Financial Statements
Darktrace Limited

For the year ended 30 June 2018

Company No. 08562035

Contents

Company information

Company registration number:	08562035
Registered office:	Maurice Wilkes Building St John's Innovation Park Cowley Road Cambridge CB4 0DS
Directors:	Mr R Webb QC (Chairman) Ms N Eagan Dr M Lynch OBE (resigned 30 November 2018) Ms V Colomar Mr J Sikkens Mr S Shanley Mr A Kanter Mr P Pearson (appointed 30 November 2018)
Secretary:	Mr R Eaton
Auditor:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY

Strategic report

Introduction

The Directors present the Strategic Report and the financial statements of the Group for the year ended 30 June 2018.

Business review and future developments

Darktrace is the world's leading AI group for cyber security. Created by mathematicians, the Enterprise Immune System uses machine learning and AI algorithms to detect and respond to cyber-threats across diverse digital environments, including cloud and virtualized networks, IoT and industrial control systems. The technology is self-learning and requires no set-up, identifying threats in real time, including zero-days, insiders and stealthy, silent attackers. Darktrace is headquartered in San Francisco, US, and Cambridge, UK, and has 33 offices worldwide.

Over the last year the business has grown substantially. In the last year alone the Group recorded total contract bookings of $209 million (2017: $115 million) taking the cumulative total to over $400 million. The Group has expanded to 33 global offices and, as at 31 October 2018, employs over 750 people across those locations.

Turnover increased 93% to £59.5m from £30.8m in the previous year. The Group's operating loss increased to £38.5m from £24.4m as the Group continues to invest, primarily in increased headcount in R&D and sales.

During the year, in July 2017, the Company raised £38m from Series D fundraising, which was led by Venture Partners Ltd; later in April 2018 the Company brokered a secondary financing round enabling Deep Defence S.à r.l. to invest and providing an early return to some investors.

Vitruvian Partners led our Series E fundraising in October 2018 and the Directors are delighted to have them join the Group's list of shareholders which also boasts Invoke Capital, KKR, Summit Partners, Insight Venture Partners, Samsung and Softbank amongst others.

Darktrace's world leading technology, its current market position and its strong balance sheet leave the Group well placed to continue to grow at unprecedented levels in a rapidly expanding market.

Principal risks and uncertainties

As with most technology companies, Darktrace operates in a fast-moving environment and the principal risks and uncertainties faced by the business include:

- technology obsolescence;
- the threat of competition; and
- recruitment and retention of world class business leaders and employees.

The Group's headcount increased from 475 at the start of the year to 623 at 30 June 2018 as it continues to acquire talent. A significant proportion of that headcount is focused on ensuring the Group's technology continues its position as being a world leader in unsupervised machine learning.

Availability of funding and liquidity are often risks faced by early stage technology companies. The latest Series E fundraising ensures the Group has significant cash reserves, which provides the ability to continue to expand and strengthen the Group's market leading position.

Strategic report (continued)

Financial risk management policies and objectives

The Group manages its key financial risks as follows. Further details are provided in note 20.

Liquidity risk
The Group seeks to manage financial risk by securing sufficient investment to meet foreseeable needs. Cash flow is forecast and monitored as are working capital requirements.

Credit risk
The principal credit risk relates to trade receivables. The Group seeks to deal with trading entities where the risk of default is considered low and reviews payment terms based on an assessment of credit risk relating to the customer.

Currency risk
A significant proportion of revenue is generated in US$ but there is an element of offset from costs denominated in the same currency. The Group manages its currency exposure by seeking to match currency inflows and outflows and no hedging or forward exchange contracts are in place.

Key performance indicators

Key performance indicators which are monitored and reviewed by the business include: number of proof of values (POVs), number of customers, bookings and revenues. These have all grown substantially over the last 12 months.

Post-balance sheet events

In October 2018 the Company secured funding of £38.5m from a Series E financing round led by Vitruvian Partners, with participation from existing investors KKR and TenEleven Ventures.

This report was approved by the Board of Directors on 15 January 2019 and signed on its behalf.

Rob Webb

Mr R Webb
Chairman

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 30 June 2018.

Principal activity

Founded in 2013 by mathematicians from the University of Cambridge and government cyber intelligence experts in the US and the UK, Darktrace is recognised today as the world's leading AI group for cyber security.

With deep expertise in mathematics and machine learning, as well as operational experience defending critical national assets, the founding team started Darktrace to empower organisations to defend their systems against the most sophisticated cyber-threats.

