DARKTRACE

Evolving threats call for evolved thinking

ANNUAL REPORT

2023

> The market opportunity ahead of us is enormous - we believe there are over 150,000 companies that could benefit from our AI - and we have the right team and skills in place to ensure we can go after the market opportunity that they represent.

Poppy Gustafsson OBE,
Chief Executive Officer, Darktrace

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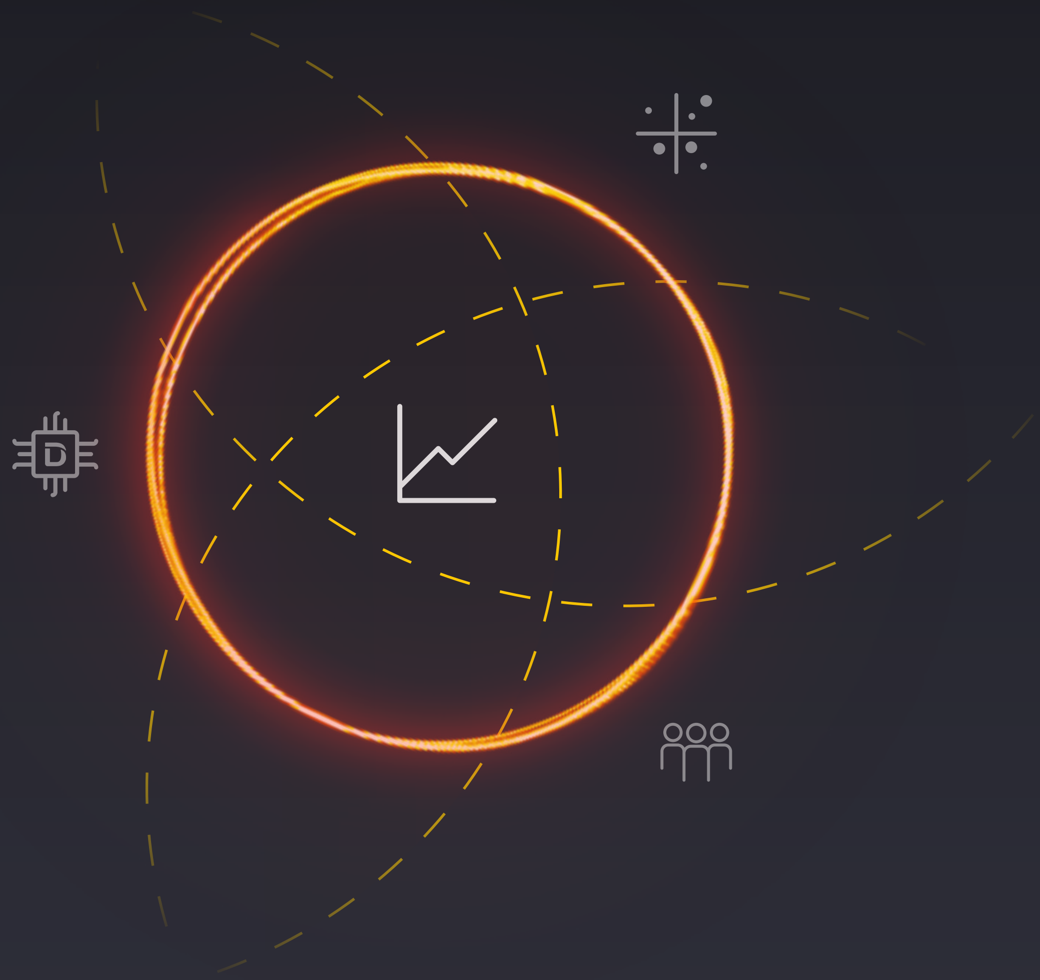
STRATEGIC REPORT

PART 1 - STRATEGIC REPORT INDEX

BUSINESS MODEL



Product

Create unique, efficiently developed cybersecurity products based on proprietary AI innovation

Positioning

Leverage differentiated technology to drive product adoption and sales growth, across existing customers and new prospects

People

Hire and retain top talent to drive innovation and business success

Performance

Drive growth, profitability and cash flow for re-investment in the business and returns to stakeholders

Product

Create unique, efficiently developed cybersecurity products based on proprietary AI innovation

Darktrace takes a fundamentally different technology approach – it brings self-learning AI to an organisation's unique data, rather than trying to apply AI trained on pre-existing, summarized data from multiple sources. By having the AI learn the business, not the attack or attacker, it can identify novel and insider threats that get past other traditional cyber defences.

Using a self-learning approach allows Darktrace's products to:

- Be developed efficiently and cost effectively, allowing faster roll-out of new products in response to a changing threat landscape and investment across a broader portfolio of potential new solutions;
- Learn autonomously and respond immediately, much faster than a human security team could; and
- Maintain themselves, eliminating the need for continual resource-heavy and time-intensive updating as new threats emerge.

This differentiated technology approach also means that Darktrace products provide significant value in the security stack for organisations of almost any size, industry, geography and digital complexity. The number and breadth of customers that now use Darktrace's products also allows Darktrace to better "learn how the software learns". While Darktrace does not use or share its customers' data, observing how the software evolves in response to what it encounters enables Darktrace to continuously improve its base models and make the software more effective across all environments.

Positioning

Leverage differentiated technology to drive product adoption and sales growth, across existing customers and new prospects

In a market dominated by products that use information about known threats, attacks and attackers to protect an external security perimeter, there is little to address the next logical question – what happens when something gets in? With its differentiated technology approach, and ability to look at data from any source, Darktrace products fill that gap in the cybersecurity market, but more importantly, a gap in most organisations' cybersecurity protection.

External security perimeters are usually protected by multiple products that each focus on one or more points of entry. But once a threat breaches that perimeter, or if it is from a malicious insider, where the threat came from is irrelevant; where it is going is what matters. Darktrace customers can purchase and deploy products to cover any or all aspects of their digital environments, protecting them as threats try to move from point of origin to point of attack.

