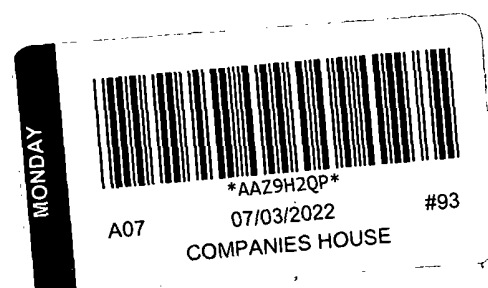


# Annual Report Darktrace Holdings Limited

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For the year ended 30 June 2021



Company No. 08562035

**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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**Company information**

**Company registration number:** 08562035

**Registered office:** Maurice Wilkes Building  
St John's Innovation Park  
Cowley Road  
Cambridge  
CB4 0DS

**Directors:** Ms C Graham (appointed 4 May 2021)  
Mr J Sporle (appointed 4 May 2021)  
Mr R Webb QC (Chairman) (resigned 4 May 2021)  
Ms P Gustafsson OBE (resigned 4 May 2021)  
Ms V Colomar (resigned 4 May 2021)  
Mr J Sikkens (resigned 4 May 2021)  
Mr S Shanley (resigned 4 May 2021)  
Mr A Kanter (resigned 4 May 2021)  
Mr P Pearson (resigned 4 May 2021)  
Mr G Hurst (resigned 7 May 2021)  
Mr M Hatfield (resigned 4 May 2021)

**Auditor:** Grant Thornton UK LLP  
30 Finsbury Square  
Finsbury  
London  
EC2A 1AG

## Strategic report

### Introduction

The Directors present the Strategic Report and the financial statements of the Darktrace Holdings Limited (formerly Darktrace Limited) for the year ended 30 June 2021. Darktrace Holdings Limited ('the Company') has a well-defined strategy to leverage its market-leading technology and first mover market position to drive growth by capturing an increasing share of a rapidly expanding market.

### Principal activity

The Company is a leading provider of cyber security solutions and is at the forefront of deploying autonomous self-learning technology through its AI immune system approach. At 30 June 2021, the Company had over 5,600 customers in over 100 countries, being served by more than 1,600 employees.

### Review of trading results

For its 2021 financial year, Darktrace grew its revenue to \$281.3 million from \$199.1 million in the comparable 2020 period, an increase of 41%. Revenue growth was driven primarily by an increase in new customers acquired during the year. The Company's operating loss increased to \$(34.9) million from \$(28.5) million.

The Company has continued to trade successfully throughout the COVID-19 pandemic, which emerged at the end of the Company's 2020 third quarter and has seen its revenue grow alongside expanding customer and employee numbers. Its operating loss benefitted from the reduction in travel and entertainment expenses resulting from restrictions imposed as part of the global pandemic response.

Darktrace plc was incorporated on 12 March 2021 and became the parent entity of the Company on 4 May 2021 when Darktrace plc acquired the entire shareholding of Darktrace Holdings Limited by way of share for share exchange agreement. Darktrace plc was admitted to the London Stock Exchange on 6<sup>th</sup> May 2021.

### Future developments

Customer interest in the Company's technology and products remains healthy and consistent with achieving the growth and operating objectives of management and the Directors.

### Principal risks and uncertainties

The Company considers the principal risks and uncertainties it faces to be in four primary categories. These are risks around its:

1. technology and products,
2. market and competitive environment,
3. people and partners, and
4. brand and reputation.

#### *Technology and products*

The Company'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. The Company may be unable to develop and enhance its platform to adapt to the increasingly sophisticated nature of cyber-attacks.

If the Company'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.

The Company invests a significant amount in ongoing research and development to ensure its products remain market leading and effective.

The Company 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 Company's research and development investment remains at the forefront of technology as well as allowing the Company to anticipate and effectively respond to changes in the cyber security market, develop new or enhanced technologies or processes or to extend the Company's offering to new and evolving platforms, operating systems or appliances.

## Strategic report (continued)

### *Market and competitive environment*

Darktrace operates in a competitive marketplace where other companies seeking to compete may be larger, better funded and have more resources. If the Company 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. The Company may be unable to develop and enhance its platform to meet the changing cyber protection demands of its customers. Failure by the Company 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. The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and the Company's business, operating results and financial condition.

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.

The Directors believe that the Company's AI Immune System approach gives it a market advantage and leadership position. The Company continues to significantly invest in both its people and products to ensure that it retains its market leading position.

### *People and partners*

The Company relies on the talents of highly skilled personnel, including its senior management and its technologists. 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. The Company'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 Company 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. The global COVID-19 outbreak and the global response to this outbreak could affect the Company's business and operations.

Any inability to attract and retain this talent could have a negative impact on the business. If the Company 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. The Company 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.

The Company continues to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of the organisation, particularly technical professionals. The Company operates a Vendor Risk Management (VRM) program that identifies risks posed to the Company from vendors, such as third-party data centres and Partners. As part of the VRM all vendors are assessed for their criticality to the Company. 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 Company's resilience and failover capabilities to ensure that any services disruptions are mitigated or reduced.

### *Brand and reputation*

The Company'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 Company directors or employees, could adversely affect the Company's reputation in the cyber security, financial, investment and other communities, and could also adversely affect the Company. As a provider of security solutions, the Company 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. If the Company is unable to maintain and enhance its brand or if the Company's reputation and business is harmed by news or social media coverage it could negatively impact the Company's business, results of operations, financial condition and prospects.

## Strategic report (continued)

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. A successful attack or other incident that compromises the Company'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. Negative publicity or other events associating the Company and its employees, ex-employees, partners, or business associates in unlawful, and allegedly unlawful, activities that could negatively impact the Company's brand and reputation and therefore impact the Company's business, results of operations, financial condition and prospects.

The Company uses a layered approach of people, technology, and process to protect the group from numerous threats that could negatively impact the Company. 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 Company. 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 endpoints. 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. 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 Company 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. 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 Company and its employees, ex-employees, partners, or business associates have been implemented to minimise the impact.

### **Board decision making (s172 statement)**

All members of the board recognise their duty to act in good faith, and in a manner which would most likely promote the success of the Company for the benefit of its shareholders and employees as a whole. The Board give consideration to all stakeholder needs when performing their duties. The Board make decisions with the aim of promoting best practice and preserving the long term value of the business.

For the purpose of decision making, the directors have identified several key stakeholder groups, have evaluated their interests, and have engaged with and responded to those stakeholders during the year. Key stakeholders include The Company employees, customers, suppliers, and the communities in which we operate around the globe. The Company uses a range of methods to engage with employees including monthly employee webinars and more regular communications. The Company also enjoys close and long-term partnerships with many of our key suppliers and customers and monitors the success of these relationships via a range of KPIs.

Results of all the above feedback are used to help inform the Board's strategic decisions in particular in relation to commercial matters. The needs of individual stakeholder groups are balanced against the wider requirement to promote the long-term success of the company for the benefit of its members as a whole.

### *Employee engagement*

As one of the world's leading cybersecurity organisations we are committed to attracting, motivating and retaining the best talent from around the world. Our goal is to nurture and develop experts to meet current and future industry challenges. We are committed to creating a diverse, meritocratic culture, within which all are valued and all contributions are recognised.

We encourage and promote an environment where diversity is highly valued, and discrimination of any kind is prohibited. Our transparent working culture ensures that all our staff have the security and autonomy to voice any concerns they may have. We are striving to ensure that we provide employment opportunities to vulnerable members of society and those with disabilities, while also accommodating flexible working arrangements which allow staff to manage work and domestic commitments.