Darktrace's pioneering technology, the Enterprise Immune System, applies AI to the cyber defense challenge for the first time, and has proven itself successful in detecting cyber-threats that existing, legacy systems cannot.

It quickly became clear that the technology was powerful enough to identify a diverse range of threats at their earliest stages – including insider attacks, latent vulnerabilities, slow-developing threats and even state-sponsored espionage.

In 2016, Darktrace's leadership in AI was reinforced with the launch of the first-ever autonomous response technology, Darktrace Antigena. This innovation allowed the Enterprise Immune System to react to in-progress cyber-attacks in a highly precise way, giving security teams the time they desperately need to catch up. When WannaCry ransomware attacks hit hundreds of organizations in 2017, Darktrace Antigena reacted in seconds, protecting customer networks from the inestimable damage.

In November 2017, the Group announced a new business unit, Darktrace Industrial, dedicated to fighting threats in industrial and SCADA networks, building on a strong base of customers that use Darktrace AI to protect critical national infrastructure and operational technology.

The Group is headquartered in San Francisco, US, and Cambridge, UK, with 33 offices globally and, as at 31 October 2018, over 750 current employees.

Results and dividends

The net loss for the year amounted to £39,195,000 (2017: £25,017,000). The Directors do not recommended the payment of a dividend (2017: £nil).

Directors' report (continued)

Directors
The Directors who served the Company during the year and at the date of this report, were as follows:

Ms N Eagan
Mr R Webb QC (Chairman)
Dr M Lynch OBE
Ms V Colomar
Mr J Sikkens
Mr A Kanter
Mr S Shanley

Research and development
The Group has continued to invest in research and development in the year. Details of development work that has been capitalised in the year is provided in note 10 and details of other research and development costs expensed in the year is included in note 4.

Employment policies
The Group is committed to following the applicable employment laws in each country in which it operates, adopting fair employment practices and attempts as far as possible to give equal access and fair treatment to all employees. Wherever possible it provides the same opportunities for disabled people as for others. If employees become disabled the Group would make reasonable effort to keep them in employment, with appropriate training where necessary. The Group supports the training needs of its staff including on the job and external training to continue the development of all staff.

Directors' indemnity arrangements
The Group has maintained Directors' and Officers' liability insurance in respect of its Directors throughout the year.

Directors' responsibilities statement
The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated and entity financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs 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 the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Disclosure of information to auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of Directors on 15 January 2019 and signed on its behalf.

Mr R Webb
Chairman

Independent auditor's report to the members of Darktrace Limited - Company number 08562035

Opinion

We have audited the financial statements of Darktrace Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2018 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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, 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.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report to the members of Darktrace Limited (continued) - Company number 08562035

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' Report set out on pages 3 to 7, 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.

Opinions on other matters prescribed by 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.

Matter 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 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.

Responsibilities of Directors for the financial statements
As explained more fully in the Directors' responsibilities statement, set out on page 6, 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.

Independent auditor's report to the members of Darktrace Limited (continued) - Company number 08562035

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.

Grant Thornton UK LLP

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

Cambridge

25 February 2019

Consolidated statement of comprehensive income

	Notes	2018 £'000	2017 £'000
Revenue	3	59,484	30,759
Cost of sales		(10,775)	(7,188)
Gross profit		48,709	23,571
Marketing and distribution costs		(58,068)	(34,585)
Administrative expenses			
Research and development costs		(23,193)	(10,679)
Other administrative expenses		(5,993)	(2,731)
Operating loss		(38,545)	(24,424)
Finance costs	7	-	(250)
Loss for the year before taxation	4	(38,545)	(24,674)
Tax expense	8	(650)	(343)
Net loss for the year attributable to the equity shareholders of Darktrace Limited		(39,195)	(25,017)
Other comprehensive (loss)/ income			
Foreign exchange difference arising on consolidation		(141)	142
Total comprehensive loss for the financial year		**(39,336)**	**(24,875)**

All of the activities of the Group in the current and preceding years are classed as continuing.

Consolidated statement of financial position

	Notes	2018 £'000	2017 £'000
Non-current assets			
Intangible assets	10	5,762	4,765
Property, plant and equipment	11	1,963	2,048
		7,725	6,813
Current assets			
Inventories	12	10,835	6,013
Trade and other receivables	13	29,453	12,705
Cash and cash equivalents		24,362	15,331
		64,650	34,049
Total assets		72,375	40,862
Current liabilities			
Trade and other payables	14	(58,829)	(23,534)
Non-current liabilities			
Borrowings and other payables	15	-	(3,376)
Total liabilities		(58,829)	(26,910)
Net assets		**13,546**	**13,952**
Equity			
Share capital	16	21	20
Share premium	16	95,335	57,286
Capital contribution		1,185	1,871
Foreign currency translation reserve		75	216
Retained earnings		(83,070)	(45,441)
Total equity attributable to equity shareholders of Darktrace Limited		**13,546**	**13,952**

These financial statements were approved by the Board of Directors and authorised for issue on 15 January 2019.