By having no pre-conceived notions of the origin, entry point or shape of any threat, or how it is moving within that digital estate, Darktrace's AI is able to see and respond to anomalies that AI trained on large data sets cannot. Because Darktrace's AI takes an incremental approach – recalibrating its threat assessment quickly as an event evolves – and then quarantines just that threat, it allows all normal business activity to continue uninterrupted and gives security teams the time to investigate.

People

Hire and retain top talent to drive innovation and business success

Darktrace seeks out bright, motivated individuals with a passion for its mission and technology. It recruits across a broad range of disciplines, skill sets and experience levels and believes in bring together problem solvers who can approach challenges from a variety of different angles. By combining people with a variety of capabilities is essential for AI innovation, Darktrace takes this approach across its business, not just within its R&D centre. Fresh insights make for a better business everywhere.

Darktrace also believes that by working with people of diverse demographic and academic backgrounds, training, professional experiences and viewpoints, its employees learn more, broaden their capabilities and expand their career horizons. It is also committed to expanding the availability and diversity of technology and innovation-related talent in its markets, as well as creating desirable career paths for its current and future workforce.

Performance

Drive growth, profitability and cash flow for re-investment in the business and returns to stakeholders[1]

Product, Positioning and People all contribute to enabling continued, sustainable growth and strong business performance. Some of the key benefits to its strategy and operating model are:

- With its products applicable to a wide range of organisations, Darktrace estimates that its Total Addressable Market (TAM) encompasses over 150,000 potential customers globally[2], creating a long sales runway and the opportunity for deep product penetration;
- Products can be sold both directly to end-users and through channel partners, expanding the opportunity to penetrate the wide pool of prospects across its multiple geographic regions, industry verticals and sizes of organisation;
- Darktrace's AI gains a deeper understanding of an organisation the longer it is deployed. This results in customers purchasing products under multi-year contracts, providing Darktrace with a large amount of contracted future revenue, which creates high revenue visibility, supports attractive margins and enables the ability to invest for the longer term; and
- Combining innovative products with an efficient operating model drives cash generation, allowing Darktrace to reinvest into its Product, Positioning and People to create and sell new innovative products for further growth and profitability. This is a resilient business model that can withstand short term macro-economic pressures and other potential business interruptions while continuing to invest for future sustainable growth.

1. Stakeholders are described on page 50
2. For more details see the Market Overview on page 36

Darktrace Mission

"Free the world of cyber disruption"

Darktrace Values

/ Ambitious
Darktrace aims high for itself and for its customers, working with integrity to help change the world for the better.

/ Collaborative
Darktrace colleagues work best together, connecting, cooperating and celebrating shared success.

/ Curious
Darktrace is a born out of innovation, breaking moulds, solving problems and revolutionising cybersecurity.

/ Tenacious
Darktrace is gutsy, focussed and fierce in the face of adversity.

HIGHLIGHTS

Financial and operating highlights

$545.4 MILLION REVENUE

FY 2023 growth of 31.3% compared to 45.7% growth in FY 2022

25.5% ADJUSTED EBITDA MARGIN*

FY 2023 increase of 3.5ppt compared to increase of 10.3ppt in FY 2022

$628.4 MILLION ARR*

FY 2023 growth of 29.6% compared to growth of 42.3% in FY 2022

6.8% ONE-YEAR ARR GROSS CHURN*

FY 2023 increase of 0.2ppt compared to decrease of -0.8ppt in FY 2022

$143.6 MILLION NET ARR ADDED*

FY 2023 decrease of -0.4% compared to growth of 36.1% in FY 2022

104.7% NET ARR RETENTION RATE*

FY 2023 decrease of -0.6ppt compared to 2.3ppt increase in FY 2022

$1,258.4 MILLION RPO*

FY 2023 growth of 25.3% compared to 31.5% growth in FY 2022

Comparable IFRS measure is Future Contracted Revenue; at $1,266.4 million, FY 2023 growth of 22.1% compared to growth of 32.9% in FY 2022

$93.8 MILLION FREE CASH FLOW*

FY 2023 decrease of -5.8% compared to increase of 290.2% in FY 2022

Comparable IFRS measure is Cash inflow from operating activities; at $134.0 million,FY 2023 decrease of 4.4% compared to growth of 134.2% in FY 2022

