial Statements

13. Earnings per Share ("EPS")

Basic Earnings per Share

The calculation of basic EPS has been based on the following (loss)/profit attributable to ordinary shareholders and weighted-average number of ordinary and preference shares outstanding. Preference shares have been included in EPS as they rank pari passu with ordinary shares in respect of dividend and voting rights.

	FY 2021 \$'000	FY 2020 \$'000
Loss attributable to ordinary shareholders	(149,588)	(28,672)

Weighted-Average Number of Ordinary Shares (basic)

	FY 2021	FY 2020
Issued ordinary shares at beginning of the year	531,470,750	531,415,750
Effect of share options exercised	1,472,532	42,250
Effect of shares issued during the period	20,274,078	-
Effect of share held by Equiniti Trust (Jersey) Limited (note 21)	(9,169,436)	-
Effect Conversion of CLNs	12,947,960	-
Share conversion	518,390	-
Shares cancelled during period	(42,513,733)	-
Weighted-average number of ordinary shares at period end	515,000,541	531,458,000

The number of shares presented in prior year has been adjusted to reflect the conversion of shares that took place during the year, prior to IPO. See note 21 for further details.

	FY 2021	FY 2020
Basic (loss)/earnings per share	\$(0.290)	\$(0.054)
Diluted (loss)/earnings per share	\$(0.290)	\$(0.054)

Diluted Earnings per Share

The following instruments with future potential equity impact were anti-dilutive at each year end and are therefore excluded from the basic EPS calculation.

Options, Growth Shares and Share Awards

The following table indicates potential equity instruments that may have a dilutive effect in the future. In 2020 these were represented by growth shares and options whiles in 2021 this considers shares issued on account of outstanding options and held by Equinity Trust (Jersey) Limited and share awards under the new AIP schemes (note 22). Growth shares converted into shares before IPO (note 21).

	FY 2021 Quantity	FY 2020 Quantity
Outstanding at year or period end	78,238,175	55,625,783

Consolidated Financial Statements

14. Leases

Right-of-use assets capitalised on the statement of financial position are as below:

	FY 2021 \$'000	FY 2020 \$'000
Cost		
As at 1 July	45,083	35,598
Additions	4,038	9,485
As at 30 June	49,121	45,083
Depreciation		
As at 1 July	13,672	8,245
Charge for the period	6,028	5,427
As at 30 June	19,700	13,672
Net book value as at 30 June	29,421	31,411

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

	FY 2021 \$'000	FY 2020 \$'000
Current	4,285	4,903
Non-current	30,963	30,643
As at 30 June	35,248	35,546

The Group has leases for office space around the world. With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

The Group must keep the offices it leases in a good state of repair and return the offices in a condition as good as their original condition at the end of the lease. Further, the Group must insure any leasehold improvements made to the offices and incur servicing fees in accordance with the lease contracts.

The following table describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the statement of financial position:

Period	Right-of-use asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension options	No. of leases with early break clause
Tuesday, June 30, 2020	Office space	20	1-12 years	4 Years	7	3
Wednesday, June 30, 2021	Office space	20	1-10 years	4 years	8	5

Notes to the Consolidated Financial Statements

The lease liabilities are secured by the related underlying assets. The table below shows lease maturity analysis:

Lease maturity analysis	FY 2021 \$'000	FY 2020 \$'000
Lease liabilities, short term	4,285	4,903
1 - 2 years	5,207	4,692
2 - 5 years	13,897	12,142
Over 5 years	11,859	13,809
Total lease liabilities	35,248	35,546

Amounts Recognised in the Statement of Comprehensive Income

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed as incurred. The expense relating to payments not included in the measurement of the lease liability is disclosed in [note 8](#).

The future minimum rentals under non-cancellable leases are as follows:

	FY 2021 \$'000	FY 2020 \$'000
Office space		
Within one year	2,733	2,309

The Group also holds leases for office equipment such as photocopiers for which it has taken the small value exemption.

Amounts Recognised in the Statement of Cash Flows

	FY 2021 \$'000	FY 2020 \$'000
Cash outflows for leases	6,259	4,519
Cash outflow for interest on leases	2,800	2,405
Total cash outflow	9,059	6,924

Consolidated Financial Statements

15. Capitalised Commission

Capitalised commissions, which 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 contact term.

	FY 2021	FY 2020
	\$'000	\$'000
By Geographic market		
United Kingdom	5,598	4,827
USA and Canada	10,976	8,854
Europe	9,374	6,819
Rest of World	13,066	5,049
	39,014	25,549
Current	16,303	10,890
Non-current	22,711	14,659
	39,014	25,549
Amortisation in the year	14,101	10,441
Impairment in the year	1,091	-

The impairment in the year of \$1.1m relates to the reduction in the capitalised commission asset value as a result of the diminished contract value.

16. Trade and Other Receivables

	FY 2021	FY 2020
	\$'000	\$'000
Trade receivables	58,482	47,721
Prepayments and accrued income	17,061	11,281
Deposits	707	1,361
Other receivables	617	-
As at 30 June	76,867	60,363

Notes to the Consolidated Financial Statements

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balance.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been Grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 12-36 months before 30 June 2021 and 30 June 2020, and the corresponding historical credit losses experienced within these periods. Historic loss rates are adjusted to reflect current and forward-looking information on macroeconomic and other factors affecting the ability of customers to settle the receivables. The Group has identified the Covid pandemic to be the most relevant factor and has accordingly adjusted the historic loss rate.

The Group has recorded an expected credit loss provision for trade receivables as determined under the requirements of IFRS 9, at 30 June 2021 of \$5.5m (30 June 2020: \$4.6m).

The movement in the credit loss provision is as follows:

	2021	2020
	\$'000	\$'000
Expected credit loss provision		
At the beginning of the period	4,605	968
Charge for the year	2,384	4,605
Reversal on collected amounts subsequent to write off	(1,528)	(968)
Expected credit loss provision at end of the year	5,461	4,605
Receivables written off during the year	2,468	1,707

	up to 30 days	up to 60 days	up to 90 days	more than 90 days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2021					
Expected credit loss rate	0.5%	7.8%	16.1%	77.7%	8.5%
Gross carrying amount	52,258	3,514	2,185	5,886	63,843
Lifetime expected credit loss	(262)	(273)	(352)	(4,575)	(5,461)
30 June 2020					
Expected credit loss rate	0.5%	6.9%	5.2%	40.8%	8.8%
Gross carrying amount	32,870	6,696	3,402	9,357	52,325
Lifetime expected credit loss	(171)	(436)	(177)	(3,821)	(4,605)

The movement in the expected credit loss provision has been included in administrative expenses in the consolidated statement of comprehensive income.