They were signed on its behalf by:

Mr R Webb
Director

Company statement of financial position

	Notes	2018 £'000	2017 £'000
Non-current assets			
Intangible assets	10	5,762	4,765
Property, plant and equipment	11	1,461	1,549
		7,223	6,314
Current assets			
Inventories	12	10,835	6,013
Trade and other receivables	13	28,542	12,157
Cash and cash equivalents		22,880	15,056
		62,257	33,226
Total assets		69,480	39,540
Current liabilities			
Trade and other payables	14	(58,252)	(23,238)
Non-current liabilities			
Borrowings and other payables	15	-	(3,564)
Total liabilities		(58,252)	(26,802)
Net assets		**11,228**	**12,738**
Equity			
Share capital	16	21	20
Share premium	16	95,335	57,286
Capital contribution		1,185	1,871
Retained earnings		(85,313)	(46,439)
Total equity attributable to equity shareholders of Darktrace Limited		**11,228**	**12,738**

As permitted by section 408 of Companies Act 2006, a separate Statement of comprehensive income for the Company has not been included in these financial statements. The Company's total comprehensive loss for the year amounted to £40,440,000 (2017: £25,635,000).

These financial statements were approved by the Board of Directors and authorised for issue on 15 January 2019.

They were signed on its behalf by:

Mr R Webb
Director

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Foreign currency translation reserve £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2016	18	31,485	74	1,871	(21,203)	**12,245**
Shares issued	2	25,801	-	-	-	**25,803**
Credit to equity for share based compensation charge	-	-	-	-	779	**779**
Transactions with owners	2	25,801	-	-	779	**26,582**
Loss for the year and total comprehensive loss	-	-	142	-	(25,017)	**(24,875)**
Balance at 30 June 2017	20	57,286	216	1,871	(45,441)	**13,952**
Shares issued	1	38,049	-	-	-	**38,050**
Credit to equity for share based compensation charge	-	-	-	-	1,566	**1,566**
Fair value adjustment	-	-	-	(686)	-	**(686)**
Transactions with owners	1	38,049	-	(686)	1,566	**38,930**
Loss for the year and total comprehensive loss	-	-	(141)	-	(39,195)	**(39,336)**
Balance at 30 June 2018	21	95,335	75	1,185	(83,070)	**13,546**

Company statement of changes in equity

	Share capital £'000	Share premium £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2016	18	31,485	1,871	(21,583)	**11,791**
Shares issued	2	25,801	-	-	**25,803**
Credit to equity for share based compensation charge	-	-	-	779	**779**
Transactions with owners	2	25,801	-	779	**26,582**
Loss for the year and total comprehensive loss	-	-	-	(25,635)	**(25,635)**
Balance at 30 June 2017	20	57,286	1,871	(46,439)	**12,738**
Shares issued	1	38,049	-	-	**38,050**
Credit to equity for share based compensation charge	-	-	-	1,566	**1,566**
Fair value adjustment	-	-	(686)	-	**(686)**
Transactions with owners	1	38,049	(686)	1,566	**38,930**
Loss for the year and total comprehensive loss	-	-	-	(40,440)	**(40,440)**
Balance at 30 June 2018	21	95,335	1,185	(85,313)	**11,228**

Consolidated statement of cash flows

	2018 £'000	2017 £'000
Cash generated from operations		
Loss before tax	(38,545)	(24,674)
Depreciation and amortisation	3,912	2,157
Share based compensation charge	1,566	779
Foreign exchange differences	948	(1,047)
Finance costs	-	250
Foreign tax paid	(483)	(406)
Operating cash flows before movements in working capital	(32,602)	(22,941)
Increase in inventories	(4,822)	(2,362)
Increase in receivables	(16,748)	(5,964)
Increase in payables	9,622	4,615
Increase in deferred income	24,437	7,491
Cash outflow from operating activities	(20,113)	(19,161)
Investing activities		
Development costs capitalised	(4,062)	(3,803)
Purchase of property, plant and equipment	(760)	(2,001)
Cash outflow from investing activities	(4,822)	(5,804)
Financing activities		
Proceeds from share issues	38,050	25,803
Amounts owed to shareholder	1,069	-
Repayment of shareholder loan	(4,062)	(2,500)
Cash inflow from financing activities	35,057	23,303
Net changes in cash and cash equivalents	10,122	(1,662)
Cash and cash equivalents, beginning of year	15,331	15,767
Exchange difference on cash and cash equivalents	(1,091)	1,226
Cash and cash equivalents, end of year	24,362	15,331