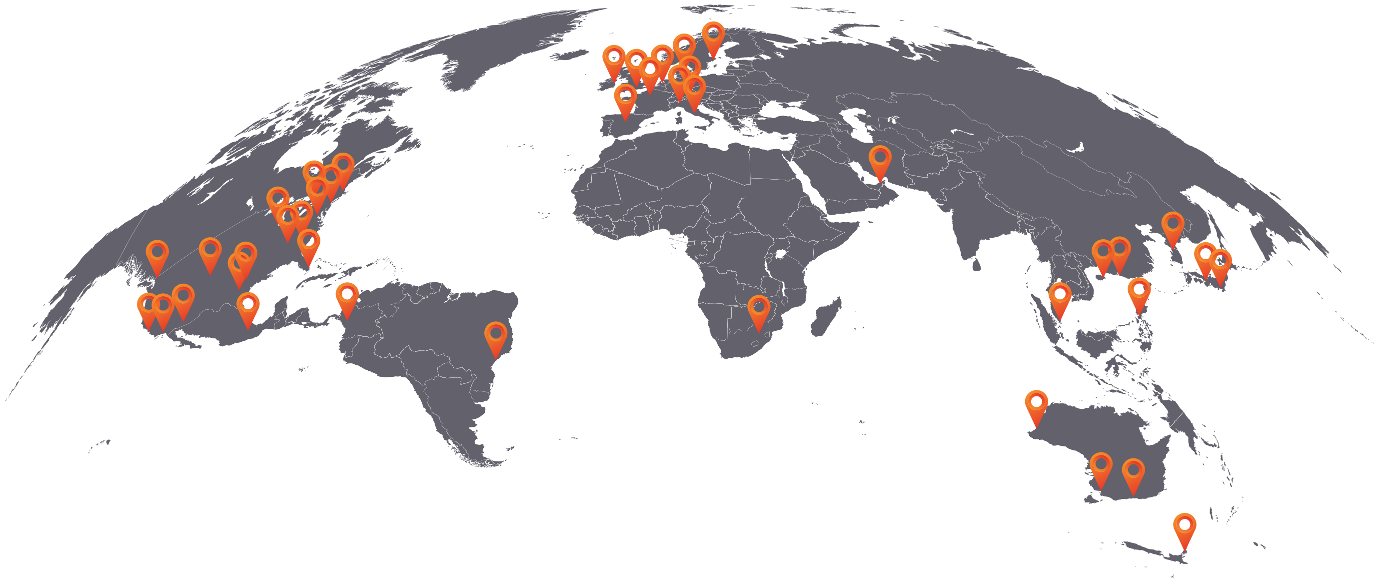
6.7% OPERATING PROFIT MARGIN

FY 2023 increase of 4.9ppt compared to increase of 14.0ppt in FY 2022

8,799 CUSTOMERS

FY 2023 increase of 18.3% compared to increase of 32.1% in FY 2022

*See: "KPIs" section for the meanings of non-IFRS measures and other key performance indicators. ARR Growth, Net ARR added, One year ARR Gross churn, Net ARR Retention rate are all prepared using the FY 2023 constant currency rates. For FY 2023, constant currency rates were 1.2146 and 1.0450 for the British Pound and Euro, respectively.



8,799
Customers

110
Countries

2,200+
Employees

DARKTRACE

CHAIR STATEMENT

FY 2023 has been a busy year for Darktrace. The Board has continued to support Management's investments in the business to enable the next stage of its growth, despite the more challenging macro-economic conditions and while embracing a great deal of external scrutiny. I am pleased with the efforts of the Management team to continue to drive the business forwards in line with Darktrace's purpose, and believe that the changes we have already made, and continue to make, put us in a stronger position to capitalise on the opportunities that lie ahead for our business.

Board governance

The Board has confirmed its commitment to Darktrace's purpose and this year has seen our continued efforts to promote both high standards and a high performance culture through the embedding of the Darktrace values.

During the past year, we strengthened the Board by bringing in additional expertise relevant to support the business's growth trajectory. We were delighted to appoint Elaine Bucknor as an independent Non-Executive Director. Elaine was previously the Group Chief Information Security Officer at Sky, one of Europe's leading broadcasting and media companies, and brings over 25 years of experience in the technology industry to the role. Her cyber security experience is hugely valuable to the Board and we are thrilled to have someone of her calibre join us.

We thank Vanessa Colomar, who stepped down as a Non-Executive Director in December 2022, for her service to the business and welcome Patrick Jacob who was nominated by the Invoke shareholders as her replacement. Patrick brings a long history of advising companies and their boards in numerous industry sectors.

We continue to search for additional independent Non-Executive Directors as we move towards a majority independent Board and are specifically looking at candidates in the US as well as in Europe. The expansion of the Board supplements the work we have done during the year to strengthen the Management team by bringing in further experience in running high-growth technology businesses.

Details of the Board Committees' activities during the year can be found in the Governance section of this report on page 88.

Appointment of Ernst & Young LLP

In February, following publication of a short seller report, we commissioned an independent third-party review by Ernst & Young LLP ('EY'). EY reported to the Chair of the Audit & Risk Committee, Paul Harrison, who led that process alongside CFO, Cathy Graham. The review concluded in July, and EY delivered its written report and presented its findings to the Audit & Risk Committee, all other Board members and Grant Thornton (Darktrace's external auditors). Further copies of EY's report were provided voluntarily to the Financial Conduct Authority and the Financial Reporting Council ("FRC") to ensure they had full visibility of the review.

As we stated in our announcement upon conclusion of the EY review, the Board was pleased with the cooperation and transparency EY received from Darktrace employees at all levels and this further reinforced the Board's confidence that Management has set a tone and culture consistent with good governance. Furthermore, neither Management, nor the Board, considered EY's report to have any impact on our previously filed public company financial statements or to change our belief that those financial statements fairly represented our financial position and results. In addition, Grant Thornton's audit opinions for prior years remained unchanged. We trust that all stakeholders were reassured by these outcomes.

FRC review

During the year the Corporate Reporting Review team ("CRR"), of the FRC, undertook a review of our Annual Report for the year ended 30 June 2022. A summary of the findings, response and related enhanced disclosures (as applicable) to the annual report, are described on page 99 . We await the publication of the FRC's updated summary of findings and expect to consent to its publication on 29 September 2023 as we believe this will be of benefit to investors and the wider public.

AQR review

During the year the Audit Quality Review ('AQR') team of the FRC, in accordance with its usual cycle of UK audit inspections, undertook an inspection of Grant Thornton's audit of Darktrace for the year ended 30 June 2022. The Board was pleased that there were no key findings arising from this inspection.

Developing our ESG Strategy

We have renewed our commitments to building a responsible and sustainable business and have conducted a materiality assessment to clearly define our ESG priorities in line with our business strategy, our purpose and stakeholder feedback. We are at the beginning of our ESG journey and we know that there is much work to do. Our materiality assessment has led us to commit to focusing the majority of our ESG investment in the Social aspects of our ESG strategy, as this is where we believe we can have the most profound impact.

We will advance a three-pronged approach where our key goals will be: firstly, Empowering Society by Freeing the World from Cyber Disruption; secondly, Responsible Advancement of Artificial Intelligence; and finally, Building the Next Generation of Diverse Technologists (both within Darktrace and beyond). We have also set out our priorities for the Governance and Environment aspects of our ESG strategy and more detail on all three pillars can be found on page 56. The road to achieving our ambitions will be lengthy, but we are committed to taking the critical steps required to get there. Nevertheless, we are aiming high for ourselves and our employees, working with integrity to make the world more cyber secure.

Annual General Meeting

Our Annual General Meeting will be held at 11.00am on 7th December 2023 at the offices of Latham & Watkins at 99 Bishopsgate, London, EC2M 3XF. The Chair of the Board and Chairs of each of the Board Committees, as well as other members of the Board and members of the Management team, will attend in person. As ever, this will be an opportunity for shareholders to meet the Directors and members of the Management team in person.