Consolidated Financial Statements

17. Cash and Cash Equivalents

	FY 2021	FY 2020
	\$'000	\$'000
Cash at bank and in hand	278,208	53,944
Deposits at call	64,150	-
Cash and cash equivalents	342,358	53,944

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.

Notes to the Consolidated Financial Statements

18. Convertible Loan Notes ("CLNs")

On 1 July 2020, Darktrace Holdings Limited issued CLNs to investors for a cash consideration of \$162.8m (before transaction costs of c. \$1.0m).

The CLNs was recorded in the statement of financial position at inception as follows:

	1st July 2020
	\$'000
Value of derivative	79,535
Host Loan	83,286
Total loan note value	162,821

Interest expense has been calculated by applying the effective interest rate of 41.6% to the liability component.

According to the CLNs agreement, in case of the underwritten IPO, the amount of conversion securities is equal to accrued entitlement amount divided by the offer price per share. The price offered on IPO was £2.50 (\$3.5) per share according to IPO Committee Minutes dated 29 April 2021. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued interest of 9% and a discount of 35% implied by the terms.

Refer to [note 3](#) for significant judgement and estimates used for the recognition of the financial instrument at inception and at conversion.

Each of the Shareholders of Darktrace Holdings Limited transferred the Darktrace Holdings Limited Shares (including those a result of the CLNs conversion) it held as at the Completion Date (as stated in the Company's register of members) to Darktrace plc immediately prior to, and conditional on, Admission (see [note 21](#)).

The table below presents the result of the valuation at the time of conversion and the related finance costs accounted for during the year:

	Host loan	Embedded derivative	CLNs
	\$'000	\$'000	\$'000
1 July 2020 valuation	83,286	79,535	162,821
Accrued interests	27,239		27,239
Fair value movement		57,976	57,976
29 April 2021 valuation	110,525	137,511	248,036
Loss on conversion			22,026
Fair value CLNs at conversion (£2.50 equalling \$3.5 per share for 77,475,499 shares)			270,062

Consolidated Financial Statements

19. Trade and Other Payables

Amounts falling due within one year

	FY 2021	FY 2020
	\$'000	\$'000
Trade payables	12,566	13,238
Social security and other taxes	2,130	9,585
Accruals	36,404	27,659
As at 30 June	51,100	50,482

Accruals includes:

- \$21.2m payroll accrual (30 June 2020: \$14.1m)
- \$4.1m accrued commission and sales bonus including the related social security cost (30 June 2020: \$0.5)
- \$3.9m accrued salaries (30 June 2020: \$2.5m)
- \$0.8m accrued social security on salaries (30 June 2020: \$2.7m)
- \$4.1m accrued professional fees in connection to the IPO process (note 8) (30 June 2020: \$4.8m)
- \$2.3m accrued partner fees (30 June 2020: \$2.9m)

The accrual for share-option related employer tax charges (\$1.4m at 30 June 2020) in the current year has been reclassified to provision (note 20), in line with the accounting treatment consistently applied in prior and current year.

Notes to the Consolidated Financial Statements

20. Provisions

	FY 2021	FY 2020
	\$'000	\$'000
Opening provision	-	-
Reclassification from accruals (note 19)	1,418	-
Accrual for the year	21,527	-
Utilisation	-	-
Closing provision	22,945	-
Current	22,430	-
Non-current	515	-
Total provision for share-option related employer tax charges	22,945	-

The Group accounts for a provision on tax payments when employer has primary liability to pay for social security-type contribution on share-based payments at the time of exercise. In the prior year the accrual (\$1.4m at 30 June 2020) was accounted for as part of the trade and other payable balance (note 19) however, an immaterial reclassification to the provision is deemed more appropriate and in line with the accounting treatment applied.

In the U.K., employer national insurance contributions should be accrued on the share-based payment charges taken on assets deemed to be readily convertible assets ("RCA"). An RCA is one which is listed or likely to be listed on a recognised exchange. The Group has accounted for the related provision from October 2020, the point at which it officially appointed bankers with the aim of listing and when it judged there to be a likelihood of listing in the foreseeable future.

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.

Refer to note 3 for details around the sensitivity of the balance to the share price value estimated.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

21. Share Capital and Share Premium

Share capital	Number of ordinary shares of £0.01 each	Number of preference shares of £0.01 each	Number of deferred shares of £0.01 each
As at 1 July 2019	1,761,399	364,264	118,888
Shares issued in the year	220	-	-
Transfers	-	-	400
As at 30 June 2020	1,761,619	364,264	119,288
As at 1 July 2020	1,761,619	364,264	119,288
Share cancellation	(177,343)	-	-
Shares issued in the period	275	-	-
Growth shares issued in the period	-	-	-
Growth shares converted into preference shares	-	-	775
Conversion of preference shares into ordinary	364,264	(364,264)	-
Share subdivision	485,254,934	-	-
Conversion of growth shares into ordinary shares	3,101,843	-	-
Convertible loan conversion	77,475,499	-	-
Share issued at incorporation of Darktrace plc	1	50,000	-
Share for share exchange	-	-	-
Shares issued at IPO	129,849,035	-	-
As at 30 June 2021	697,630,127	50,000	120,063

The preference shares are not redeemable. The holders of preference shares are not entitled to receive preferential dividends and are entitled to one vote per share.

All shares rank pari-passu in all respects except deferred shares hold no voting rights or rights to distribution and are entitled to receive £1.00 for the entire class in preference to any payment to the ordinary shares on liquidation, and preference shares have a liquidation preference up to their subscription price.

Share Cancellation

On 14 July 2020 the share capital of Darktrace Holdings Limited was reduced with reference to the shares held by ICP Darktrace Holdings Limited.

CLNs Conversion (note 18)

On 30 April 2021, each of the Convertible Note Holders (note 24) agreed that the CLNs would convert into ordinary shares in Darktrace Holdings Limited on 4 May 2021, two days prior to the Admission Date.

Group Reorganisation

During the year, the Company carried out a reorganisation of its share capital to facilitate a listing to the premium segment of the official list of the Financial Conduct Authority and to trade on the London Stock Exchange Main Market for listed securities. This is described as follows:

Share Conversion and CLNs Conversion

On 4 May 2021, the Preferred Shares and Growth Shares in Darktrace Holdings Limited automatically converted into ordinary shares in Darktrace Holdings Limited. Later on 4 May 2021, the CLNs converted into ordinary shares in Darktrace Holdings Limited as described above.

Shares Sub-Division

At 11.59pm on 4 May 2021, shortly following the Share Conversion and the Convertible Loan Note Conversion (note 17), the Ordinary Shares (being the entire outstanding Darktrace Holdings Limited Shares other than the Company Deferred Shares and the Company Redeemable Preference Shares) were sub-divided by 250.