Our diversity and inclusivity policy sets out a clear position regarding our inclusive culture, and our strong female presence (including in key leadership roles) further embodies this. Attracting, retaining and promoting women across all roles is a key ongoing business target. We have been certified as a 'Great Place to Work', based on the feedback of our employees.

## Strategic report (continued)

### *Supplier and customer engagement*

The Company 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 Company 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 Company's successful engagement with its customers. The Company has invested in the last year in growing its customer success function, with the aim of reducing gross annualised recurring revenue churn rate.

The Company has fostered excellent relationships with its key suppliers, mostly in relation to the provision of appliances to deliver preloaded software. The Company 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.

### *Impact on the community and environment*

The Company's world leading Cyber AI platform helps to protect its customers from ever increasing cyber threats. The Company also publishes thought leadership and public commentary where possible on threats it has seen to further support the wider community against increasing cyber threats. Due to nature of the Company's business it does not have a significant impact on the wider environment, but the Company encourages initiatives to reduce its carbon footprint, see the SECR report for further details.

### *Maintaining a high standard of business conduct*

The Company strives to maintain the highest standards of professionalism in its interactions with its stakeholders, including employees, customers and suppliers.

### **Financial risk management policies and objectives**

The Company manages its key financial risks as follows.

#### *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, Company treasury maintains flexibility in funding by maintaining both liquid cash and availability under committed credit lines. Please see note 25, post balance sheet events, for details of a convertible loan note issue and revolving credit facility entered into shortly after the year end.

#### *Credit risk*

The principal credit risk relates to trade receivables. The Company 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 or partner. The Company undertakes credit checks on new partners and the credit managers assess new partners before they are onboarded.

#### *Currency risk*

The Company manages its currency exposure by seeking to match currency inflows and outflows and no hedging or forward exchange contracts are currently in place.

### **Key performance indicators**

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 Company's primary currency exposures are the British Pound and the Euro converting to its US Dollar functional currency. For FY 2021, constant currency rates were 1.2368 and 1.1235 for the British Pound and the Euro, respectively.

**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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## Strategic report (continued)

### 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 financial 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.

### Net ARR Added:

| \$'000                | FY 2021 | FY 2020 |
|-----------------------|---------|---------|
| Net ARR Added         | 107,800 | 66,483  |
| Year over year growth | 62.1%   | 0.5%    |

Net ARR retention rate is a non-IFRS financial measure 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 does reflect customer losses, expansions, and contractions.

### 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 a non-IFRS financial measure that the Company defines 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 one year prior to the measurement date. This churn rate reflects only customer losses and does not reflect customer expansions or contractions.

### 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.

### Average Contract ARR:

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

Average contract ARR is a non-IFRS financial measure that is defined as the total ARR at the measurement date, divided by the number of customers at that measurement date. Growth in ARR has been across all regions in which the Company operates. As of 30 June 2021, the distribution of customers by size of ARR remained consistent with the prior year end, demonstrating that the Company continues to add to customers across the full range of customer sizes and requirements.

### Number of Customers:

|                     | 30-Jun-21 | 30-Jun-20 |
|---------------------|-----------|-----------|
| Number of customers | 5,605     | 3,858     |

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



**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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## Strategic report (continued)

### Remaining Performance Obligations (RPO):

| \$'000 | 30-Jun-21 | 30-Jun-20 |
|--------|-----------|-----------|
| RPO    | 758,216   | 539,929   |

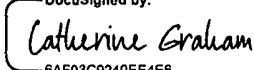
RPO represents committed revenue backlog and is calculated by summing all committed customer contract ARR values that have not yet been recognised as revenue, valued at the exchange rates on the last day of the reporting period.

| \$'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         |
| <b>Total</b>        | <b>758,216</b> | <b>539,929</b> |

### Subsequent events

For subsequent events please see the Director's report on page 10.

This report was approved by the Board of Directors on 7 December 2021 and signed on its behalf.

DocuSigned by:  
  
 6AF03C9240EE4E8...  
 Catherine Graham  
 Director  
 7 December 2021

## Directors' report

The Directors present their report and the financial statements of the Company and Group for the year ended 30 June 2021.

### Results and dividends

The net loss for the year amounted to \$(144.6) million (2020: \$(29.7) million) however this increased loss was largely due to the recognition of non-cash financing costs relating to a convertible loan instrument which ceased in May 2021. The Directors do not recommend the payment of a dividend (2020: \$nil).

### Directors

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

Ms C Graham (appointed 4 May 2021)  
Mr J Sporle (appointed 4 May 2021)  
Mr R Webb QC (Chairman) (resigned 4 May 2021)  
Ms P Gustafsson OBE (resigned 4 May 2021)  
Ms V Colomar (resigned 4 May 2021)  
Mr J Sikkens (resigned 4 May 2021)  
Mr S Shanley (resigned 4 May 2021)  
Mr A Kanter (resigned 4 May 2021)  
Mr P Pearson (resigned 4 May 2021)

### Going Concern

As discussed in more detail in note 1, these financial statements have been prepared on a going concern basis. The Directors have reviewed forecasts and sensitivities based on a series of scenarios and have formed the view that the Company will generate sufficient cash to meet its ongoing requirements for at least 12 months from the date of approval of the financial statements. The Company has considerable cash and cash equivalents on its statement of financial position alongside a recurring revenue model with high levels of future revenues already secured. Management continues to take appropriate action to monitor, identify, address and mitigate the major uncertainties facing the business including those arising from the ongoing impact of the Covid-19 pandemic. The Company has continued to trade successfully throughout the COVID-19 pandemic and has seen its revenue grow alongside expanding customer and employee numbers. This demonstrates the resilience of the Company in the face of severe economic pressures on the wider global economy.

### Research and development

The Company 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. As in the prior year the Company qualified for tax credits under the HMRC RDEC scheme; this results in other operating income of \$1.4 million (2020: \$0.8m) which has been recognised in the year.

### Employment policies

The Company 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 Company would make reasonable effort to keep them in employment, with appropriate training where necessary. The Company supports the training needs of its staff including on the job and external training to continue the development of all staff.

## Directors' report (continued)

### Gender pay reporting

The Group is required to report its UK gender pay gap annually now that the Group has over 250 employees in the UK. The data below pertains to Darktrace's employees who are based in the UK.

| Statutory reportable statistics                                   | 2021        | 2020        |
|---|-------------|-------------|
| Gender pay gap: mean  | -3.5%       | -2.10%      |
| Gender pay gap: median  | 9.8%        | 12.30%      |
| Proportion of men/women in lower quartile pay band (M%/F%)        | 57.9%/42.1% | 44.3%/55.7% |
| Proportion of men/women in lower middle quartile pay band (M%/F%) | 65.7%/34.3% | 72.6%/27.4% |
| Proportion of men/women in upper middle quartile pay band (M%/F%) | 70.2%/29.8% | 66%/34%     |
| Proportion of men/women in upper quartile pay band (M%/F%)        | 64.5%/35.5% | 65.4%/34.6% |
| Proportion of men who received a bonus                            | 61.2%       | 66.50%      |
| Proportion of women who received a bonus                          | 67.5%       | 66.70%      |
| Bonus: mean   | -41.6%      | -35.90%     |
| Bonus: median   | 16.4%       | -27.30%     |

The UK gender gap pay measures the difference between men and women's average pay within an organisation regardless of their role or work level. The gender pay gap is not the same as equal pay, which is related to the law requiring men and women to earn the same salary for the same or a similar job. The mean and median gender pay gap is based on the hourly rate taken at the mandatory snapshot date (April 2021), and includes commission and bonus paid in that month. The mean gender pay data for 2021 shows that the mean pay for women in the UK based workforce is 3.5% higher than for men. The median gender pay data for April 2021 shows that the median pay for men is 9.8% higher than for women.