Company statement of cash flows

	2018 £'000	2017 £'000
Cash generated from operations		
Loss before tax	(40,440)	(25,635)
Depreciation and amortisation	3,735	2,076
Share based compensation charge	1,567	779
Finance costs	-	250
Foreign exchange differences	1,091	(1,046)
Operating cash flows before movements in working capital	(34,048)	(23,576)
Increase in inventories	(4,822)	(2,362)
Increase in receivables	(16,385)	(5,828)
Increase in payables	9,320	4,607
Increase in deferred income	24,437	7,491
Cash outflow from operating activities	(21,498)	(19,668)
Investing activities		
Development costs capitalised	(4,062)	(3,803)
Purchase of property, plant and equipment	(582)	(1,428)
Cash outflow from investing activities	(4,644)	(5,231)
Financing activities		
Proceeds from share issues	38,050	25,803
Amounts owed to shareholder	1,069	-
Repayment of shareholder loan	(4,062)	(2,500)
Cash inflow from financing activities	35,057	23,303
Net changes in cash and cash equivalents	8,915	(1,596)
Cash and cash equivalents, beginning of year	15,056	15,426
Exchange difference on cash and cash equivalents	(1,091)	1,226
Cash and cash equivalents, end of year	22,880	15,056

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Basis of accounting

These consolidated financial statements are for the year ended 30 June 2018. They have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS as adopted by the European Union (EU) and are effective at 30 June 2018.

These financial statements have been prepared under the historical cost convention.
The following standards and interpretations are in issue as of 30 June 2018 but were not effective for the accounting period and have not been adopted early by the Group:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from contracts with customers (IASB effective date 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)

IFRS 15 "Revenue From Contracts With Customers" is the new standard for the recognition of revenue, and it replaces IAS 18 'Revenue' for accounting periods beginning on or after 1 January 2018. IFRS 15 is based on the principal that revenue is recognised when control of a good or service transfers to a customer. The Group will apply IFRS 15 from 1 July 2018 and will adopt a fully retrospective approach, meaning the cumulative impact of the adoption will be recognised in retained earnings as at 1 July 2017 and the comparatives will be restated.

IFRS 15 will require the Group to identify deliverables in contracts with customers that qualify as separate 'performance obligations'. The performance obligations identified will depend on the nature of individual customer contracts, but might typically be identified as the provision of software as a service, the provision of software licences and associated support and maintenance (being one integrated performance obligation).. The transaction price receivable from customers should be allocated between the Group's performance obligations under the contracts on a relative stand-alone selling price basis. Revenue will then be recognised either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

The table below shows the main revenue recognition differences for each performance obligation under IAS 18 and IFRS 15.

Performance Obligation	IAS 18	IFRS 15
Software sold as a service	Straight line over the life of a contract as services are delivered	No change
Licence and related support	Licence revenues generally recognised upon transfer of economic benefit; normally licence commencement date or date of customer acceptance	Licence revenues to be recognised straight line over the term of the licence as a single, integrated performance obligation is fulfilled

The impact of the changes above would mean that certain elements of the Group's revenue would be recognised at a later point in time compared to the current policy under IAS 18, however the majority of contracts are based on the provision of software as a service and thus will not be impacted.

IFRS 16 will require the operating leases held by the Group to be reflected within the Statement of Financial Position.

1 Summary of significant accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities over which the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group can direct decisions through its voting rights. Where subsidiary companies are acquired during the year, the profit or loss attributable to shareholders includes the profits or losses from the date of acquisition. Where subsidiary companies are disposed of during the year, the profit or loss attributable to shareholders includes the profits or losses to the date of disposal.

Going concern

After assessing the forecasts and liquidity of the business for the next financial year the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Additional equity investment of £38.5m was raised in October 2018 to support the continued investment and growth. (see note 24). The Group and Parent Company therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Segmental reporting

The Group has concluded that it operates only one business segment as defined by IFRS 8. The information used by the Group's chief operating decision makers, who are considered to include the executive Directors, to make decisions about the allocation of resources and assessing performance is presented in a format consistent with that repeated in the financial statements. Assets are not directly attributable to any separate activity.