Number of growth shares of £0.01 each	Total number of shares	Share capital \$'000	Share premium \$'000	Merger reserve \$'000
-	2,244,551	27	170,264	-
32,625	32,845	2	138	-
(400)	-	-	-	-
32,225	2,277,396	29	170,402	-
32,225	2,277,396	29	170,402	-
-	(177,343)	(2)	(127,061)	-
-	275	-	212	-
38,325	38,325	-	-	-
(775)	-	-	-	-
-	-	5	-	-
-	485,254,934	-	-	-
(69,775)	3,032,068	43	-	-
-	77,475,499	1,076	269,016	-
-	50,001	69	-	-
-	-	6,734	(312,569)	305,789
-	129,849,035	1,803	224,782	-
-	697,800,190	9,756	224,782	305,789

As a result of the share sub-division and subsequent share exchange, the number of options outstanding at the time of share exchange has also been subdivided by 250 to mirror the new shares which issued in relation to the exercise of the options itself.

Share for Share Exchange

On 4 May 2021, after the share conversion and the subdivision, each of the shareholders of Darktrace Holdings Limited transferred the Darktrace Holdings Limited shares it held as at the completion date (as stated in Darktrace Holdings' register of members) to Darktrace plc, and Darktrace plc allotted and issued an equivalent number of shares, credited as fully paid, in consideration for the transfer of such shares. The shares were exchanged as follows: one Darktrace plc ordinary share for one Darktrace Holdings' Limited ordinary share and one Darktrace plc deferred share for one Darktrace Holdings deferred share (as applicable).

As the Company issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, 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. The value of the merger relief for the Company is \$55.2m.

As management has used the retrospective presentation method, the equity structure (that is, the issued shares capital) would reflect that of the new entity (Darktrace plc), with other amounts in equity (such as revaluation, retained earnings and cumulative translation reserve) being those from the consolidated financial statements of the previous Group holding entity (Darktrace Holding Limited). The resulting difference has been recognised as a component of the equity as a merger reserve (\$250.6m).

Consolidated Financial Statements

Treasury Shares

The directors have determined that they do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited holds shares (54,866,296) of Darktrace plc for the purpose of fulfilling the grants made under stock option plans in place prior to the IPO. Those shares are treated as treasury shares in the consolidated financial statements.

22. Share Based Payments

Growth Shares and Option Schemes in Place Before IPO:

The Company has growth shares and a share option scheme for certain employees. Share options are exercisable at prices determined at the date of grant. All awards vest over three years from the grant date (or contractual commencement date in the case of growth shares) in six-month intervals, (i.e. 1/6 of the Awards will vest every six months over 36 months) subject to continued employment.

Growth shares are equity instruments that allow the holder to participate in the value of a business only where the overall equity value exceeds a hurdle rate. Growth shares are therefore economically similar to vanilla share options where the hurdle acts as a quasi-exercise price. The strike price applying to the options is the same as the hurdle applying to the growth shares. Management's intention is for the terms of the growth shares to mirror the terms of the options.

The valuation model treats the growth shares in a manner identical to options for valuation purposes, assuming an exercise date of four years from grant.

At IPO:

Growth Shares

Growth shares in Darktrace Holdings Limited have been converted into ordinary shares in Darktrace Holdings Limited and then exchanged for ordinary shares in Darktrace plc. The ordinary shares in Darktrace plc have been transferred to the employee holders. General 360 day lock-up applies to all of the growth shares (vested and unvested) and legal title to the all of the growth shares cannot be transferred until the later of: (i) expiry of the 360 day lock-up period; and (ii) to the extent the shares are vested, the applicable vesting schedule.

Share Options

Vested and unvested options outstanding over Darktrace Holdings Limited shares have been rolled-up to become options of equivalent value over Darktrace plc Shares after the reorganisation.

- Option holders have been invited to exercise and sell down up to 20% of their vested options on IPO.
- Employer's NICs (National Insurance Contribution and equivalent in other jurisdictions) was borne by the Company.
- Darktrace plc shares were issued to the Equiniti Trust (Jersey) Limited to cover all options (vested and unvested) which remain outstanding following the sell down.

All option holders are subject to the 360 day lock up period in line with the holders of shares arising from the conversion of growth shares.

Awards Granted at IPO:

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 Admission Date to the end of the Financial Year 2023, 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 Admission Date to the end of the Financial Year 2024 (i.e. an additional year). Awards do not incorporate an exercise price.

Notes to the Consolidated Financial Statements

Executive Director Conditional Awards ('Executive Awards')

The Executive Awards carry the same market-based vesting criteria as Tranche 2 of the Performance Awards. Additionally, they have a holding period which determines vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

Top-Up Awards

These awards vest 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 is £2.50 or less, where closing share price is £5, 100% of the shares vest and where the closing share price is between £2.50 and £5 the number of awards vests on a straight-line basis. Awards do not incorporate an exercise price.

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.

The share option schemes and awards are accounted for as an equity settled share-based payment transaction.

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

	FY 2021	FY 2020
	\$'000	\$'000
Sales and marketing	6,446	4,762
Research and development	2,730	2,522
Other administrative	7,870	3,072
Total share-based payment expense	17,045	10,356

Other administrative share-based payment expense includes \$2.2m related to the shares granted to non-executive directors at IPO at £nil cost and therefore the distribution falls within the definition of equity-settled share-based payment under IFRS 2 Share-Based Payments and there are no vesting conditions attached to these shares and they vest immediately on distribution.

Growth Shares and Option Schemes in Place Before IPO – Key Assumptions

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

	WAEP	FY 2021	WAEP	FY 2020
	\$	Options Number	\$	Options Number
Outstanding at 30 June	1.19	55,784,588	0.94	54,657,987
Granted	3.78	9,556,605	2.87	2,651,383
Lapsed	2.87	(140,350)	2.49	(1,469,782)
Exercised	0.32	(7,128,369)	1.80	(55,000)
Converted growth shares	-	(3,101,843)	-	-
Outstanding at year end	1.56	54,970,631	1.19	55,784,588
Exercisable at year end	0.52	48,251,881	0.58	46,070,513

Consolidated Financial Statements

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

Range of exercise prices	FY 2021		FY 2020	
	WACL	Options number	WACL	Options number
\$0.00 to \$0.23	1.40	22,627,078	4.12	25,045,239
\$0.41 to \$0.67	3.19	6,945,465	6.10	6,678,509
\$1.37 to \$1.45	4.45	3,654,320	7.50	3,627,821
\$2.09 to \$2.21	4.89	2,475,711	7.92	2,494,127
\$2.76 to \$2.87	3.84	12,549,307	9.09	17,938,892
\$5.20	3.71	6,718,750	-	-
	3.70	54,970,631	6.35	55,784,588

The fair value of share-based payments has been calculated using the Black-Scholes option pricing model. 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. The following assumptions were used in the model for options granted during the financial years ended 30 June 2021.