Darktrace's gender pay results are impacted by the outcomes of bonus and sales commission, which are linked to individual performance. As a consequence, this data tends to fluctuate from month to month. Bonus pay gap is based on the sum of bonus and commission paid within the previous 12 months to April 2021. The percentage of men within the male population who earned a bonus was 61%, while the percentage of women within the female population who earned a bonus was 67%. Proportionately, a greater number of females earned a bonus or commission than males during the year.

The mean bonus gender pay data for 2021 shows that bonuses for women were 41.6% higher than for men. The median bonus gender pay data for 2021 shows that bonuses for men were 16.4% higher than for women. Generally, bonus gap data fluctuates between genders across reporting periods as it is based on individual performance and associated commission paid during that reportable period.

### Directors' indemnity arrangements

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

### Financial risk management policies and objectives

For details of the Company's financial risk management policies and objectives please see the Strategic Report.

### Environmental matters

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 plc (parent company) reports on global energy consumption and associated GHG emissions in compliance with the Streamlined Energy and Carbon Reporting ("SECR") legislation for listed companies also on behalf of Darktrace Holdings Limited. Please see annual report for Darktrace plc for the year ended 30 June 2021 for further details in this regard.

### Post balance sheet events

Details of important events affecting the Company since 30 June 2021 are disclosed in note 26 to the financial statements.

## Directors' report (continued)

### 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 Company financial statements in accordance with international financial reporting standards in conformity with the Companies Act 2006 (IFRSs) and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'). 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 Company 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 UK Accounting Standards and 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 and Group 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.

### Disclosure of information to auditor

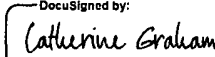
The Directors confirm that:

- 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 7 December 2021 and signed on its behalf.

DocuSigned by:  
  
0AF93C924DEE1E8  
Catherine Graham  
Director  
7 December 2021

## Independent auditor's report to the members of Darktrace Holdings Limited

### Opinion

We have audited the financial statements of Darktrace Holdings Limited (the 'company') for the year ended 30 June 2021, which comprise the Statement of comprehensive income, the Statement of financial position, the 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 their preparation 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 company's affairs as at 30 June 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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.

### 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 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 company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Covid-19 we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. 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 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.

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.

### 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 Holdings Limited (continued)

### 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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, 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 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 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](http://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 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;

## Independent auditor's report to the members of Darktrace Holdings Limited (continued)

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006 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;
- We assessed the susceptibility of the 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 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;
  - In relation to Management's assessment of the 'brand and reputation risk' presented on page 4 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;
  - Challenging assumptions and judgements made by management in its significant accounting estimates; and
  - Identifying and testing related party transactions.
- In assessing the potential risks of material misstatement, we obtained an understanding of the 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.

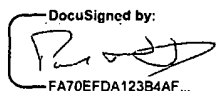
**Darktrace Holdings Limited**  
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## **Independent auditor's report to the members of Darktrace Holdings Limited (continued)**

### **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.

DocuSigned by:  
  
FA70EFDA123B4AF...

**Paul Naylor**

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
**7 December 2021**



**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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**Financial Statements**

## Statement of comprehensive income

|  |       | 2021<br>\$'000   | 2020<br>\$'000  |
|--|-------|------------------|-----------------|
|  | Notes |                  |                 |
| Revenue  | 5     | 281,341          | 199,076         |
| Cost of sales  |       | (29,957)         | (18,679)        |
| <b>Gross profit</b>                                    |       | <b>251,384</b>   | <b>180,397</b>  |
| Sales and marketing costs                              |       | (194,464)        | (163,857)       |
| Administrative expenses                                |       |                  |                 |
| Research and development costs                         |       | (31,334)         | (12,542)        |
| Other administrative expenses                          |       | (58,524)         | (28,079)        |
| Expected credit loss charge                            |       | (3,324)          | (5,344)         |
| Other operating income                                 | 6     | 1,365            | 811             |
| <b>Operating loss</b>                                  |       | <b>(34,897)</b>  | <b>(28,615)</b> |
| Finance costs  | 7     | (109,286)        | (1,046)         |
| Finance income   | 7     | 50               | 381             |
| <b>Loss for the year before taxation</b>               | 8     | <b>(144,133)</b> | <b>(29,280)</b> |
| Taxation   | 10    | (416)            | (471)           |
| <b>Loss for the financial year</b>                     |       | <b>(144,549)</b> | <b>(29,751)</b> |
| <b>Other comprehensive (loss)/ income</b>              |       | <b>-</b>         | <b>-</b>        |
| <b>Total comprehensive loss for the financial year</b> |       | <b>(144,549)</b> | <b>(29,751)</b> |

The notes on pages 19 to 47 are an integral part of these financial statements.

**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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**Financial Statements**

# Statement of financial position

|                                      | Notes | 2021<br>\$'000   | 2020<br>\$'000   |
|--------------------------------------|-------|------------------|------------------|
| <b>Non-current assets</b>            |       |                  |                  |
| Intangible assets                    | 11    | 7,087            | 6,049            |
| Property, plant and equipment        | 12    | 52,140           | 48,392           |
| Right-of-use assets                  | 13    | 12,006           | 12,108           |
| Capitalised commission               | 14    | 22,711           | 14,659           |
| Deposits                             |       | 3,942            | 4,383            |
| Investments                          | 16    | 10,807           | 7,476            |
|                                      |       | <u>108,693</u>   | <u>93,067</u>    |
| <b>Current assets</b>                |       |                  |                  |
| Trade and other receivables          | 15    | 76,131           | 59,103           |
| Capitalised commission               | 14    | 16,303           | 10,890           |
| Tax receivable                       |       | 1,854            | 1,314            |
| Cash and cash equivalents            |       | <u>118,597</u>   | <u>46,478</u>    |
|                                      |       | <u>212,885</u>   | <u>117,785</u>   |
| <b>Total assets</b>                  |       | <u>321,578</u>   | <u>210,852</u>   |
| <b>Current liabilities</b>           |       |                  |                  |
| Trade and other payables             | 18    | (63,753)         | (49,352)         |
| Provisions                           | 19    | (17,377)         | -                |
| Deferred revenue                     | 5     | (158,265)        | (96,769)         |
| Lease liabilities                    | 13    | (2,411)          | (2,020)          |
|                                      |       | <u>(241,806)</u> | <u>(148,141)</u> |
| <b>Non-current liabilities</b>       |       |                  |                  |
| Deferred revenue                     | 5     | (29,599)         | (25,779)         |
| Lease liabilities                    | 13    | (13,768)         | (12,644)         |
| Provisions                           |       | (251)            | -                |
|                                      |       | <u>(43,618)</u>  | <u>(38,423)</u>  |
| <b>Total liabilities</b>             |       | <u>(285,424)</u> | <u>(186,564)</u> |
| <b>Net assets</b>                    |       | <u>36,154</u>    | <u>24,288</u>    |
| <b>Equity</b>                        |       |                  |                  |
| Share capital                        | 20    | 31               | 29               |
| Share premium                        | 20    | 313,611          | 170,402          |
| Foreign currency translation reserve |       | (5,155)          | (5,155)          |
| Capital contribution                 |       | 30,063           | 20,868           |
| Stock compensation reserve           |       | 4,009            | -                |
| Retained earnings                    |       | <u>(306,405)</u> | <u>(161,856)</u> |
| <b>Total equity</b>                  |       | <u>36,154</u>    | <u>24,288</u>    |

These financial statements were approved by the Board of Directors and authorised for issue on 7 December 2021. They were signed on its behalf by:

DocuSigned by:  
  
 8AF03C9240FE4E6...  
 Catherine Graham  
 Director

The notes on pages 19 to 47 are an integral part of these financial statements.