Outlook

Having navigated an uncertain economic period, and seeing signs of a recovery on the horizon, we are in a strong position to leverage the resources we have put in place and the investments we have made in the business as we look ahead to FY 2024. The executive team, with the support and oversight of the Board, is well-placed to take advantage of the business's unique position in the cyber AI market during this pivotal moment for the sector and beyond. Darktrace has long been a global leader in AI and has pioneered a set of products which will protect organisations from the complex and increasingly AI-powered threat landscape ahead.

The Strategic Report from pages 4 to 77 has been approved by the Board and is signed on their behalf.

Gordon Hurst
Chair
5th September 2023

CEO STATEMENT

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

Strong financial and operational performance

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

Watershed moment for Artificial Intelligence

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

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

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

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

Continuing to innovate

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

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

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

Delivering for our customers

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

Strengthening our Management Team

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

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

Looking ahead

The market opportunity ahead of us is enormous - we believe there are over 150,000 companies that could benefit from our AI - and we have the right team and skills in place to ensure we can go after the market opportunity that they represent. All the investments we have made in FY2023 have laid the foundations for our next phase of growth and our resilient business model means that we have the resources to support these ongoing investments as we continue to scale the business. We are prepared for this pivotal moment in the technology sector and believe that our AI-powered technology has never been as important to our customers as it is in this generative AI era. We will continue to enhance security teams as they face new and evolving threat landscapes, enabling them to focus on what they do best - delivering their own products and services to their customers.

Poppy Gustafsson

Poppy Gustafsson OBE
Chief Executive Officer

5th September 2023


DARKTRACE

STRATEGIC OBJECTIVES

Darktrace uses its strategic objectives as a basis for prioritising key initiatives that help fulfill its mission, drive sustainable growth, improve operating performance and create long-term value of for stakeholders.

Product

Deliver innovative products using Darktrace's proprietary self-learning AI, to better fight cyber disruption in today's rapidly evolving threat landscape while also looking at broader opportunities to use its technology for good.

Darktrace's roots lie deep in the fields of mathematics and AI. All Darktrace products are developed in its Cyber AI Research Centre™ in Cambridge, UK and The Hague, The Netherlands, staffed by more than 200 R&D employees, including experts with ~100 master's degrees and 20 doctorates in disciplines from astrophysics to linguistics to data science. As a result of that team's efforts, Darktrace has filed over 156 patent applications and has published research contributing insights and innovative thinking to the cybersecurity community.

The R&D team has worked hard to bring new products to market such as PREVENT in July 2022 and HEAL in July 2023. Innovation and research has also resulted in the launch of new risk and compliance models for DETECT and RESPOND to make it easier to put guardrails in place to monitor, and where necessary, respond to activity and connections to generative AI and large language model (LLM) tools.

Looking ahead, the team is working on how generative AI can power new capabilities and enhancements within Darktrace products. They will also be building on the work Darktrace has already done to secure the Cloud for its customers and looking to develop additional innovative Cloud capabilities.

Positioning

Darktrace technology addresses a widespread gap in cyber protection for organisations of all types and sizes, and should be an essential part of every security stack especially with generative AI and other fast-evolving technologies having made novel, evergreen cyber threats a common occurrence.

Generative AI is a watershed moment that will significantly impact the cybersecurity sector. Darktrace is uniquely prepared for this moment and believes it will accelerate demand for what only self-learning AI can do. Educating the marketplace on the differences between Darktrace's capabilities and those of traditional cybersecurity products remains a continuing effort.

Darktrace recently appointed Chris Kozup as its CMO, to provide experienced leadership to its marketing function. He will play a pivotal role in improving the market's understanding of Darktrace differentiators and developing a customer-centric narrative that demonstrates why Darktrace is an essential component of every security stack in the age of generative AI. This strengthened messaging is being supported by ongoing efforts from Darktrace's Subject Matter Experts, threat experts and Corporate Affairs staff. They continue to bring unique insights and perspectives to a broad set of stakeholders including media, policymakers, cybersecurity and AI influencers, current and prospective customers and partners, and investors, to make Darktrace a meaningful voice in the conversation on cyber AI.

People

Attract, invest in, and retain exceptional talent to drive achievement of Darktrace's mission, support its continue growth and sustainability and create a rewarding place to build a career.

Darktrace relies on the talents of highly skilled personnel, including senior management and its Go-to-Market and R&D teams. It continued to expand its global headcount in FY 2023, increasing its number of employees to around 2,200 at 30 June. It focussed, especially during the second half of the financial year, on hiring and developing experienced go-to-market professionals, largely based in the United States, to expand its global sales leadership. Over the coming year, Darktrace will expand that focus to augment its marketing leadership, as well as bringing key capabilities in-house through the continued hiring of experienced staff.

Darktrace looks to maintain a high performing culture through incentives, learning and development opportunities and career progression opportunities. It has specific work underway on sales enablement, including introducing MEDDPICC training to unify its entire sales and customer success teams under one sales methodology. In the coming financial year, Darktrace aims for every individual in these teams to gain this globally recognised certification. Darktrace will also continue to make significant investments in training and development across its entire employee base, in areas from specific job skills to leadership development. Darktrace aims to have at least 35% of its workforce participate in at least one programme during the course of the year ahead.

Darktrace regularly solicits feedback from its employees. A recent employee survey conducted by a third party was used to assess employee satisfaction, the results of which can be found in Section 172 - Stakeholder Engagement under 'People'. In the year ahead, Darktrace will evolve its employee feedback strategy and approach to obtain more granular, actionable insights for departments and managers.

Management also continues to explore new ways to expand the diversity of its talent base and improve diversity in its candidate pool. For the longer term, it also supports and participates in programmes designed to increase STEM and other skills in under-represented communities.

Performance

Manage Darktrace for long-term, sustainable growth, enabling reinvestment in People, Products and Positioning to drive meaningful value for all stakeholders.