	Options	Options	Options	Options	Growth shares	Growth shares	Growth shares	Growth shares	Growth shares
	22-Jul-20	30-Oct-20	16-Mar-21	10-Apr-21	22-Jul-20	1-Sep-20	14-Sep-20	30-Oct-20	9-Nov-20
Grant date									
Share price at grant date	2.87	2.87	5.20	5.20	2.87	2.87	2.87	2.87	2.87
Exercise price	2.87	2.87	5.20	5.20	2.87	2.87	2.87	2.87	2.87
Fair value per option	0.91	0.91	1.63	1.64	5.04	5.04	5.04	5.04	5.04
Expected life in years	4	4	4	4	1	1	1	1	1
Expected Volatility	40%	40%	40%	40%	50%	50%	50%	50%	50%
Risk free interest rate	0.43%	0.43%	0.24%	0.27%	0.43%	0.43%	0.43%	0.43%	0.43%
Cancellation rate	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend yield	-	-	-	-	-	-	-	-	-
Number of awards	806,250	531,250	6,193,750	525,000	315,000	416,250	67,500	820,125	5,625

Notes to the Consolidated Financial Statements

Awards Granted at IPO – Key Assumptions

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.

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.

Given the same market-based criteria applies to both Tranche 2 of the Performance Awards and the Executive Awards, the same model and core inputs are used to value both of these Grants. 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.

The following assumptions were used in the valuation:

	Tranche 1 Performance awards	Tranche 2 Performance awards	Executive Awards	Top Up Awards	Time based awards
Grant date	30-Apr-21	30-Apr-21	30-Apr-21	30-Apr-21	30-Apr-21
Share price at grant date	£2.5 (\$3.5)	£2.5 (\$3.5)	£2.5 (\$3.5)	£2.5 (\$3.5)	£2.5 (\$3.5)
Exercise price	-	-	-	-	-
Fair value per option	£1.5 (\$2.08)	£1.59 (\$2.20)	£1.59 (\$2.20)	£0.77 (\$1.07)	£2.5 (\$3.50)
Expected life in years	2.17	3.17	3.17	1	N/A
Expected volatility	40%	40%	40%	50%	N/A
Risk free interest rate	0.03%	0.14%	0.14%	0.00%	N/A
Cancellation rate	10%	10%	10%	10%	N/A
Dividend yield	0%	0%	0%	0%	N/A
Correlation	10%	10%	10%	0%	N/A
Number of awards	450,656	901,313	775,000	19,741,840	151,101

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 is simply be the value of the underlying equity at the time they were granted on 30 April 2021 equal to £2.5 (\$3.5).

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

23. Changes in Liabilities Arising From Financing Activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Lease liabilities	Convertible loan (host contract)	Convertible loan (embedded derivative)	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2019	(31,295)	-	-	(31,295)
Changes from financing cash flows				-
Repayment of lease liabilities	4,519	-	-	4,519
Interest payment	2,405	-	-	2,405
Other changes				-
Interest expense	(2,405)	-	-	(2,405)
New leases	(9,178)	-	-	(9,178)
Foreign exchange movements	408	-	-	408
As at 30 June 2020	(35,546)	-	-	(35,546)
As at 1 July 2020	(35,546)	-	-	(35,546)
Changes from financing cash flows				-
Proceeds from issue of convertible bonds	-	(83,286)	(79,535)	(162,821)
Proceeds from share issue	-	-	-	-
Repayment of lease liabilities	6,259	-	-	6,259
Interest payment	2,800	-	-	2,800
Other changes				-
Interest expense	(2,800)	-	-	(2,800)
New leases	(4,038)	-	-	(4,038)
Change in fair value	-	-	(57,976)	(57,976)
Effective interest rate on host loan	-	(27,239)	-	(27,239)
Loss on conversion	-	-	(22,026)	(22,026)
Conversion of convertible loan to equity	-	110,525	159,537	270,062
Foreign exchange movements	(1,923)	-	-	(1,923)
As at 30 June 2021	(35,248)	-	-	(35,248)

The Group entered a multi-currency \$25m Revolving Credit Facility agreement with Silicon Valley Bank on 15 January 2021 with a maturity date of 15 January 2023. Borrowings under the Facility are secured pursuant to various security agreements, mortgages and other collateral granted to the Lender. Interest is charged subject to an all-in floor of 3.75% and the facility contains a letter of credit sublimit of \$10m equivalent. No drawdowns have been made on the facility as of 30 June 2021. Letters of credit totalling \$1.0m have been provided in relation to lease agreements, which reduce the balance available to draw. As at 30 June 2021, \$24.0m is available to draw on the facility.

24. Related Party Transactions and Controlling Related Party

In line with the significant judgement documented in note 3 the directors consider that the Company and the Group had no ultimate controlling party.

There were no related party transactions with Directors to disclose in any of the years presented.

Key Management Remuneration

The Group considers key management personnel to be the members of the board and three senior managers who are also executive directors of the Group, who exert control over the strategy and direction of the Group.

Their cost in the period were as follows:

	FY 2021	FY 2020
	\$'000	\$'000
Wages and salaries	1,779	1,063
Social security costs	1,152	99
Pension costs	44	27
Share-based payment charge (note 22)	2,887	1,080
Share-option related employer tax charges (note 20)	755	-
Share based payments gain on exercised options	5,863	639
	12,480	2,908

Short term employee benefits of the Group's key management personnel include salaries and non-cash benefits. Long term benefits include payments to defined contribution pension scheme only.

Immediately prior to admission to the London Stock Exchange, shares were transferred to the non-Executive Directors, in their positions as employees for past services at £nil cost and therefore the distribution falls within the definition of equity-settled share-based payment under IFRS 2 Share-Based Payments and there are no vesting conditions attached to these shares and they vest immediately on distribution. The fair value of the shares at the date of transfer was £2.50 (\$3.5) per share resulting in a share-based payment charge of \$ 2.2m.

Other Related Party Disclosures

Below are disclosed details of all transactions with ICP London Limited and its affiliated companies, Luminance Technologies Ltd and Neurence Limited, as company under common directorship up to 4 May 2021.

	Transaction value		Balances outstanding	
	FY 2021	FY 2020	FY 2021	FY 2020
	\$'000	\$'000	\$'000	\$'000
Fees for management support services	4,373	3,028	-	-
Recharge of staff expenditure	153	318	-	-
Income from recharge of office space	(596)	(188)	255	-
Revenue received	(232)	(27)	(154)	-
Recharge of legal fees	326	-	-	-
Hosting fees	8	-	1	-
	4,032	3,131	(102)	-

Consolidated Financial Statements

The Group has earned the following revenues from investors and affiliated companies:

	Transaction value		Outstanding balances	
	FY 2021	FY 2020	FY 2021	FY 2020
	\$'000	\$'000	\$'000	\$'000
Revenues received from investors	258	67	-	-
Revenues received from affiliated entities of investors	-	-	-	-
	258	67	-	-

No guarantees have been provided to or received from these parties.