Revenue

Revenue is the amount receivable for goods and services, excluding sales taxes. It is measured at the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. Revenue comprises the provision of software and services over the period of the customer contract and is generally recognised rateably over the term of the contract, other than for licence contracts which are explained further below.

Revenue from a fixed term contract is spread on a straight line basis over the life of the contract. The associated cost including hardware units is recognised as incurred and not spread over the life of the contract. Amounts received in advance of the provision of services are included within deferred income.

Revenue from licence sales is recognised upon transfer of economic benefit which is normally upon signature of the licence agreement, or customer acceptance. Amounts received in advance of revenue recognition are included within deferred income.

Intangible assets

Intellectual assets are measured at cost, net of amortisation and any provision for impairment.

Amortisation

Amortisation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

- Development costs 33% straight line

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Disposal of assets

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

1 Summary of significant accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following basis:

- Equipment 33% - 50% straight line

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. In the event that an internally generated intangible asset arises from the Group's development activities then it will be recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably; and
- the product which the asset generates meets the Group's criteria for technical feasibility.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories represent appliances for deployment to host the Group's software. Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in first out basis. Provision is made for obsolete, slow moving or defective items where appropriate and recognised as an expense in the period in which the write-down or loss occurs.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the statement of financial position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the profit and loss.

Financial assets

Trade and other receivables are classified as loans and receivables, these are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down 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.

1 Summary of significant accounting policies (continued)

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group 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 profit and loss.

A financial liability is derecognised only when the obligation is extinguished.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Equity
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;
- "Foreign currency translation reserve" arises on consolidation as a result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the balance sheet date, which differs from the rate in effect at the last measurement date of the respective item;
- "Capital contribution" represents the imputed interest on a shareholder loan;
- "Retained earnings" represents retained profits and losses.

Pensions
The Company operates a stakeholder pension scheme and contributes to a number of personal pension schemes on behalf of its employees. The Group also contributes to overseas State sponsored pension schemes as legislated. Pension costs are charged to the Consolidated statement of comprehensive income in the year to which they relate.

Share based payments
The Group operates an equity settled share based payment scheme. The equity settled share based payments are measured at fair value at the date of grant. The fair value determined is expensed on a straight line basis over the vesting period based upon the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes option pricing model.

Foreign currencies
The Parent Company's functional currency is sterling. Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than sterling are translated into sterling upon consolidation. Assets and liabilities have been translated into sterling at the closing rate at the reporting date. Income and expenses have been translated into sterling at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

2 Key judgements and estimates

The Group make estimates and assumptions regarding the future. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgment of the probability and measurability of future economic benefits. Development costs have been capitalised since 1 July 2015, further to securing equity investment, which has enabled the business to plan and build its product roadmap.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. The estimated fair value of the monies advanced from the shareholder was based on assumptions regarding payment date and an arm's length interest rate which may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 15). The fair value was adjusted in the year through equity due to earlier settlement of the loan than originally forecast.

Revenue recognition

Contracts can include both a software licence and provision of support services. Recognition of the separable components of revenue is determined based on the analysis of the individual contract. The point at which significant risks and rewards of ownership transfer is dependent on the contractual terms and will typically be after a proof of value assessment period. In respect of a perpetual licence, revenue is generally on delivery and written or contractual acceptance of the software. Revenue for services is generally recognised as the services are completed over time.

Valuation of inventory

Inventory represents the value of appliances being used for POVs with potential customers. All appliances are included at cost with no provision for impairment recorded. When an appliance is returned it is refurbished and returned to its original condition. The costs of spare parts and repairs in returning the appliances to its original condition is expensed to the Consolidated statement of comprehensive income.

Recoverability of accounts receivables

Amounts due from customers are valued based on fair value of the amounts receivable from customers. All amounts past due are reviewed for indicators of impairment and provision made where necessary.

Share based payments

Share based payments are calculated in accordance with IFRS 2. The key judgement made by management is in relation to the volatility of the share price. As there is no readily available market for the Company's shares, management has estimated the volatility rate based on a range of peer companies, private and public.

3 Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8. The information used by the Group's chief operating decision maker to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. Accordingly no segmental analysis is presented.

An analysis of turnover by type of customer and geography is stated below:

By type	2018 £'000	2017 £'000
Licence and related support	9,948	8,533
Software sold as a service	49,536	22,226
	59,484	30,759

By geographical market	2018 £'000	2017 £'000
United Kingdom	17,786	11,401
USA	23,195	10,461
Europe	8,006	5,130
Rest of world	10,497	3,767
	59,484	30,759

No single customer accounted for more than 10% of revenue in 2018 or 2017.