**Darktrace Holdings Limited**  
**Annual Report for the year ended 30 June 2021**

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**Financial Statements**

## Statement of changes in equity

|  | Notes | Share capital<br>\$'000 | Share premium<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Stock compensation reserve<br>\$'000 | Capital contribution<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|--|-------|-------------------------|-------------------------|--|--------------------------------------|--------------------------------|-----------------------------|------------------------|
| <b>Balance at 1 July 2019</b>  |       | 27                      | 170,264                 | (5,155)  | 10,512                               |                                | (132,105)                   | <b>43,543</b>          |
| Loss for the year  |       | -                       | -                       | -  | -                                    | -                              | (29,751)                    | <b>(29,751)</b>        |
| <b>Total comprehensive loss for year</b>   |       | -                       | -                       | -  | -                                    | -                              | (29,751)                    | <b>(29,751)</b>        |
| Shares issued  | 20    | 2                       | 138                     | -  | -                                    | -                              | -                           | <b>140</b>             |
| Credit to equity for share based compensation charge                                 |       | -                       | -                       | -  | 10,356                               | -                              | -                           | <b>10,356</b>          |
| <b>Transactions with owners</b>  |       | <b>2</b>                | <b>138</b>              |  | <b>10,356</b>                        |                                |                             | <b>10,496</b>          |
| <b>Balance at 30 June 2020</b>   |       | <b>29</b>               | <b>170,402</b>          | <b>(5,155)</b>                                 | <b>20,868</b>                        |                                | <b>(161,856)</b>            | <b>24,288</b>          |
| Loss for the year  |       | -                       | -                       | -  | -                                    | -                              | (144,549)                   | <b>(144,549)</b>       |
| <b>Total comprehensive loss for year</b>   |       | -                       | -                       | -  | -                                    | -                              | (144,549)                   | <b>(144,549)</b>       |
| Shares issued in the period  | 20    | -                       | 212                     | -  | -                                    | -                              | -                           | <b>212</b>             |
| Share repurchase and cancellation  | 20    | (2)                     | (127,061)               | -  | -                                    | -                              | -                           | <b>(127,063)</b>       |
| Convertible loan conversion  | 17    | 4                       | 270,058                 | -  | -                                    | -                              | -                           | <b>270,062</b>         |
| Capital contribution on account of share-based payments granted by the parent entity |       | -                       | -                       | -  | -                                    | 4,009                          | -                           | <b>4,009</b>           |
| Credit to equity for share based compensation charge                                 | 21    | -                       | -                       | -  | 9,195                                | -                              | -                           | <b>9,195</b>           |
| <b>Transactions with owners</b>  |       | <b>2</b>                | <b>143,209</b>          |  | <b>9,195</b>                         | <b>4,009</b>                   |                             | <b>156,415</b>         |
| <b>Balance at 30 June 2021</b>   |       | <b>31</b>               | <b>313,611</b>          | <b>(5,155)</b>                                 | <b>30,063</b>                        | <b>4,009</b>                   | <b>(306,405)</b>            | <b>36,154</b>          |

The notes on pages 19 to 47 are an integral part of these financial statements.

# Notes to the financial statements

## 1 General information

### Company information

Darktrace Holdings Limited (formerly Darktrace Limited) is a company incorporated in England and Wales under company number 8562035. The principal place of business is Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge.

### Basis of preparation

The financial statements of Darktrace Holdings Limited 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.

### New and amended standards adopted by the Company

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.

### 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.

## Notes to the financial statements (continued)

### Consolidation

The company is a wholly owned subsidiary of Darktrace plc. It is included in the consolidated financial statements of Darktrace plc, which are publicly available. Therefore, the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, United Kingdom, CB4 0DS.

These financial statements are separate financial statements.

### Going Concern

The 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 Darktrace plc consolidated 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 Darktrace plc group's financial position, recent performance, and risk management policies in concluding on the group's continuing viability. The Directors have considered how a change in circumstances might impact the group's expected financial performance for the year. 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.
- 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.

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies

#### Segment reporting

The Company 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 other 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

All revenue contracts are entered into with the Company through contracts.

The Company 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 Company 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 Company'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 Company's Cyber AI Platform as the Company performs. The Company'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 Company does not have any variable pricing as defined under IFRS 15.

In a very small number of cases, the Company 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 Company 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 Company's software. They cannot be used for any other purpose so have no separate value to the customer, and as the Company retrieves its appliances at the end of deployments, each appliance may be redeployed multiple times, in multiple situations over its useful life. The Company 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.

For further information around critical judgement in revenue recognition and consideration of the single performance obligation see note 5.

#### 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.

## Notes to the financial statements (continued)

The largest of the deployment costs is depreciation on appliances used to deliver the software to customers under contracts. As these appliances are deployed, retrieved and redeployed many times over their useful lives, the Company maintains ownership of these appliances, and holds them as property, plant and equipment (see Property, Plant and Equipment for additional detail). The depreciation of appliances is apportioned to Cost of sales based on the proportion of the Company's appliance pool deployed to customer sites and all appliance depreciation related to customer contracts is recognized in Cost of sales. Where the Company 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 Company'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 Company apportions the depreciation of appliances used to run Proof of Value ("POV") demonstrations for prospects (see note 12 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 consists of compensation and other directly attributable costs of the staff who develop the Company's software products. The Company capitalises the costs of development work that meets the criteria for capitalisation and amortises that 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 Company'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 Company 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 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 Company capitalises the costs of development work that meets the criteria for capitalisation and amortises those costs once the software is brought into use. Research and development ("R&D") 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, is expensed as incurred. Amortisation of capitalised development costs is recognized as R&D cost (see note 11).

## Notes to the financial statements (continued)

### **Share based payments**

The Company operates an equity settled share-based payment scheme. 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 income statement 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 same conditions; the growth shares in Darktrace Holdings Limited, converted into shares of Darktrace plc at same conditions.

### **Growth shares**

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.

### **AIP 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.

### **AIP 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.



## Notes to the financial statements (continued)

### 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 Company 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 Company has made claims for tax credits under the HMRC RDEC scheme since 2019 which is reflected as other income on the consolidated statement of 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 Company operates and generates taxable income. Any uncertain tax treatments are reviewed, documented and communicated to the board as appropriate. The Company 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 Company 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 income statement, 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.

Companies within the Company may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (e.g. the HMRC SME R&D scheme). The Company accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. Where the credit can be claimed as a refund of previously claimed tax payments, it is reflected as tax recoverable and a current tax credit.

## Notes to the financial statements (continued)

### Intangible assets

The Company 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 Company's property, plant and equipment is comprised of the appliances used to deploy its software. Appliances are encrypted with the Company'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 Company 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 Company 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 Company 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 Company 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.

### Investment in subsidiaries

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.

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.

## Notes to the financial statements (continued)

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.

### **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 Company 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 Company 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 Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company'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 Company, 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 Company:

- 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 Company 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.

## Notes to the financial statements (continued)

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 Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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 Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. Most of the extension and termination options held are exercisable only by the Company and not by the respective lessor.

### COVID-19-Related Rent Concessions Amendment

The Company has not applied the practical expedient as per the IFRS16 amendment to any rent concession as the Company 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 Company's offices. Where the agreement is for a term longer than one year, the related deposit is classified as long term. Refer to note 15 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 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. See note 14 for a description of the Company's impairment policies.

The Company 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 Company'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 Company 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 Holdings Limited 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 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.