Darktrace's resilient business model, underpinned by multi-year contracts and a flexible cost structure, allowed it to deliver high revenue and constant currency ARR growth, during the period despite the slowdown in new customer additions that resulted from a challenging macro-economic environment. It also improved its adjusted EBITDA margin as a highly variable cost model worked in its favour, and it continued to generate cash from operations.

The revenue and cash flow visibility that comes from having significant future contracted revenue allows Darktrace to continue investing for the longer term, even as the current period of economic downturn continues. Certain areas of investment, including in continuing its product innovation, always remain an area upon which Darktrace is focussed. In FY 2023, Management weighted more of its remaining investment towards the go-to-market organisation, with additional investment being added for the marketing organisation in FY 2024. It also intends to ramp up its investment in talent development in FY 2024, especially across skills and leadership training.

Management is committed to operating Darktrace for future growth without creating undue operating risk. Its business model allows it to absorb short-term financial impacts and uncertainties without having to cut back the investments essential for its future. This allows Darktrace to continue building to capture the extensive market opportunities for its products and services, which it expects to drive strong, sustainable operating and financial performance over the longer term and create meaningful value for stakeholders.

KEY PERFORMANCE INDICATORS (KPIs)

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

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

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

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

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

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

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

29.6%
ARR Increase
over the prior year

Annualised Recurring Revenue (ARR)

$'000	30 June 2023	30 June 2022
Annualised Recurring Revenue	628,444	484,880
Year-over-year increase (%)	29.6%	42.3%

Definition and relevance

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

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

Performance

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

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

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

$143.6 million
Net ARR Added

Net ARR added

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

Definition and relevance

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

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

Performance

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

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

6.8%
ARR Gross Churn Rate

One-year gross ARR churn rate

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

Definition and relevance

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

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

Performance

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

104.7%
Net ARR retention rate

Net ARR retention rate

%	30 June 2023	30 June 2022
Net ARR retention rate	104.7%	105.3%

Definition and relevance

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

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

Performance

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

25.5%
Adjusted EBITDA margin

Adjusted EBITDA and margin

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

Definition and relevance

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

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

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

Performance

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

Reconciling Operating profit (EBIT) to Adjusted EBITDA for FY 2023, Darktrace added back $56.7 million in net non-cash depreciation and amortisation charges, an increase of $15.1 million in the period. In its calculation of Adjusted EBITDA Darktrace does not add back to operating profit the $16.7 million of appliance depreciation included in Cost of sales which relates to appliances used to deploy software at customer sites. For FY 2023, there was a $2.1 million year-over-year increase in depreciation of appliances in Cost of sales, reflecting new, on-premise customer deployments. Appliance depreciation attributed to Cost of sales grew more slowly than might first be expected considering Darktrace's revenue growth as more customers choose to have products deployed virtually, and as Darktrace sells more products that are only deployed virtually.

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

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

Reconciliation of Net Profit to Adjusted EBITDA

$'000	FY 2023	FY 2022	% Change
Revenue	**545,430**	**415,482**	**31.3%**
Net profit	**58,958**	**1,457**	**3946.5%**
Taxation	(17,923)	3,856	n/a
Finance income	(8,016)	(518)	1447.5%
Finance cost	3,493	2,807	24.4%
Operating profit (EBIT)	**36,512**	**7,602**	**380.3%**
Operating profit margin (%)	**6.7%**	**1.8%**	n/a
Depreciation & amortisation	73,378	56,185	30.6%
EBITDA	**109,890**	**63,787**	**72.3%**
Appliance depreciation in Cost of sales	(16,721)	(14,589)	14.6%
Impairment of right-of-use asset	1,781	-	n/a
Share-based payment (SBP) charges	39,989	44,018	-9.2%
SBP related employer tax charges	4,224	(1,804)	n/a
Adjusted EBITDA	**139,163**	**91,412**	**52.2%**
Adjusted EBITDA margin (%)	**25.5%**	**22.0%**	**n/a**

Adjusted EBITDA reconciliation by function

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

15.1%
Adjusted EBIT margin

Adjusted EBIT and margin

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

Definition and relevance

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

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

Performance

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

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

Reconciliation of Operating profit (EBIT) to Adjusted EBIT

$'000	30 June 2023	30 June 2022	% change
Operating profit (EBIT)	**36,512**	**7,602**	**380.3%**
Impairment of right-of-use asset	1,781	-	n/a
Share-based payment (SBP) charges	39,989	44,018	-9.2%
SBP related employer tax charges	4,224	(1,804)	n/a
Adjusted EBIT	**82,506**	**49,816**	**65.6%**
Adjusted EBIT margin (%)	**15.1%**	**12.0%**	**n/a**

8,799

Number of Customers

Number of customers

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

Definition and relevance

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

Performance

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

$71,422

Average contract ARR

Average contract ARR

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

Definition and relevance

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

Performance

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

Customer distribution by ARR

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

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

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

25.3%
RPO Growth
over the prior year

Remaining Performance Obligation (RPO)

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

Definition and relevance

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

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

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

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

Performance

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

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

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

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

$93.8 million Free Cash Flow

Free Cash Flow (FCF)

$'000	FY 2023	FY 2022	% Change
FCF	93,753	99,517	-5.8%

Definition and relevance

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

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

Performance

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

Reconciliation of Adjusted EBITDA to FCF

$'000	FY 2023	FY 2022	% Change
Adjusted EBITDA	**139,163**	**91,412**	**52.2%**
Appliance depreciation in Cost of sales	16,721	14,589	14.6%
SBP-related employer tax charges	(13,920)	1,526	n/a
Loss on disposal and impairment	2,961	3,117	-5.0%
Other non-cash movements	(952)	9,612	n/a
Working capital movements	(6,384)	26,498	n/a
Tax related payments	(3,542)	(6,510)	-45.6%
Net cash inflow from operating activities	**134,047**	**140,244**	**-4.4%**
Capitalised research and development	(1,813)	(1,292)	40.3%
Property, plant and equipment purchased	(24,306)	(31,863)	-23.7%
Lease costs capitalised	(14,175)	(7,572)	87.2%
Free cash flow (FCF)	**93,753**	**99,517**	**-5.8%**
FCF conversion (as % of Adjusted EBITDA)	**67.4%**	**108.9%**	**n/a**