4 Loss for the year before taxation

The loss for the year for the Group is stated after charging/crediting:

	2018 £'000	2017 £'000
Research and development expenses	23,193	10,679
Operating lease rentals – land and buildings	3,534	1,697
Depreciation & amortisation:		
- Capitalised development costs	3,065	1,717
- Property, plant and equipment, owned	847	440
Net foreign exchange losses/(gains)	1,597	(1,047)
Auditor's remuneration:		
- Audit of the financial statements of the Group	57	44
- Tax compliance services	4	7
- Other services relating to taxation	27	15
- Other	1	-

Auditor's remuneration for the audit of the financial statements of the Company amounted to £48,000 (2017: £35,000).

5 Employee remuneration

Employee benefits expense

Expenses recognised for employee benefits is analysed below for the Group. Staff costs during the year were as follows:

	2018 £'000	2017 £'000
Wages and salaries	40,856	24,937
Social security costs	4,400	2,394
Pension contributions	372	65
Share based payment charge	1,566	779
	47,194	28,175

The average number of employees, including Executive Directors, during the year was as follows:

	2018 Number	2017 Number
Administration and operations	27	17
Sales	343	202
Research and development	229	143
	599	362

Directors' emoluments and benefits were as follows:

	2018 £'000	2017 £'000
Emoluments	306	320
Share based payment charge	5	13
	311	333

Total amounts payable to the highest paid Director were £266,000 (2017: £280,000) in respect of emoluments. None of the Directors were members of the Group's defined contribution pension schemes in either year.

6 Key management remuneration

The Group considers the Executive Directors and Senior Management to be the key management personnel. Their costs in the year were as follows:

	2018 £'000	2017 £'000
Wages and salaries	1,158	807
Social security costs	135	79
Pension costs	10	-
Share based payment charge	137	171
	1,440	1,057

7 Finance costs payable

	2018 £'000	2017 £'000
Imputed interest on shareholder loan	-	250

8 Tax expense

The relationship between the expected tax expense based on the UK effective tax rate of the Group at 19% (2017: 20%), and the tax expense actually recognised in the income statement can be reconciled as follows:

	2018 £'000	2017 £'000
Loss for the year before taxation	(38,545)	(24,674)
Tax rate	19%	20%
Expected tax expense	(7,324)	(4,935)
Adjustment for overseas tax rates	338	179
Expenses not deductible for tax purposes	459	136
Research and development tax credit	(1,443)	(4,944)
Tax losses carried forward	8,620	9,907
Total tax on loss on ordinary activities for the year	650	343

At 30 June 2018 the Group has significant tax losses in the UK available for offset against future taxable profits. The Group and Parent Company have not recognised a deferred tax asset of approximately £19.4m (2017: £10.7m) as there is sufficient uncertainty that the losses will be utilised in the foreseeable future.

The tax charge in the current and prior years relates to overseas tax.

9 Profit for the financial year

The Parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. The Company's total comprehensive loss for the financial year was £40,440,000 (2017: £25,635,000).

10 Intangible assets

	2018		2017	
Development costs:	**Group £'000**	**Company £'000**	**Group £'000**	**Company £'000**
Cost:				
At beginning of year	7,030	7,030	3,227	3,227
Additions	4,062	4,062	3,803	3,803
At end of year	11,092	11,092	7,030	7,030
Amortisation:				
At beginning of year	2,265	2,265	548	548
Provided in the year	3,065	3,065	1,717	1,717
At end of year	5,330	5,330	2,265	2,265
Net book amount:				
At 30 June	**5,762**	**5,762**	**4,765**	**4,765**

11 Property, plant and equipment

	2018		2017	
	Group	Company	Group	Company
Equipment	**£'000**	**£'000**	**£'000**	**£'000**
Cost:				
At beginning of year	2,652	2,073	600	592
Additions	760	582	2,054	1,481
Foreign exchange movements	-	-	(2)	-
At end of year	3,412	2,655	2,652	2,073
Depreciation:				
At beginning of year	604	524	167	165
Provided in the year	847	670	440	359
Foreign exchange movements	(2)	-	(3)	-
At end of year	1,449	1,194	604	524
Net book amount:				
At end of year	1,963	1,461	2,048	1,549

12 Inventories

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Goods for resale	10,835	6,013	10,835	6,013

There is no provision against inventory at either 30 June 2018 or 30 June 2017. The cost of inventories recognised as an expense and included in "cost of sales" amounted to £7,834,000 (2017: £6,124,000).