CLNs Conversion

The share exchange deed in relation to the pre-IPO reorganisation was entered into on 30 April. Among other things, the share exchange deed provides that the CLNs would be automatically converted into ordinary shares two days prior to Admission. That conversion took place on 4 May 2021 (two days prior to Admission on 6 May 2021).

The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued interest of 9% and a discount of 35% implied by the terms.

The tables below summarise the value of the CLNs converted and the related number of shares issued to the holders.

Float price (A)	£2.50 per share / \$3.5 per share
Conversion rate @ 35% discount (B)	\$2.27 per share
Nominal value of CLNs (C) \$'000	175,541
Total shares issued (D=C/B)	77,475,499
Total fair value of ordinary shares issued (DxA) \$'000	270,062

CLNs Holder	%	Shares
	Ownership	Issued
Summit DT CLNs Holdings 4	30.70%	23,791,561
KKR Dark Aggregator L.P.	55.30%	42,824,810
Ten Eleven Growth Fund II, L.P.	9.20%	7,137,468
Hoxton Ventures Fund 1, Opportunities III, L.P.	1.60%	1,226,165
Talis Darktrace Holdings Limited	2.60%	2,035,959
Balderton Capital SFI, S.L.P.	0.60%	459,536
Total	100%	77,475,499

Refer to [note 3](#) for significant judgement and estimate used for the recognition of the financial instrument at inception and at conversion.

Notes to the Consolidated Financial Statements

25. Risk Management Objectives and Policies

The Group's financial risk management is controlled by a central treasury department ("Group treasury") under policies approved by the Board of Directors. Group treasury identifies and evaluates financial risks in close co-operation with the Group's CFO and other Executive Directors and Senior Managers. The Board authorises written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of excess liquidity.

Market Risk

Foreign Exchange Risk

The table below details the Group's exposure to foreign currency risk, in currencies different from the Group's functional currency, for periods in which the functional currency was USD:

	AUD	CAD	EUR	GBP	JPY	Other currencies	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2021							
Trade receivable	1,386	1,302	14,485	12,280	31	1,360	30,843
Deposits	125	27	-	2,366	-	472	2,990
Cash and cash equivalents	1,329	2,332	15,045	20,174	600	1,551	41,030
Trade payables	(196)	(52)	(1,442)	(5,529)	(169)	(258)	(7,646)
Total	2,643	3,609	28,088	29,291	461	3,125	67,217
As at 30 June 2020							
Trade receivable	1,876	2,075	10,466	10,213	-	1,301	25,931
Deposits	277	116	134	3,113	74	628	4,342
Cash and cash equivalents	416	44	2,841	11,154	398	694	15,547
Trade payables	(151)	(164)	(1,634)	(3,802)	(155)	(264)	(6,170)
Total	2,418	2,071	11,807	20,678	317	2,359	39,650

The aggregate net foreign exchange loss recognised in other administrative expenses are:

	FY 2021	FY 2020
	\$'000	\$'000
Net foreign exchange loss	(845)	448

As shown in the table above, the Group is primarily exposed to changes in USD/GBP and USD/EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD or GBP denominated financial assets and liabilities.

	FY 2021	FY 2020
	\$'000	\$'000
USD/EUR exchange +/- 10%	(2,553) / 3,121	(1,073) / 1,312
USD/GBP exchange +/- 10%	(2,663) / 3,255	(1,880) / 2,298

The Group operates a natural hedging strategy where possible to mitigate its foreign exchange risk. The Group currently utilise spot and forward currency hedging contracts.

Price Risk

The Group has no significant exposure to equity securities price risk.

Consolidated Financial Statements

Credit Risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Credit risk is managed on a Group basis. Significant partners are independently rated through credit agencies, if there is no independent rating an internal review is carried out. The Credit manager assesses the credit quality of the partner, taking into account its financial position, as well as experience for customers and partners in the same region. There are no significant concentrations of credit risk, whether through exposure to individual customers or partners, specific industry sectors or regions.

The Group's main financial assets that are subject to the expected credit loss model are trade receivables from the sale of software products and, to a lesser extent, related services. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. Refer to [note 16](#) for a trade receivable impairment analysis.

The Board approved Treasury policy governs the credit limits for deposits with banks and financial institutions. Credit ratings and limits are reviewed on monthly basis by Group Treasury.

Trade receivables are fully provided where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 6 months past due. The general credit loss provision will begin to be provided from thirty days past due based on the historic default rates adjusted for regional performance. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Liquidity Risk

Prudent liquidity risk management involve maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities, to meet obligations when due and to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining both liquid cash and availability under committed credit lines.

Maturity of Financial Liabilities

The table below presents the Group's financial liabilities by relevant maturity Grouping, based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 12 months	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Carrying amount liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2021					
Trade payables	12,566	-	-	-	12,566
Accruals	6,053	-	-	-	6,053
Lease liabilities	4,285	5,202	13,897	11,864	35,248
	22,904	5,202	13,897	11,864	53,867
As at 30 June 2020					
Trade payables	13,238	-	-	-	13,238
Accruals	7,788	-	-	-	7,788
Lease liabilities	4,903	4,692	12,142	13,809	35,546
	25,929	4,692	12,142	13,809	56,572

Notes to the Consolidated Financial Statements

26. Summary of Financial Assets and Liabilities by Category

The carrying amounts of the assets and liabilities as recognised at the statement of financial position date of the years under review may also be categorised as follows:

	FY 2021	FY 2020
	\$'000	\$'000
Financial assets at amortised cost		
Deposits	6,109	4,895
Trade receivables	58,482	47,721
Accrued income	1,713	754
Cash and cash equivalents	342,358	53,944
Total financial assets at amortised cost	408,662	107,314
Financial liabilities at amortised cost		
Trade and other payables	(18,619)	(21,026)
Lease liabilities	(35,248)	(35,546)
Total financial liabilities at amortised cost	(53,867)	(56,572)

27. Capital Management Policies and Procedures

The Group's objectives when managing capital are to:

- safeguard the ability to continue as a going concern, to provide adequate returns for shareholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group monitors capital based on the carrying amount of the equity less cash and cash equivalents as presented on the face of the statement of financial position.

	FY 2021	FY 2020
	\$'000	\$'000
Capital		
Total equity	258,258	23,856
Less cash and cash equivalents	(342,358)	(53,944)
Total capital	(84,100)	(30,088)
Overall financing		
Total equity	258,258	23,856
Plus leasing liabilities, borrowings and other financing liabilities	(35,248)	(35,546)
Total financing	223,010	(11,690)

Consolidated Financial Statements

28. Capital Commitments

The Group had no capital commitments at 30 June 2021 or 30 June 2020.