## Notes to the financial statements (continued)

### Accruals for legal claims, service warranties and make good obligations

Accruals are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Accruals are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. An accrual is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Accruals are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the accrual due to the passage of time is recognised as interest expense.

### 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 12-month 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'.

### 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 the company on issue of the CLNs (after deducting the fair value of the embedded derivative) is allocated to the host debt instrument.

## Notes to the financial statements (continued)

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.

The valuation of the embedded derivative 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 3 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 Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit 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 Company also contributes to State-sponsored pension schemes in multiple countries as legislated.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

## Notes to the financial statements (continued)

The Company operates various post-employment schemes and defined contribution pension plans, and enables post-employment medical plans where legislated.

### Bonus plans

The Company 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 Company recognises a provision 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 Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates:

- (a) when the Company can no longer withdraw the offer of those benefits; or
- (b) when the Company recognises costs for a restructuring that is within the scope of IAS 37 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.
- 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. This reserve was used to recognise the grant date fair value of options and awards issued to subsidiaries' employees up to the date of share for share exchange, date at which all outstanding options were transferred to Darktrace PLC.
- Capital contribution: When Darktrace PLC (parent entity) grants rights to its equity instruments to employees of its subsidiary (Darktrace Holdings Limited), the subsidiary does not have an obligation to provide its parent's equity instruments to its employees. The subsidiary should, in its own separate financial statements, measure the services received from its employees in accordance with the requirements of IFRS 2 applicable to equity-settled share-based payment transactions. There will be a corresponding increase recognised in equity as a capital contribution from the parent entity. Since the transfer of all options to Darktrace PLC, for any new awards provided a capital contribution corresponding to the cost of the service provided by the employee is accounted for by the Company.
- 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 statement of financial position date.
- 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 the Company. The financial statements are presented in U.S. Dollars ("USD") which, since 1 July 2019, has been the functional currency of the Company.

#### Transactions and balances

Foreign currency transactions are translated into the functional currencies of the Company and all of its subsidiaries 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.

### Rounding of amounts

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

## Notes to the financial statements (continued)

### 3 Significant 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 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**

Company 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 financial statements (continued)

Management used the offer price of £2.5 (\$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.

|  | 2021         |
|--|--------------|
| Share price at grant date  | £2.5 (\$3.5) |
| Current valuation (\$'000)   | 18,278       |
| - 10% in share price at grant date – variance in overall valuation (\$'000)    | (4,250)      |
| + 10% share price value at grant date - variance in overall valuation (\$'000) | 5,259        |

### 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.

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  | Discount* | Discount** | Probability*** | Probability**** |
|---------------------|---------|-----------|------------|----------------|-----------------|
|                     | \$'000  | \$'000    | \$'000     | \$'000         | \$'000          |
| 01-Jul-20           |         |           |            |                |                 |
| 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.

## Notes to the financial statements (continued)

### *Date of derecognition of the CLN and fair valuation:*

According to the CLN 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 £2.5 per share according to IPO Committee Minutes dated 29 April 2021. According to the Group legal advisers, the conversion became unconditional and was fixed at £2.5 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 CLN agreements. Pursuant to the share exchange deed, it was unconditionally agreed that the CLN would be converted on 4 May 2021.

As there was no active market value at the point of derecognition, the price fixed for the Company's shares was based on the market information available at that time. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLN including accrued annual 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.

|  | Host loan | Embedded derivative | CLN     |
|--|-----------|---------------------|---------|
|  | \$'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 CLN at conversion (£2.5 i.e. \$3.5 per share per 77,475,499 shares) |           |                     | 270,062 |

### **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:

|  | 2021   | 2020   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| +/- 10% share price value – change in value of accrual (\$'000 absolute value) | 2,179  | -      |

### **Significant Estimate in the Expected Useful Life of Appliances**

The Company 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 Company 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 Company's 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 Company retains control of the appliances throughout the performance period as the Company directs the use of the asset. It is also management's judgement that the Company'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:

## Notes to the financial statements (continued)

|                                       | 2021<br>\$'000 | 2020<br>\$'000 |
|---------------------------------------|----------------|----------------|
| <b>3 years useful life applied</b>    |                |                |
| Variance in appliances net book value | (19,598)       | (5,798)        |
| Variance in depreciation              | (7,686)        | 4,514          |
| <b>7 years useful life applied</b>    |                |                |
| Variance in appliances net book value | 13,600         | 2,412          |
| Variance in depreciation              | 2,323          | (2,782)        |

### 4 Operating segment

The Company 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 Company'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.

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Non-current assets by geographical market</b> |                |                |
| United Kingdom                                   | 36,151         | 32,670         |
| USA and Canada                                   | 30,761         | 26,614         |
| Europe   | 17,780         | 14,968         |
| Rest of world                                    | 24,008         | 18,484         |
|  | <b>108,700</b> | <b>92,736</b>  |

USA non-current asset is \$28.8m (as at 30 June 20 \$23.6m).

### 5 Revenue from contracts 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.

|                | 2021<br>\$'000 | %           | 2020<br>\$'000 | %           |
|----------------|----------------|-------------|----------------|-------------|
| 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%       |
|                | <b>281,341</b> | <b>100%</b> | <b>199,076</b> | <b>100%</b> |

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 (as at 30 June 2020 \$74.1m) but above are the regions that the business is managed by.

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

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

## Notes to the financial statements (continued)

|                               | 2021<br>\$'000 | 2020<br>\$'000 |
|-------------------------------|----------------|----------------|
| Accrued income                | 1,713          | 754            |
| <b>Total accrued income</b>   | <b>1,713</b>   | <b>754</b>     |
| Current deferred revenue      | 158,265        | 96,769         |
| Non-current deferred revenue  | 29,599         | 25,779         |
| <b>Total deferred revenue</b> | <b>187,864</b> | <b>122,548</b> |

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 14.

### 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:

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| <b>Revenue recognised in relation to contract liabilities</b>   |                |                |
| 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:

|                      | 2021<br>\$'000 | 2020<br>\$'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         |
|                      | <b>780,407</b> | <b>533,861</b> |

## 6 Other operating income

|                                       | 2021<br>\$'000 | 2020<br>\$'000 |
|---------------------------------------|----------------|----------------|
| R&D tax credit under HMRC RDEC scheme | 1,365          | 811            |

## 7 Finance costs and finance income

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| <b>Finance costs</b>  |                |                |
| Total interest on financial liabilities measured at amortised cost (CLNs – host contract) | 27,239         | -              |
| Fair value movement on derivative (CLNs – embedded derivative) – note 17                  | 57,976         | -              |
| Loss on conversion of the CLNs – note 17  | 22,026         | -              |
| Interest on lease liabilities   | 2,929          | 1,046          |
| Capitalised borrowing costs   | (884)          | -              |
| <b>Total Finance costs</b>  | <b>109,286</b> | <b>1,046</b>   |

## Notes to the financial statements (continued)

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| <b>Finance income</b>                          |                |                |
| Interest income from cash and cash equivalents | 50             | 382            |
| <b>Total Finance income</b>                    | <b>50</b>      | <b>382</b>     |

### 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 Company had no material borrowing costs for capitalisation.

## 8 Loss for the year before taxation

The Company has identified a number of items which are material due to the significance of their nature and or amount. There are listed separately here to provide a better understanding of the financial performance of the Company.