13 Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade receivables	24,505	9,637	24,505	9,637
Amounts due from subsidiary undertaking	-	-	256	-
Other receivables	1,838	1,350	819	811
Prepayments and accrued income	3,110	1,718	2,962	1,709
	29,453	12,705	28,542	12,157

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed by management for indicators of impairment. A provision for doubtful debts as at 30 June of £306,000 (2017: £nil) has been recorded.

As at 30 June 2018, there were £7,023,000 (2017: £2,222,000) trade receivables that were past due but not impaired; of this £6,308,000 (2017: £1,743,000) had been received by 31 October 2018.

14 Trade and other payables

Amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade payables	5,932	3,098	5,790	2,985
Income tax payable	286	119	-	-
Social security and other taxes	444	359	386	295
Accruals	12,900	6,197	12,809	6,197
Deferred income	38,198	13,761	38,198	13,761
Amounts owed to shareholder	1,069	-	1,069	-
	58,829	23,534	58,252	23,238

15 Borrowings and other payables

Amounts falling due after more than one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amount due to Group companies	-	-	-	188
Loan from shareholder	-	4,062	-	4,062
Notional cost in respect of interest free loan	-	(1,871)	-	(1,871)
Imputed interest	-	1,185	-	1,185
	-	3,376	-	3,564

In prior years ICP London Limited, a former shareholder, had advanced funding to Darktrace Limited of £4,062,000. The loan was repaid in July 2017 following the Series D financing round. An adjustment to the fair value as a result of earlier than expected settlement of the loan has been reflected in equity.

16 Equity

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	Total number of shares	Share capital £'000	Share premium £'000
At 30 June 2017	1,753,057	160,713	118,888	2,032,658	20	57,286
Shares deferred in the year	-	-	-	-	-	-
Shares issued in the year	4,044	133,765	-	137,809	1	38,049
At 30 June 2018	1,757,101	294,478	118,888	2,170,467	21	95,335

In July 2017 133,765 preference shares were issued in respect of the Series D financing round; a further 4,044 ordinary shares were issued in the year in respect of share options exercised.

All shares rank pari passu in all respects except:

- Deferred shares hold no voting rights or rights to distribution; and
- Preference shares have a preferred liquidation preference up to their subscription price.

17 Share based payments

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

	2018 £'000	2017 £'000
Marketing and distribution	864	212
Research and development	617	355
Other administrative	85	212
Total charge	1,566	779

The Company has a share option scheme for certain employees. Share options are exercisable at prices determined at the date of grant. The share options vest 6 monthly over 3 years, subject to continued employment. Options are forfeited if the employee leaves the Company before the options vest.

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

	2018		2017	
	Weighted average exercise price per share £	Options number	Weighted average exercise price per share £	Options number
Outstanding at 1 July	29.68	159,600	15.43	143,350
Granted	329.26	33,000	131.76	20,500
Lapsed	63.17	(9,509)	22,61	(4,250)
Exercised	1.14	(4,044)	-	-
Outstanding at 30 June 2018	79.86	179,047	29.68	159,600
Exercisable at 30 June 2018	23.79	136,153	11.47	113,975

The weighted average fair value of options granted during the year ended 30 June 2018 was £160.56 (2017 - £58.69).

The fair value of share based payments have 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 year ended 30 June 2018 and 2017:

	2018	2017
Average share price at grant date (£)	329.26	131.76
Exercise price (£)	329.26	131.76
Fair value per option (£)	160.56	58.69
Expected life in years	5	5
Expected volatility (%)	50%	50%
Risk-free interest rate (%)	1.5%	1.5%
Cancellation rate (%)	10%	10%
Dividend yield (%)	-%	-%

18 Related party transactions and controlling related party

There were no related party transactions with Directors to disclose in either year.

Following the Series D financing completed in July 2017 and the Series E financing completed in October 2018, the Directors' believe that there is no controlling party of Darktrace Limited and its subsidiary undertakings.

During the year the following transactions that occurred between Darktrace Limited and ICP London Limited, which was, at the time, the Group's largest investor:

- Repayment of £4,061,798 (2017: £2,500,000) of the shareholder loan (see note 15).

Following the secondary financing round in April 2018 the Group and Parent Company owed £1,069,000 to ICP Darktrace Holdings Limited, a shareholder, which was repaid on 1 August 2018.

At 30 June 2018 the Parent Company was owed £256,000 (2017: £nil) by Darktrace Singapore Pte Ltd, a subsidiary undertaking, which was received post year end.