29. Deferred Tax Assets and Liabilities

At the end of June 2021, the Group has significant tax losses in the UK available for offset against future taxable profits. The Group has not recognised a deferred tax asset of approximately \$97.2m (30 June 2020: \$46.8m) as there is sufficient uncertainty whether the losses will be utilised in the foreseeable future. The tax rate applied considers 25% for UK and 27% for US as these are tax rate expected to be applicable by the time the loss will be unwound.

Interest and fair value movements of \$107.2m related to the convertible loan note ("CLNs") issued in July 2020 have been treated as a fully non-deductible expense as there is sufficient uncertainty over the extent to which any part of the interest may be treated as tax-allowable expense in the period to June 2021. This includes an interest component of \$16.3 million, representing arm's length interest on the CLNs issued to certain existing shareholders

The unrecognised deferred tax asset is comprised of:

	FY 2021	FY 2020
	\$'000	\$'000
Fixed Asset timing differences	5,461	2,200
Short term temporary differences	6,763	300
Losses	31,482	26,900
Share based payments	53,490	17,400
Total	97,196	46,800

	FY 2021	FY 2020
	\$'000	\$'000
Fixed Asset timing differences	11	-
Short term temporary differences	533	-
Total	544	-

	FY 2021	FY 2020
	\$'000	\$'000
Recognised deferred tax asset		
Opening	-	-
(charged)/credited	-	-
- to income statement	544	-
- to other comprehensive income	-	-
- directly to equity	-	-
Total	544	-

Notes to the Consolidated Financial Statements

30. Subsidiaries

As at the 30 June 2021 the subsidiaries of the Group were as follows:

Subsidiary	Country of registration	Registered office	Year of incorporation	Class of share capital	Proportion held
Darktrace Holdings Limited	UK	Maurice Wilkes Building St John's Innovation Park Cowley Road Cambridge	2013	Common shares	100%
Darktrace, Inc	USA	2140 S DuPont Highway, Camden, Delaware 19934, USA	2013	Common shares	100%*
Darktrace Singapore Pte Ltd	Singapore	4 Shenton Way, #28-03 SGX Centre 2, Singapore 068807	2015	Common shares	100%*
Darktrace Australia Pty Ltd	Australia	Level 5 suite 501/83 York St, Sydney NSW 2000, Australia	2015	Common shares	100%*
Darktrace Japan KK	Japan	12-1-605 Okahigashi-cho Hirakata City Osaka, Japan	2017	Common shares	100%*
Darktrace South Africa Pty Ltd	South Africa	22 Wellington Road, Parktown, Gauteng 2193. South Africa	2016	Common shares	100%*
Darktrace Ireland Limited	Ireland	38 Upper Mount Street, Dublin 2, Ireland	2019	Common shares	100%*
Darktrace SaS	France	38 avenue des Champs- Elysees. 75008 Paris	2019	Common shares	100%*
Darktrace Hong Kong Ltd	Hong Kong	31/F Tower Two Time Square, Matheson Street. Causeway Bay, Hong Kong	2019	Common shares	100%*
Darktrace Colombia SaS	Columbia	Cra 16 # 97-46 Torre 1 piso 6, Bogota, Colombia	2019	Common shares	100%*
Darktrace Canada, Inc	Canada	1495 Marine Drive West Vancouver BC V7T 1B8, Canada	2020	Common shares	100%*
Darktrace Mexico, SA De CV	Mexico	Boulevard Manuel Avila, Camacho No 76 PB Colonia: Lomas de Chapultepec Alcaldia: Miguel Hidalgo Ciudad de Mexico C.P. 11000	2020	Common shares	100%*
Darktrace GmbH	Germany	Oskar-von-Milller-Ring 20, 80333 Munich	2020	Common shares	100%*
Equiniti Trust (Jersey) Limited	Jersey	26 New Street, St Helier, Jersey, JE2 3RA	2021	N/A	100%*

*Indirectly owned through Darktrace Holdings Limited.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Darktrace Holdings Limited is the main trading company, responsible for research and development activities and global delivery of Darktrace operations.

All other subsidiaries provide sales and marketing services, with the exception of Darktrace Ireland Limited which is also responsible for the building and shipping of appliances. Darktrace Holdings Limited has also had a Branch office in Dubai, since 2019. The registered office address of the Branch is at Level 42, Emirates Towers, Sheikh Zayed Road Dubai, UAE.

The directors have determined that they do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited is the trustee of the Darktrace plc Employee Benefit Trust. 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 Equiniti Trust (Jersey) Limited has been consolidated. Equiniti Trust (Jersey) Limited holds shares of Darktrace plc for the purpose of fulfilling the requirement of the stock options plan issued before IPO.

31. Post Balance Sheet Events

No subsequent events identified.

Company Financial Statements

Statement of Company Financial Position

Statement of Company Financial Position

	Notes	For the period ended 30 June 2021 \$'000
Non-current assets		
Investments	4	68,704
		68,704
Current assets		
Trade and other receivables	5	9,177
Cash and cash equivalents	6	208,036
		217,213
Total assets		285,917
Current liabilities		
Trade and other payables	7	(550)
Tax payable		(45)
		(595)
Total Liabilities		(595)
Net Assets		285,322
Equity		
Share capital	8	9,756
Share premium	8	224,782
Merger reserve	8	55,160
Stock compensation reserve	9	5,660
Retained earnings		(10,036)
Total equity		285,322

As permitted by section 408 of Companies Act 2006, a separate Statement of comprehensive income for Darktrace plc has not been included in these financial statements. Darktrace plc total comprehensive loss for the period amounted to \$10 million.

These financial statements were approved by the Board of Directors and authorised for issue on 15th September 2021. They were signed on its behalf by:

Catherine Graham

Chief Financial Officer

Company No. 13264637

The notes on pages 202 to 208 are an integral part of these financial statements.

The notes on pages 202 to 208 are an integral part of these financial statements.

Company Financial Statements

Statement of Company Changes in Equity

Statement of Company Changes in Equity

Notes	Share capital	Share premium	Merger reserve
	\$'000	\$'000	\$'000
Balance at 12 March 2021	-	-	-
Total comprehensive loss for the year			
Loss for the year	-	-	-
Total comprehensive loss for the year	-	-	-
Shares issued	1,872	224,782	-
Share for share exchange with Darktrace Holdings Limited	7,884	-	55,160
Credit to equity for share based compensation charge	-	-	-
Transactions with owners	9,756	224,782	55,160
Balance at 30 June 2021	9,756	224,782	55,160

Stock compensation reserve	Retained earnings	Total equity
\$'000	\$'000	\$'000
-	-	-
-	(10,036)	(10,036)
-	(10,036)	(10,036)
-	-	226,654
-	-	63,044
5,660	-	5,660
5,660	-	295,358
5,660	(10,036)	285,322

Company Financial Statements

Notes to the Company Financial Statements

1. General Information

Company Information

These financial statements are the separate financial statements for Darktrace plc (the Company). The Company was incorporated on 12 March 2021. The financial statements are presented in US Dollars. Darktrace plc is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. Its registered office and principal place of business is: Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, CB4 0DS.