CFO STATEMENT

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

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

Income Statement Analysis

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

Revenue

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

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

Cost of sales (COS)

$'000	FY 2023	FY 2022	% Change
Employment and other related costs	(18,593)	(13,490)	37.8%
Hosting costs	(16,887)	(10,653)	58.5%
Appliance depreciation	(16,721)	(14,589)	14.6%
Shipping & other direct costs	(3,441)	(6,116)	-43.7%
Total COS	**(55,642)**	**(44,848)**	**24.1%**

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

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

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

Sales and marketing (S&M) costs

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

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

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

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

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

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

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

SBP related tax costs of $1.0 million compared to an income of $4.7 million in FY 2022, when a reduction in the year-end share price reversed a portion of the related provision for taxes to be paid. The FY 2023 charge was driven by the timing of awards exercised and vested during the year, as well as movements in the share price. See note 10 to the financial statements for more details.

Research and development (R&D) costs

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

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

Share-based payment related tax charges have decreased by $3.6 million to $1.5 million. The current year charge was driven by the timing of awards exercised and vested during the year, as well as movements in the share price. See note 10 to the financial statements for more details.

General and administrative (G&A) costs

$'000	FY 2023	FY 2022	% Change
Employment and other related costs	(59,807)	(44,224)	35.2%
Other operating costs	(25,444)	(12,365)	105.8%
Facilities costs	(4,775)	(3,812)	25.3%
Travel and entertainment	(3,412)	(2,992)	14.0%
Depreciation and amortisation	(4,305)	(2,553)	68.6%
Share-based payment (SBP) charges	(16,753)	(17,412)	-3.8%
SBP related employer tax charges	(1,722)	2,192	n/a
Total G&A costs	**(116,218)**	**(81,167)**	**43.2%**

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

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

The increase in other operating costs of $13.1 million or 105.8% was largely driven by a $10.6 million year-over-year increase in professional, legal, and consulting fees, to $21.0 million. This increase was the result of consulting fees relating to the implementation of a new ERP system, a financial controls review, and the expansion of Darktrace's recently established Federal entity, as well as project specific legal, consultancy and accounting costs.

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

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

Foreign exchange differences

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

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

Financial Position Analysis

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

Intangible assets

Darktrace capitalised $2.5 million of development costs in the period in line with the amount capitalised in the prior year. Capitalised development costs are amortised on a straight-line basis over a three-year period, and acquired third-party software costs are amortised over a period of five years. This resulted in an amortisation charge in the period of $5.6 million, also in line with amortisation in the prior period.

At 30 June 2023, the Group had $12.6 million of intangible assets, a decrease of $3.0 million from $15.6 million at 30 June 2022.

Right-of-use assets

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

Capitalised commission

Most sales commissions are paid in two instalments, the first being when the contract is signed and the second upon the earlier of payment for the entire contract value or one year from the date of sale. For the first instalment, the Group capitalises sales commissions and the associated payroll taxes, as required under IFRS 15, and amortises them over the related contract term. As there are continued employment and customer service obligations required for the employee to receive the second instalment, these commissions are not eligible for capitalisation under IFRS 15 and are expensed over the one-year term until they are paid.

Capitalised commissions on the Group's Statement of Financial Position increased by 34.1% to $76.7 million at 30 June 2023, from $57.2 million at 30 June 2022, as a result of continuing sales.

Deferred tax asset

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Deferred revenue

Total deferred revenue increased by 23.9% to $312.1 million at 30 June 2023, from $251.9 million at 30 June 2022. This year-over-year growth was a result of the increases in invoicing driven by growth in contracted revenues. Darktrace has typically raised between 41 to 45% of its total invoicing in the first half of the financial year (44.1% in FY 2023) with more deferred revenue expansion being in second half. It is therefore most representative to look at year-over-year growth for underlying trends in deferred revenue rather than to compare different periods.

As Darktrace rarely invoices its multi-year contracts more than a year in advance, growth in deferred revenue is typically driven by movements in current, rather than non-current, deferred revenue. Occasionally, customers will pay full contract values in advance but because this has become increasingly infrequent and represents an increasingly small proportion of total invoicing, growth in non-current deferred revenue balances will lag those of current deferred revenue.

Equity

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

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

Cash Flows Analysis

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

Cash inflow from operating activities before working capital

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

Net cash inflow from operating activities

The Group had a net cash inflow from operating activities of $134.0 million in the year, a 4.4% decrease from $140.2 million in FY 2022.

This $6.2 million reduction in the net cash inflows from operating activities was primarily due to a $32.9 million decrease in cash from working capital, this was offset by an $22.7 million increase in non-cash movements. More details are provided in the financial statements on page 155.

Cash outflow from investing activities

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

Cash outflow from financing activities

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

Catherine Graham

Catherine Graham
Chief Financial Officer
5th September 2023

MARKET OVERVIEW

At the intersection of AI and cybersecurity

As always, the technological landscape in which Darktrace operates continues to evolve. Since its founding, Darktrace has had the mission of freeing the world from cyber disruption. While it could be said that this mission is shared by many, the approach Darktrace has taken is unique; based on the use of Artificial Intelligence ("AI") as a tool to mitigate risk and improve cyber resilience.

Many forms of AI have long been deeply integrated into daily life, embedded everywhere from tools used by individuals to power search engine results and language translations, to business applications that streamline inventory management and manufacturing processes. While this technology has had useful applications for decades, FY 2023 marked a step function increase in the mainstream awareness and use of AI.

This followed the release of Open AI's ChatGPT, and similar tools like Google Bard, which are AI and natural language processing chatbots that use large language models ("LLMs") to provide human-like responses to prompts. These generative AI technologies are tools that can be used to enhance productivity, but applied in the wrong way, could also be used for malicious or nefarious intent.