At 30 June 2018 the Parent Company owed the following amounts to subsidiary undertakings, which were settled post year end:

- Darktrace Singapore Pte Limited £nil (2017: £41,000);
- Darktrace Australia Pty Ltd £nil (2017: £45,000);
- Darktrace Japan KK £nil (2017: £97,000); and
- Darktrace South Africa Pty Ltd £nil (2017: £5,000).

19 Commitments

Lease commitments

The future minimum rentals under non-cancellable operating leases are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Land and buildings	**£'000**	**£'000**	**£'000**	**£'000**
- Within one year	5,132	2,804	2,814	1,612
- In two to five years	13,661	7,487	7,771	4,411
- In over five years	8,712	3,897	7,166	3,897
	27,505	14,188	17,751	9,920

Leases relate to the rental of office space.

Capital commitments

The Group and the Parent Company had no capital commitments at 30 June 2018 or 30 June 2017.

20 Risk management objectives and policies

Credit risk

The Group's and Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	Group		Company	
	2018	2017	2018	2017
Loans and receivables	£'000	£'000	£'000	£'000
Trade and other receivables	26,343	10,987	25,580	10,448
Cash and cash equivalents	24,362	15,331	22,880	15,056
	50,705	26,318	48,460	25,504

The Group and Parent Company's management considers that all the above financial assets are not impaired and are of good credit quality.

Currency risk

The Group is exposed to transaction foreign exchange risk. Transaction exposures are managed through the Parent Company's use of bank accounts held in foreign currencies.

Material foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

	Group		Company	
	2018	2017	2018	2017
£'000	US$	US$	US$	US$
Financial assets	48,234	20,068	46,631	19,740
Financial liabilities	(31,071)	(8,780)	(30,918)	(8,680)
Exposure	17,163	11,288	15,713	11,060

All foreign currency denominated financial assets and liabilities are classified as current.

The following table illustrates the sensitivity of the net movement on reserves and equity in regards to Darktrace's financial assets and financial liabilities and the US dollar/GBP exchange. It assumes a +/- 10.0% change of the GBP/US dollar exchange rate for the year ended 30 June 2018 (2017: 10.0%).

If the GBP had strengthened against the US dollar by 10.0% (2017: 10.0%) respectively then this would have had the following impact:

	Group		Company	
	2018	2017	2018	2017
£'000	US$	US$	US$	US$
Income statement	(1,571)	(1,106)	(1,571)	(1,106)
Equity	(1,716)	(1,129)	(1,571)	(1,106)

For a 10% weakening of GBP against the US dollar, there would be a comparable but opposite impact on the income statement and equity.

21 Summary of financial assets and liabilities by category

The carrying amounts of the assets and liabilities as recognised at the balance sheet date of the years under review may also be categorised as follows:

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Loans and receivables				
Trade and other receivables	26,343	10,987	25,580	10,448
Cash and cash equivalents	24,362	15,331	22,880	15,056
	50,705	26,318	48,460	25,504
Financial liabilities measured at amortised cost				
Trade, accruals and other payables	19,901	9,295	19,668	9,182
Borrowings	-	3,376	-	3,564
	19,901	12,671	19,668	12,746

22 Capital management policies and procedures

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders, by balancing its trading performance with continuing investment in research and development.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet.

	Group 2018	Company 2018
	£'000	£'000
Capital		
Total equity	13,546	11,228
Less cash and cash equivalents	(24,362)	(22,880)
	(10,816)	(11,652)
Overall financing		
Total equity	13,546	11,228
Plus borrowings	-	-
	13,546	11,228

23 Subsidiaries

As at the 30 June 2018 the subsidiaries of the Group were as follows:

Subsidiary	Country of registration	Class of share capital held	Proportion held by the Company	Nature of business
Darktrace, Inc.	USA	Common shares	100%	Sales and marketing of cyber defence technology
Darktrace Singapore Pte Ltd.	Singapore	Common shares	100%	Sales and marketing of cyber defence technology
Darktrace Australia Pty Ltd.	Australia	Common shares	100%	Sales and marketing of cyber defence technology
Darktrace Japan KK	Japan	Common shares	100%	Sales and marketing of cyber defence technology
Darktrace South Africa Pty Ltd.	South Africa	Common shares	100%	Sales and marketing of cyber defence technology

24 Post balance sheet events

In October 2018 the Company secured funding of £38.5m from a Series E financing round led by Vitruvian Partners, with participation from existing investors KKR and TenEleven Ventures.