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

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| Research and development: payroll costs             | 9,449          | 5,399          |
| Short term property and low value lease rentals     | 2,343          | 2,086          |
| Depreciation and amortisation:                      |                |                |
| - Capitalised development costs (note 11)           | (2,729)        | (1,429)        |
| - Right-of-use assets (note 13)                     | 2,178          | 2,016          |
| - Capitalised commission (note 14)                  | 14,101         | 10,441         |
| - Property, plant and equipment (note 12)           | 17,979         | 15,116         |
| US sales tax  | 1,264          | 2,304          |
| Credit loss charge                                  | 3,112          | 5,344          |
| Share-based payment charge (note 21)                | 9,904          | 6,552          |
| Share-option related employer tax charges (note 19) | 17,628         | -              |
| Net foreign exchange (gains)/ losses                | (1,762)        | 1,133          |
| Audit of Company accounts                           | 338            | 447            |
| Non-audit services                                  | 264            | 109            |

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 19).

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.

## 9 Employee costs

### **Employee benefits expense**

Expenses recognised for the Company's employee compensation and benefits is presented below:

|                            | 2021<br>\$'000 | 2020<br>\$'000 |
|----------------------------|----------------|----------------|
| Wages and salaries         | 55,050         | 40,541         |
| Social security            | 25,375         | 7,049          |
| Pension                    | 1,251          | 902            |
| <b>Employee cost</b>       | <b>81,676</b>  | <b>48,492</b>  |
| Share based payment charge | 9,904          | 6,552          |
| <b>Total cost</b>          | <b>91,580</b>  | <b>55,044</b>  |

## Notes to the financial statements (continued)

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

|                               | 2021       | 2020       |
|-------------------------------|------------|------------|
|                               | Number     | Number     |
| Sales                         | 336        | 293        |
| Research and development      | 157        | 114        |
| Administration and operations | 151        | 101        |
|                               | <u>644</u> | <u>508</u> |

Directors' emoluments and benefits were as follows:

|                                    | 2021         | 2020       |
|------------------------------------|--------------|------------|
|                                    | \$'000       | \$'000     |
| Emoluments                         | 1,889        | 490        |
| Gains on exercise of share options | 3,989        | -          |
|                                    | <u>5,878</u> | <u>490</u> |

Total amounts payable to the highest paid director were \$410,882 (2020: \$309,098) in respect of emoluments. Three Directors were members of the Company's defined contribution pension schemes in 2020 and 2021.

### 10 Tax expense

|  | 2021       | 2020       |
|--|------------|------------|
|  | \$'000     | \$'000     |
| Current tax (credit)/expense:                  |            |            |
| Current period                                 | 495        | 164        |
| Adjustments for prior period                   | (78)       | 307        |
| Total current tax (credit)/expense             | <u>416</u> | <u>471</u> |
| Deferred tax (credit)/expense                  | -          | -          |
| Total tax (credit)/expense in income statement | <u>416</u> | <u>471</u> |

The relationship between the expected tax expense based on the UK effective tax rate of the Company at 19% (2020: 19%), and the tax expense recognised in the income statement can be reconciled as follows:

|   | 2021             | 2020            |
|---|------------------|-----------------|
|   | \$'000           | \$'000          |
| Loss for the year before taxation                     | <u>(144,133)</u> | <u>(29,280)</u> |
| Tax rate  | <u>19%</u>       | <u>19%</u>      |
| Tax using the UK corporation tax rate of 19 %         | (27,385)         | (5,563)         |
| Non-deductible expenses                               | 20,934           | 344             |
| Research and development tax credit                   | 259              | (3)             |
| Current year deferred tax assets not recognised       | 5,918            | 5,241           |
| Group Relief Surrender                                | 569              | -               |
| Foreign tax deducted at source being expensed         | 191              | 133             |
| Fixed Asset Differences - Ineligible depreciation     | 8                | 13              |
| Under / (over) provided in prior years                | <u>(78)</u>      | <u>307</u>      |
| Total tax on loss on ordinary activities for the year | <u>416</u>       | <u>471</u>      |

At the end of years presented, the Company has significant tax losses in the UK available for offset against future taxable profits. The Company has not recognised a deferred tax asset of approximately \$78.3 million (30 June 2020: \$46.8 million) as there is sufficient uncertainty that the losses will be utilised in the foreseeable future.

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

## Notes to the financial statements (continued)

## 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 Company 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.

|                       | 2021               |   | 2020            |                 |
|-----------------------|--------------------|---|-----------------|-----------------|
|                       | Software<br>\$'000 | Software under<br>development<br>\$'000 | Total<br>\$'000 | Total<br>\$'000 |
| <b>Cost:</b>          |                    |   |                 |                 |
| At 1st July           | 8,051              | 1,468                                   | 9,519           | 6,731           |
| Additions             | -                  | 3,767                                   | 3,767           | 2,788           |
| Reclassification      | 5,235              | (5,235)                                 | 5,448           | (5,448)         |
| <b>At 30 June</b>     | <b>13,286</b>      | <b>-</b>                                | <b>13,286</b>   | <b>9,519</b>    |
| <b>Amortisation:</b>  |                    |   |                 |                 |
| At 1st July           | (3,470)            | -                                       | (3,470)         | (2,041)         |
| Charge for the period | (2,729)            | -                                       | (2,729)         | (1,429)         |
| <b>At 30 June</b>     | <b>(6,199)</b>     | <b>-</b>                                | <b>(6,199)</b>  | <b>(3,470)</b>  |
| <b>Net book value</b> | <b>7,087</b>       | <b>-</b>                                | <b>7,087</b>    | <b>6,049</b>    |

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

## 12 Property, plant and equipment

|                       | 2021                |                      | 2020            |                 |
|-----------------------|---------------------|----------------------|-----------------|-----------------|
|                       | Equipment<br>\$'000 | Appliances<br>\$'000 | Total<br>\$'000 | Total<br>\$'000 |
| <b>Cost:</b>          |                     |                      |                 |                 |
| At 1 July             | 6,662               | 76,119               | 82,781          | 61,294          |
| Additions             | 3,248               | 20,193               | 23,441          | 22,517          |
| Disposals             | (151)               | (3,706)              | (3,857)         | (1,030)         |
| <b>At 30 June</b>     | <b>9,759</b>        | <b>92,606</b>        | <b>102,365</b>  | <b>82,781</b>   |
| <b>Depreciation:</b>  |                     |                      |                 |                 |
| At 1 July             | 3,035               | 31,354               | 34,389          | 19,927          |
| Charge for the year   | 2,056               | 15,923               | 17,979          | 15,116          |
| Impairment loss       | -                   | (90)                 | (90)            | -               |
| Disposals             | (104)               | (2,197)              | (2,301)         | (654)           |
| <b>At 30 June</b>     | <b>4,987</b>        | <b>45,170</b>        | <b>50,157</b>   | <b>34,389</b>   |
| <b>Net book value</b> |                     |                      |                 |                 |
| At 1 July             | 3,627               | 44,765               | 48,392          | 41,368          |
| <b>At 30 June</b>     | <b>4,772</b>        | <b>47,436</b>        | <b>52,208</b>   | <b>48,392</b>   |

Depreciation of appliances is apportioned to cost of sales based on the proportion of the Company'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 Company'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.