As such, the relevance of AI within the cybersecurity domain has increased significantly. This is due to the fact that generative AI can be used in various ways to launch or propagate attacks on businesses from external threat actors. However, many organisations are equally concerned with the less malicious, but potentially equally damaging, effects of unaware employees seeking to use generative AI-based tools for the improvement of everyday tasks. By uploading sensitive company data to these tools, employees can inadvertently expose the business to threats or provide sensitive data to those who may seek to misuse it.

For example, Darktrace data indicates 74% of its active customer deployments have employees using generative AI tools. This requires organisations to address the new reality that employees can now put sensitive commercial data into a tool for the purpose of having that tool write in-context responses for them, but by doing so, expose that sensitive data to public databases. At one customer, Darktrace detected and prevented an upload of over 1GB of sensitive commercial data to a generative AI tool. With this type of protection in place, Darktrace customers can allow their employees to access the benefits generative AI tools provide, while remaining protected against the potential security, IP, confidentiality and privacy risks that could follow.

Many significant impacts from the use of generative AI technology are being seen in cybersecurity. The United Kingdom National Cyber security Centre has warned that cyber criminals are using LLMs to help write convincing phishing emails in multiple languages. Darktrace has already seen examples of this this within its customer deployments. In March 2023, just after ChatGPT became mainstream, Darktrace reported an increase in social engineering email attacks, using increasing linguistic sophistication to make it harder for users – and security tools trained on known data for signature-based detection – to differentiate between a legitimate message and malicious phishing.

It's against this industry backdrop that Darktrace is set up for the next phase of growth. As the leader in the application of AI to solve cybersecurity challenges, Darktrace is uniquely positioned to help educate on and resolve the challenges associated with AI and novel threats. While the threat landscape continues to be diverse, with AI-based threats representing only a fraction of the entire threat landscape, organisations require an approach that is no longer reliant on known data or signature-based detection. If one thing has changed, it's the fact that AI can now propagate threats in machine-time versus human-time. As such, only those offerings rooted in the ability to use AI for the detection of novel threats can answer the customer need. Darktrace technology is specifically designed to detect and respond to novel, never before seen threats at machine speed – exactly the scenario that is now emerging.

Cybersecurity Policy and Spending

Globally, governments are looking to meet the challenges posed by the increasing threats of cyber disruption, particularly when attacks have the potential to cripple critical infrastructure or other functions of society.

In November 2022, the UK government announced plans to strengthen Network and Information Systems ("NIS") Regulations[1] to help protect essential digital services from what the Department for Digital, Culture, Media & Sport ("DCMS") described as "increasingly sophisticated and frequent cyber attacks both now and in the future".

Updates to the NIS regulations apply to critical service providers such as energy providers and the National Health Service ("NHS"), along with key digital services including providers of cloud software services and online search engines. The changes form part of the UK government's £2.6 billion National Cyber Strategy, which aims to take a stronger approach in getting at-risk businesses to improve their cyber resilience.

In March 2023, the United States government also introduced a new cybersecurity strategy, citing how "a rapidly evolving world demands a more intentional, more coordinated, and better-resourced approach to cyber defense"[2]. One of the key pillars of the Biden-Harris administration's National Cybersecurity Strategy is ensuring the defence of critical infrastructure by strengthening minimum cybersecurity requirements in sectors critical to national security. The Strategy also places a heavy emphasis on investment in secure and resilient next-generation technologies and infrastructure, along with cybersecurity research and development ("R&D") to ensure the resilience of systems in the future and has established public-private partnerships to aid in this effort.

Over the past year, the European Union has also introduced legislation strengthening cybersecurity rules affecting hardware and software products. The European Cyber Resilience Act[3] ("CRA") introduced mandatory cybersecurity requirements for manufacturers and retailers of internet-enabled products, ranging from Internet of Things ("IOT") devices to software.

These policy developments across Darktrace's key customer markets, have increased the urgency for organisations of all types and sizes to invest in robust cyber tools and defend against an increasingly sophisticated and rapidly evolving threat landscape. This is the landscape Darktrace has been designing and delivering protections for since its inception, and its technology has been, and will continue to be, designed to handle this ever-increasing complexity.

Darktrace uniquely positioned to protect againstevolving threats

Darktrace believes that the impact of AI on cybersecurity can and should be a net-positive one. That is why Darktrace has been at the forefront of 'Cyber AI' R&D since it was founded in 2013. Its use of self-learning AI to combat the most unique and hard-to-detect threats has now been in production use by close to 9,000 organisations worldwide.

Yet, not all AI is created equally. As a pioneer in the use of 'Cyber AI' technology, Darktrace has understood that the best approach to leveraging AI to combat cybersecurity challenges is an AI model that is specifically trained on the unique data of each individual business.

Known attack and signature-based security solutions are not enough

One of the most common approaches used in cybersecurity today uses large volumes of known attack data and attacker behaviour to establish signature-based detection of threats. These models often use supervised machine learning – meaning that the AI identifies patterns, but humans interpret that data and develop the response – and are common in modern extended detection and response ("XDR") solutions. These techniques perform well at stopping attacks that have been around for long enough, and in consistent enough form, to be recognisable. While this functionality served a purpose, the advent of threats now generated in machine-time renders this approach inadequate for the current threat landscape. There are frequent examples of novel threats getting past these defences and doing material damage to businesses, governments, and other entities. As long as attackers continue to innovate (and especially now that generative AI tools can provide a faster, easier, almost continuous process of launching attacks) solutions based solely on known attack data and signature-based detection are not enough.

1. https://www.gov.uk/government/news/cyber-laws-updated-to-boost-uks-resilience-against-online-attacks
2. https://www.state.gov/announcing-the-release-of-the-administrations-national-cybersecurity-strategy/
3. https://digital-strategy.ec.europa.eu/en/policies/cyber-resilience-act

Darktrace's Self-Learning AI – a fundamentally different approach

Darktrace uses self-learning AI, which is designed to – without human intervention - gain an understanding of the organisation's behavioural patterns (e.g. for every user, device, endpoint, app and interaction). It is trained on these patterns in real time from the richest, most granular and most relevant data available – the unique data of the organisation. Because it is not focussed on known attack patterns but on detecting when something is not right, it can spot and quarantine novel threats like zero day, insider, nation-state attacks. And because self-learning AI eliminates the lag time inherent when humans must be involved, it protects against even generative AI attacks like sophisticated phishing attacks at scale or evergreen novel threats.