Basis of Preparation

The financial statements of Darktrace plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in [note 3](#).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - ◆ 10(d) (statement of cash flows);
 - ◆ 16 (statement of compliance with all IFRS);

- ◆ 38A (requirement for minimum of two primary statements, including cash flow statements);
- ◆ 38B-D (additional comparative information);
- ◆ 111 (statement of cash flows information); and
- ◆ 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

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

Going Concern Assumption

The company meets its day-to-day working capital requirements through its cash reserves. The current economic conditions continue to create uncertainty. The company's forecasts and projections show that the company should be able to operate within the level of its current cash reserves. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore adopts the going concern basis in preparing its financial statements.

New Standards, Amendments, IFRIC Interpretations and new Relevant Disclosure Requirements

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 30 June 2021 that have a material impact on the company's financial statements.

Notes to the Company Financial Statements

2. Summary of Significant Accounting Policies

Investment in Subsidiaries

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid. Refer to [note 3](#) for significant judgement used in determining the value of the investment to be recognised as a result of the share for share exchange in the shares of Darktrace Holdings Limited on 30 April 2021.

The cost related to the subsidiaries' employees service is treated as investment value in subsidiaries. The awards represent capital contribution to the subsidiaries as no payment is expected for the equity-settled share-based payment awarded to their employees.

The directors have determined that they do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited is the trustee of the Darktrace plc Employee Benefit Trust. 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. The value of the investment in Equiniti Trust (Jersey) Limited is nil.

Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Investments that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Share Based Payments

The company operates a number of equity-settled, share-based compensation plans, under which subsidiaries receive services from employees as consideration for equity instruments (options) of the Company. The cost related to the subsidiaries' employees service is treated as investment value in subsidiaries. The awards represent capital contribution to the subsidiaries as no payment is expected for the equity-settled share-based payment awarded to their employees.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. A credit is recognised directly in equity.

The total amount to be accounted for as an increase in investment value is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, 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 (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total investment 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 reporting period, the company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the investment value, with a corresponding adjustment to equity. When the options are exercised, the options' original fair value as of the grant date is accounted for as a deduction from equity.

Trade and Other Receivables

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

The Company has adopted the simplified model of recognising lifetime expected credit losses for all trade receivables on a collective basis as there are shared credit risk characteristics, grouped on basis of geography and days past due. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Company Financial Statements

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, 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.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year or any other period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Financial Liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as expense in finance costs in the statement of comprehensive income. A financial liability is derecognised only when the obligation is extinguished.

Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options 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.
- 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 (see **note 3** for judgement applied).
- Merger reserve: As the company issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, 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. The difference between the value of investment in Darktrace Holdings Limited and the nominal value of share capital has been recorded in the merger reserve in the equity of the Company as required by section 612 of the Companies Act 2006.

- Stock compensation reserve: this reserve is used to recognise the grant date fair value of options and awards issued to subsidiaries' employees but not exercised.
- Retained earnings: represents retained profits and losses.

Foreign Currency Translation

Transactions and Balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rate as at the beginning of the month 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 statement of comprehensive income. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other gains or losses. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

3. Key Judgements and Estimates

The preparation of 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 period 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 estimates or judgements are:

Notes to the Company Financial Statements

Critical Judgement in the Determination of Value of Investment

Darktrace plc was incorporated on 12 March 2021 and became the parent entity of the Group on 4 May 2021 when the share for share exchange between Darktrace Holdings and Darktrace plc set out in the share exchange deed executed on 30 April 2021 was completed. Management treated this as a capital re-organisation.

Whilst the shares issued in settlement of the convertible loan note within Darktrace Holdings limited converted on the same day as the share for share exchange deed between Darktrace Holdings Limited and Darktrace plc, management believe that the conversion into Darktrace plc shares is a separate transaction and therefore immediately before conversion the IAS 27.13 criteria apply.

IAS 27.13 specifies additional requirements to measure investments in subsidiaries in cases of reorganisations.

When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- a. the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- b. the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- c. the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation, and the new parent accounts for its investment in the original parent in accordance with paragraph 10(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

There is judgement in the assessment of the criteria listed in IAS 27.13. Management believes the criteria are satisfied as follows:

- a. The Company obtains control of Darktrace Holdings Limited by issuing equity instruments to existing shareholders of Darktrace Holdings limited in exchange for their shares in the subsidiary.

- b. The assets and liabilities of new group headed by Darktrace plc are the same immediately before and after the reorganisation as the only asset recorded by the Company at that point would be an investment in the subsidiary; and
- c. The owners of Darktrace Holdings Limited before reorganisation have the same absolute and relative interests in the net assets of the original group headed by Darktrace Holdings Limited and the new group headed by Darktrace plc immediately before and after the reorganisation.

Critical Judgement in the Determination of Functional Currency

Darktrace plc is the ultimate parent company and pure holding entity. The company has no employees of its own and there is a master service agreement in place for which the Company charges a service fee to Darktrace Holdings Limited (on a cost plus basis) for the following:

- Strategic management support service
- Business planning and development support service

The Company has two executive directors (Group CEO and Group CFO). The company provides financial support to the group as and if required through an intercompany agreement to Darktrace Holdings Limited. There is an unsecured US Dollar and Pound Sterling multi-currency term loan facility of a total principal amount not exceeding \$225.0m.

A policy choice exists for an ultimate holding entity as to how to interpret IAS 21 in order to determine its functional currency. The ultimate holding entity might determine that it is acting as an extension of its subsidiaries and, therefore, has the same functional currency as those subsidiaries. Alternatively, the ultimate holding entity might consider all of the primary and secondary indicators and conclude that its functional currency is determined by the currency of its own dividend revenue, its own expenses and the currency of its own financing.

Management considers the Company as an extension of the overall subgroup and therefore considers the functional currency to be that of Darktrace Holdings Limited and its subsidiaries, USD.

Company Financial Statements

4. Investments in Subsidiary Undertakings

Investments in subsidiaries are stated at cost.