## Notes to the financial statements (continued)

|                                     | 2021<br>\$'000 | 2020<br>\$'000 |
|-------------------------------------|----------------|----------------|
| Depreciation in Cost of sales       | 11,669         | 9,392          |
| Depreciation in sales and marketing | 4,254          | 4,143          |
| <b>Total appliance depreciation</b> | <b>15,923</b>  | <b>13,535</b>  |

## 13 Leases

Right-of-use asset capitalised on the statement of financial position are as below:

|                            | 2021<br>\$'000 | 2020<br>\$'000 |
|----------------------------|----------------|----------------|
| <b>Cost:</b>               |                |                |
| As at 1 July               | 17,100         | 16,639         |
| Additions                  | 2,076          | 461            |
| <b>As at 30 June</b>       | <b>19,176</b>  | <b>17,100</b>  |
| <b>Depreciation:</b>       |                |                |
| As at 1 July               | 4,992          | 2,976          |
| Charge for the period      | 2,178          | 2,016          |
| <b>As at 30 June</b>       | <b>7,170</b>   | <b>4,992</b>   |
| <b>Net book at 30 June</b> | <b>12,006</b>  | <b>12,108</b>  |

Lease liabilities are presented in the statement of financial position as follows:

|                      | 2021<br>\$'000 | 2020<br>\$'000 |
|----------------------|----------------|----------------|
| Current              | 2,423          | 2,020          |
| Non-Current          | 13,756         | 12,644         |
| <b>As at 30 June</b> | <b>16,179</b>  | <b>14,664</b>  |

The Company 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 Company 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 Company must ensure 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:

| Year         | 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 |
|--------------|--------------------|-----------------------------------|-------------------------|------------------------------|--------------------------------------|---------------------------------------|
| 30 June 2020 | Office space       | 9                                 | 1-8 Years               | 4 Years                      | 2                                    | 3                                     |
| 30 June 2021 | Office space       | 11                                | 1-8 years               | 5 years                      | 4                                    | 4                                     |



## Notes to the financial statements (continued)

The lease liabilities are secured by the related underlying assets. The table below shows lease maturity analysis:

|                                | 2021<br>\$'000 | 2020<br>\$'000 |
|--------------------------------|----------------|----------------|
| Lease liabilities, short term  | 2,411          | 2,298          |
| 1 – 2 years                    | 2,426          | 2,412          |
| 2 – 5 years                    | 7,492          | 7,255          |
| Over 5 years                   | 3,850          | 2,699          |
| <b>Total lease liabilities</b> | <b>16,179</b>  | <b>14,664</b>  |

### Amounts recognised in the Statement of comprehensive income

The Company 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 operating leases are as follows:

|                     | 2021<br>\$'000 | 2020<br>\$'000 |
|---------------------|----------------|----------------|
| <b>Office space</b> |                |                |
| Within one year     | 2,373          | 4,233          |

The Company also holds leases for office equipment such as photocopiers for which it has taken the small value exemption.

## 14 Capitalised commission

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

|                             | 2021<br>\$'000 | 2020<br>\$'000 |
|-----------------------------|----------------|----------------|
| <b>By Geographic market</b> |                |                |
| 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          |
|                             | <b>39,014</b>  | <b>25,549</b>  |
| Current                     | 16,303         | 10,890         |
| Non-current                 | 22,711         | 14,659         |
|                             | <b>39,014</b>  | <b>25,549</b>  |
| 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.

## 15 Trade and other receivables

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| Trade receivables                             | 58,482         | 47,721         |
| Deposits                                      | 382            | 202            |
| Amounts due from company under common control | 761            | -              |
| Prepayments and accrued income                | 15,979         | 11,180         |
| Other receivables                             | 527            | -              |
| <b>As at 30 June</b>                          | <b>76,131</b>  | <b>59,103</b>  |

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balance.

## Notes to the financial statements (continued)

### 16 Investments in subsidiary undertaking

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| As at 1 July   | 7,476          | 3,775          |
| Capital contribution related to share based payment      | 3,301          | 3,701          |
| Investments in subsidiaries incorporated during the year | 30             | -              |
| <b>Carrying value as 30 June</b>                         | <b>10,807</b>  | <b>7,476</b>   |

The capital contribution relating to share-based payments relates to share-based payments issued to employees of subsidiary undertakings in the Group before the reorganisation, i.e. before all options and share based payments awards were transferred to the new parent entity Darktrace PLC.

### 17 Convertible loan notes ("CLNs")

On 1 July 2020, Darktrace Holdings Limited issued CLNs to investors for a cash consideration of \$163m (before transaction costs of c. \$1m).

The CLNs was recorded in the statement of financial position at inception as follows:

|                              | 1 July<br>2020<br>\$'000 |
|------------------------------|--------------------------|
| Value of derivative          | 79,535                   |
| Host loan                    | 83,286                   |
| <b>Total loan note value</b> | <b>162,821</b>           |

Interest expense has been calculated by applying the effective interest rate of 41.6% to the liability component.

According to the CLN 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 CLN including accrued interest of 9% and a discount of 35% implied by the terms.

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 20).

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<br>\$'000 | Embedded<br>derivative<br>\$'000 | CLN<br>\$'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 CLN at conversion (£2.50 i.e. \$3.5 per share per 77,475,499 shares) |                     |                                  | 270,062       |

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 financial statements (continued)

### 18 Trade and other payables

Amounts falling due within one year

|   | 2021<br>\$'000 | 2020<br>\$'000 |
|---|----------------|----------------|
| Trade payables                          | 11,586         | 12,468         |
| Social security and other taxes         | 2,596          | 9,925          |
| Amounts owed to subsidiary undertakings | 16,640         | 3,530          |
| Accruals                                | 32,931         | 23,429         |
| <b>As at 30 June</b>                    | <b>63,753</b>  | <b>49,352</b>  |

### 19 Provisions

|  | 2021<br>\$'000 | 2020<br>\$'000 |
|--|----------------|----------------|
| Opening provision  | -              | -              |
| Accrual for the year   | 17,628         | -              |
| Utilisation  | -              | -              |
| <b>Closing provision</b>   | <b>17,628</b>  | <b>-</b>       |
| Current  | 17,377         | -              |
| Non-current  | 251            | -              |
| <b>Total provision for share-option related employer tax charges</b> | <b>17,628</b>  | <b>-</b>       |

The Company 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 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 Company 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.

Refer to note 3 for details around the sensitivity of the balance to the share price value estimated.

### 20 Share capital and share premium

| Share capital                                    | No. of<br>ordinary<br>shares of<br>£0.01 each | No. of<br>preference<br>shares of<br>£0.01 each | No. of<br>deferred<br>shares of<br>£0.01<br>each | Growth<br>shares | Total no. of<br>shares | Share<br>capital<br>\$'000 | Share<br>premium<br>\$'000 |
|--|---|---|--|------------------|------------------------|----------------------------|----------------------------|
| At 1 July 2019                                   | 1,761,399                                     | 364,264   | 118,888  | -                | 2,244,551              | 27                         | 170,264                    |
| Shares issued in the year                        | 220   | -   | -  | 32,625           | 32,845                 | 2                          | 138                        |
| Transfers  | -   | -   | 400  | (400)            | -                      | -                          | -                          |
| <b>At 30 June 2020</b>                           | <b>1,761,619</b>                              | <b>364,264</b>                                  | <b>119,288</b>                                   | <b>32,225</b>    | <b>2,277,396</b>       | <b>29</b>                  | <b>170,402</b>             |
| At 1 July 2020                                   | 1,761,619                                     | 364,264   | 119,288  | 32,225           | 2,277,396              | 29                         | 170,402                    |
| Share cancellation                               | (177,343)                                     | -   | -  | -                | (177,343)              | (2)                        | (127,061)                  |
| Shares issued in the period                      | 275   | -   | -  | -                | 275                    | -                          | 212                        |
| Growth shares issued in the period               | -   | -   | -  | 38,325           | 38,325                 | -                          | -                          |
| Growth shares converted into preference shares   | -   | -   | 775  | (775)            | -                      | -                          | -                          |
| Conversion of preference shares into ordinary    | 364,264                                       | (364,264)                                       | -  | -                | -                      | 5                          | -                          |
| Share subdivision                                | 485,254,935                                   | -   | -  | -                | 485,254,935            | -                          | -                          |
| Conversion of growth shares into ordinary shares | 3,101,843                                     | -   | -  | (69,775)         | 3,032,068              | 43                         | -                          |
| Convertible loan conversion                      | 77,475,499                                    | -   | -  | -                | 77,475,499             | 4                          | 270,058                    |
| <b>At 30 June 2021</b>                           | <b>567,781,092</b>                            | <b>-</b>  | <b>120,063</b>                                   | <b>-</b>         | <b>567,901,155</b>     | <b>79</b>                  | <b>313,611</b>             |

## Notes to the financial statements (continued)

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 17) 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.