	FY 2021 \$'000
Cost	
As at 12 March	-
Additions - acquisition of Darktrace Holdings Limited	63,044
Capital contribution relating to share-based payment	5,660
Carrying value as at 30 June	68,704

On 4 May 2021, the company acquired 100% of the issued share capital of Darktrace Holdings Limited through a share for share exchange agreement. The value of the investment at the transaction date represents the carrying value of Darktrace Holdings Limited at that date.

The capital contribution relating to share-based payments relates to share-based payments issued to employees of subsidiary undertakings in the Group. For full details of the Group's share-based payments, refer to [note 22](#) to the consolidated financial statements.

The directors have determined that they do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. 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. The value of the investment in Equiniti Trust (Jersey) Limited is \$nil.

5. Trade and Other Receivables

	FY 2021 \$'000
Amounts owed from subsidiary undertakings	6,620
Other debtors	930
Prepayments and accrued income	1,627
As at 30 June	9,177

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balance. The total amount outstanding at 30 June 2021 relates to a receivable from the subsidiary Darktrace Holdings Limited in relation to income accounted in relation to the Management Services Agreement entered on 5 May 2021. The balance is current and receivable within one year, hence no provision for credit losses deemed necessary.

Prepayments include amounts paid in advance for the insurance on the IPO transaction.

Notes to the Company Financial Statements

6. Cash and Cash Equivalent

	FY 2021 \$'000
Cash at bank and in hand	153,885
Deposits at call	54,151
Cash and cash equivalents	208,036

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.

7. Trade and Other Payables

Amounts falling due within one year

	FY 2021 \$'000
Trade payables	4
Social security and other taxes	43
Accruals	503
As at 30 June	550

8. Share Capital, Share Premium and Merger Reserve

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	Merger reserve \$'000
As at 12 March 2021	1	50,000	-	50,001	69	-	-
Share for share exchange	567,781,091	-	120,063	567,901,154	7,884	-	55,160
Shares issued at IPO	129,849,035	-	-	129,849,035	1,803	224,782	-
As at 30 June 2021	697,630,127	50,000	120,063	697,800,190	9,756	224,782	55,160

The preference shares are not redeemable. The holders of preference shares are not entitled to receive preferential dividends and are entitled to one vote per share.

9. Share Based Payment

Certain group employees have been granted options over the shares in the company. Refer to the accounting of the investment for details on the awards granted and the related accounting ([note 4](#)).

Share options outstanding at the end of the year are the same as per the consolidated financial statements as the company does not have employees of its own. Therefore, we refer to the disclosure in the consolidated financial statements ([note 22](#)).

Company Financial Statements

10. Capital Commitments

The Company had no capital commitments at 30 June 2021.

11. Information Included in the Notes to the Consolidated Financial Statements

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the company.

Please refer to the following:

- [note 3](#) – Ultimate controlling party
- [note 8](#) – Auditors' remuneration
- [note 22](#) – Share-based payments
- [note 24](#) – Key management personnel
- [note 24](#) – Related parties
- [note 30](#) – Subsidiaries
- [note 31](#) – Subsequent events

Darktrace plc Information

Registration Number: 13264637

Registered Office: Maurice Wilkes Building
St John's Innovation Park
Cowley Road
Cambridge
CB4 0DS

Directors: Mr G Hurst (Chairman) (appointed 1 April 2021)
Ms P Gustafsson OBE (appointed 1 April 2021)
Ms C Graham (appointed 12 March 2021)
Mr P Harrison (appointed 1 April 2021)
Lord Willetts (appointed 1 April 2021)
Sir P Bonfield CBE FREng (appointed 1 April 2021)
Ms V Colomar (appointed 1 April 2021)
Mr J Sikkens (appointed 1 April 2021)
Mr S Shanley (appointed 1 April 2021)
Mr R Eaton (appointed 12 March, 2021 resigned 1 April 2021)

Secretary: Mr J Sporle

Auditor: Grant Thornton UK LLP
30 Finsbury Square
Finsbury
London
EC2A 1AG

Shareholders

Fully diluted shareholding of any party with a 3% or greater shareholding in Darktrace as at 10 September 2021:

Shareholder	Number of shares	% voting rights at 30 June 2021	Number of shares direct	Number of shares indirect
Summit DT Equity Holdings 3 LP	134,498,076	19.28	134,498,076	-
A. Bacares	80,724,000	11.57	80,724,000	-
KKR Dark Aggregator LP	75,874,587	10.88	75,874,587	-
Employee Benefit Trust	57,870,909	8.30	57,870,909	-
Vitruvian Partners	31,841,750	4.56	31,841,750	-
Michael Lynch	30,761,750	4.41	30,761,750	-
Insight Venture Partners	24,305,250	3.48	24,305,250	-
Talis Capital	20,994,709	3.01	20,994,709	-

Glossary

AGM

Annual General Meeting

Adjusted EBIT

the Group's EBIT plus share-based payment charges, plus share-based payment related employer tax charges

Adjusted EBITDA

the Group's EBITDA minus appliance depreciation attributed to cost of sales, plus share-based payment charges, plus share-based payment related employer tax charges

APAC

Asia-Pacific

AI

Artificial intelligence

ARR

Annual recurring revenue

Board

The board of directors of the Company

Brexit

The exit of the United Kingdom from the European Union, officially on 31 December 2020

CAGR

Compound annual growth rate

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CLNs

Convertible loan notes

Directors

the Executive Directors, the Nominee Directors and the Independent Directors

EBIT

the Group's operating profit or loss

EBITDA

the Group's EBIT plus depreciation and amortisation

EMEA

Europe, Middle East and Africa

EU

European Union

Executive Directors

The executive Directors of the Company

FCA

The UK Financial Conduct Authority

FY 2020

Financial year ending 30 June 2020

FY 2021

Financial year ending 30 June 2021

GHG

Green house gas

Group or Darktrace

Darktrace Holdings Limited and each of its consolidated subsidiaries and subsidiary undertakings prior to the completion of the Reorganisation (which is expected to be completed immediately prior to Admission), and thereafter, Darktrace plc and its consolidated subsidiaries and subsidiary undertakings from time to time

IFRS

International Financial Reporting Standards, as adopted by the European Union

Independent Directors

The independent Directors appointed to the Board

IoT

Internet of things

KPI

Key performance indicator

LATAM

Latin America

NED

Non-executive director

OT

Operating Technology

POV

Proof of value

R&D

Research & Development

SaaS

Software as a Service

TAM

Total Addressable Market



About Darktrace

Darktrace (DARK:L) a global leader in cyber security AI, delivers world-class technology that protects over 5,000 customers worldwide from advanced threats, including ransomware and cloud and SaaS attacks. The company's fundamentally different approach applies Self-Learning AI to enable machines to understand the business in order to autonomously defend it. Headquartered in Cambridge, UK, the company has over 1,600 employees and over 30 offices worldwide. Darktrace was named one of TIME magazine's 'Most Influential Companies' for 2021.

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