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).

## **21 Share based payments**

### **Option scheme issued 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.

## Notes to the financial statements (continued)

### **Group reorganisation**

#### 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 PLC. The ordinary shares in 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 (and equivalent in other jurisdictions) was borne by the Company.
- Darktrace plc shares were issued to the Equiniti Trust (Jersey) Limited to cover all outstanding 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 growth shares.

### **Awards issued at IPO**

#### AIP 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.

#### AIP 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.

|  | <b>2021</b>   | <b>2020</b>   |
|--|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> |
| Sales and marketing                      | 3,194         | 1,927         |
| Research and development                 | 2,180         | 2,096         |
| Other administrative                     | 4,530         | 2,529         |
| <b>Total share-based payment expense</b> | <b>9,904</b>  | <b>6,552</b>  |

## Notes to the financial statements (continued)

### Option scheme issued before IPO

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

|                                   | WAEP<br>\$ | 2021<br>Options<br>Number | WAEP<br>\$ | 2020<br>Options<br>Number |
|-----------------------------------|------------|---------------------------|------------|---------------------------|
| Outstanding at 1 July             | -          | 33,846,684                | 0.85       | 31,407,117                |
| Granted                           | 5.12       | 5,689,666                 | 2.87       | 1,055,013                 |
| Lapsed                            | -          | (20,007)                  | -          | (137,500)                 |
| Exercised                         | 0.27       | (4,847,489)               | 1.82       | (55,000)                  |
| Converted growth shares           | -          | (3,101,843)               | -          | -                         |
| Outstanding at year or period end | 1.69       | 31,567,011                | 0.85       | 33,846,684                |
| Exercisable at year end           | 1.09       | 26,960,761                | 0.55       | 28,276,042                |

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

|                          | WACL | 2021<br>Options number | WACL | 2020<br>Options number |
|--------------------------|------|------------------------|------|------------------------|
| Range of exercise prices |      |                        |      |                        |
| \$0.00 to \$0.23         | 1.21 | 10,696,054             | 2.14 | 15,875,000             |
| \$0.36 to \$0.67         | 3.11 | 6,080,413              | 4.09 | 6,875,000              |
| \$1.21 to \$1.45         | 4.51 | 2,008,532              | 5.50 | 2,375,000              |
| \$1.85 to \$2.21         | 4.96 | 1,264,023              | 5.95 | 1,518,750              |
| \$2.47 to \$2.87         | 4.05 | 6,911,739              | 5.12 | 7,202,934              |
| \$5.20                   | 3.72 | 4,606,250              | -    | -                      |
|                          | 2.92 | 31,567,011             | 3.57 | 33,846,684             |

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.

### Awards issued at IPO

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 following table presents details of the awards provided, the exercise price and the expected life.

|                        | Tranche 1<br>Performance<br>awards | Tranche 2<br>Performance<br>awards | Executive<br>Awards | Top Up Awards | Time based<br>awards |
|------------------------|------------------------------------|------------------------------------|---------------------|---------------|----------------------|
| Grant date             | 30-Apr-21                          | 30-Apr-21                          | 30-Apr-21           | 30-Apr-21     | 30-Apr-21            |
| Exercise price         | -                                  | -                                  | -                   | -             | -                    |
| Expected life in years | 2.17                               | 3.17                               | 3.17                | 1             | N/A                  |
| Number of awards       | 998,790                            | 998,790                            | 775,000             | 14,527,014    | 98,780               |

## 22 Capital commitments

The Company had no capital commitments at 30 June 2021 or 30 June 2020.

## 23 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 Company has not recognised a deferred tax asset of approximately \$78.3m (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% expected to be applicable by the time the loss will be unwound.

## Notes to the financial statements (continued)

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:

|                                  | 2021<br>\$'000 | 2020<br>\$'000 |
|----------------------------------|----------------|----------------|
| Fixed Asset timing differences   | 5,461          | 2,200          |
| Short term temporary differences | 6,119          | 300            |
| Losses                           | 34,128         | 26,900         |
| Share based payments             | 32,604         | 17,400         |
| <b>Total</b>                     | <b>76,402</b>  | <b>46,800</b>  |

### 24 Related parties

As a wholly owned subsidiary of Darktrace plc, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with wholly owned subsidiaries of Darktrace plc.

#### Other related party disclosures

Management has disclosed details of all transactions with ICP London Limited and its affiliated companies, Luminance Technologies Ltd and Neurence Limited, as companies under common directorship up to 4 May 2021.

|                                      | Transaction value |                | Balances outstanding |                |
|--------------------------------------|-------------------|----------------|----------------------|----------------|
|                                      | 2021<br>\$'000    | 2020<br>\$'000 | 2021<br>\$'000       | 2020<br>\$'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                 | -              | -                    | -              |
|                                      | <b>4,032</b>      | <b>3,131</b>   | <b>(102)</b>         | <b>-</b>       |

The group has earned the following revenues from investors and affiliated companies:

|                                  | Transaction value |                | Balances outstanding |                |
|----------------------------------|-------------------|----------------|----------------------|----------------|
|                                  | 2021<br>\$'000    | 2020<br>\$'000 | 2021<br>\$'000       | 2020<br>\$'000 |
| Revenues received from investors | 258               | 67             | -                    | -              |
|                                  | <b>258</b>        | <b>67</b>      | <b>-</b>             | <b>-</b>       |

No guarantees have been provided to or received from these parties. o balances were outstanding at 30 June 2021 and 2020.

#### 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 CLN including accrued interest of 9% and a discount of 35% implied by the terms.

## Notes to the financial statements (continued)

The tables below summarise the value of the CLN 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                  |
| <b>Nominal value of CLN (C) \$'000</b>                         | <b>175,541</b>                    |
| Total shares issued (D=C/B) – note 21                          | 77,475,499                        |
| <b>Total fair value of ordinary shares issued (DxA) \$'000</b> | <b>270,062</b>                    |

| CLN Holder                                      | %<br>Ownership | Shares<br>Issued  |
|---|----------------|-------------------|
| Summit DT CLN Holdings 4                        | 30.7%          | 23,791,561        |
| KKR Dark Aggregator L.P.                        | 55.3%          | 42,824,810        |
| Ten Eleven Growth Fund II, L.P.                 | 9.2%           | 7,137,468         |
| Hoxton Ventures Fund 1, Opportunities III, L.P. | 1.6%           | 1,226,165         |
| Talis Darktrace Holdings Limited                | 2.6%           | 2,035,959         |
| Balderton Capital SFI, S.L.P.                   | 0.6%           | 459,536           |
| <b>Total</b>                                    | <b>100%</b>    | <b>77,475,499</b> |

Refer to note 3 for significant judgement and estimate used for the recognition of the financial instrument at inception and at conversion.

### 25 Ultimate controlling party

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Darktrace PLC. Copies of the Darktrace PLC are publicly available.

### 26 Post balance sheet events

On 29 September 2021 Head of Terms were agreed for a new lease with a ten-year term and rental costs of approximately \$2.2 million per year.