Recent advances in generative AI are being heralded as an important new addition to the growing arsenal of AI techniques that will transform cybersecurity. However, Darktrace has been using forms of generative AI, including LLMs, across its products since inception. For example, Darktrace's Cyber AI Analyst uses generative AI techniques to perform real-time analysis, and write immediate, natural language reports of incidents helping security staff to remain informed and armed with the best approach for remediation.

Darktrace technology is unique in its ability to understand and detect novel attacks, especially as generative AI allows such attacks to be faster and more frequent, making it a must-have in any security stack. While self-learning, or indeed any AI, is unlikely to replace all human effort in cybersecurity, it can help employees work smarter and more effectively.

Challenging economic environment

The rapidly evolving AI landscape over the past year been set against an economic backdrop coloured by the impact of Russia's invasion of Ukraine, a resulting energy crisis, high inflation, and elevated debt levels resulting from the COVID-19 pandemic. As global economies have seen downturns, and as the prospect of a global recession loomed[4], countries, businesses and individuals have seen their budgets squeezed.

This macro-economic backdrop has affected every sector, and the cybersecurity sector has not been immune – although notably less impacted compared with other sectors of IT. Darktrace, like many of its peers, has experienced increased customer scrutiny when it comes to the trial and subsequent procurement of new solutions. This has resulted in a slowdown in new customer additions and additions to Annualised Recurring Revenue, while still strong at $143.6 million, being slightly - just $600,000 or 0.4% - below the amount added in the prior financial year.

Darktrace responded to the first signs of economic uncertainty by taking a prudent approach to managing discretionary costs. Combined with a strong cash position and contracts that average over 36 months in length providing additional revenue and cash flow visibility, Darktrace was able to continue investing in its product development, go-to-market strategy and its employees to ensure that it can emerge in the best possible position to capitalise on the significant opportunity ahead.

Darktrace's approach to its addressable Market

A large part of capitalising on the available opportunity, whether now – in a more challenging economy – or through and beyond economic recovery, is making sure that Darktrace's go-to-market organisation is appropriately experienced and enabled to communicate the unique value of Darktrace's expanding product set. As discussed in the CEO Statement, Denise Walter Joined Darktrace as Chief Revenue Officer in February 2023, bringing long-term experience in large enterprise software sales. She has set a path for maturing the sales teams, enabling increased sales across larger organisations in the strategic segment, evolving the business's channel strategy and ensuring a seamless and supportive experience across the customer lifecycle. She has brought in experienced sales, channel, and customer success executives to help her

4. https://www.weforum.org/press/2023/01/chief-economists-say-global-recession-likely-in-2023-but-cost-of-living-crisis-close-to-peaking/

drive this evolution and is a driving stakeholder in Darktrace's next steps to improve the data and systems necessary to make reliable prospect, customer, contract, and operating information readily available to support the sales and ongoing customer experience.

Also, late in the financial year, Chris Kozup joined Darktrace as Chief Marketing Officer, bringing significant experience in business to business ("B2B") enterprise marketing within the cybersecurity, cloud and networking sectors. Chris has also started to expand the marketing organisation with strategic leadership hires to augment capabilities in brand, demand generation, product and solutions messaging and positioning.

Having hired these two positions from the pool of experienced talent in the United States, Darktrace has moved further towards its goal of accelerating penetration in the large North American market. The United States is not only Darktrace's single largest revenue market but is also its single largest untapped opportunity. By hiring its senior market-facing leadership in the United States and building teams with experience and existing networks there, Darktrace is investing in its belief that North America can be a significantly larger market for its products than it has capitalised on to date.

In both the sales and marketing functions, leadership is strengthening marketing segmentation, improving understanding of different needs and enabling communications that speak to those. While there are some teams that focus on industry verticals, particularly critical infrastructure, size of prospect and customer continues to be the primary basis for Darktrace's market segmentation Darktrace's AI platform can be applied to companies of almost all sizes, across all sectors and geographies and is complementary to more traditional security solutions available in the broader market.

Darktrace operates within the Information Security and Risk Management market, which Gartner, a global research and advisory company, estimates to amount to approximately $188.1 billion (2023 estimates)[1]. The Information Security and Risk Management market comprises Application Security, Cloud Security, Data Privacy, Data Security, Consumer Security Software, Identity Access Management, Infrastructure Protection, Integrated Risk Management, Network Security Equipment, Security Services, and Other Information Security Software. Gartner estimates the total market will see a compound annual growth rate of 11.0% from 2022 to 2027 on a constant currency basis.

Darktrace estimates its total addressable market ("TAM") using both a bottom-up approach based on addressable global companies and their potential adoption of Darktrace's offering, as well as a top-down approach based on the overall cybersecurity market size. Darktrace currently estimates that that there are approximately 150,000 companies[2] – more than 15 times its current customer base - in its current and potential markets that could benefit from its security technology. Additionally, there are significant opportunities to expand product penetration within Darktrace's existing customer base, by expanding coverage either as customers grow or to more areas of their digital estate by upselling existing and new products and solutions. Darktrace estimates that in total, its opportunity value could be approximately $48 billion, reflecting a substantial global greenfield and product penetration opportunity.

And while Darktrace remains focussed on capturing the large available opportunity in the cybersecurity markets - at least in the short-to-intermediate term - its self-learning AI technology has broader application in tangential areas like data centre management and IT governance. Darktrace also believes that as generative AI gains acceptance and its uses become better understood and its risks better managed, the potential applications for Darktrace's technology can increase significantly. Darktrace has been planning for this evolution of AI technology for over a decade and believes that it is uniquely positioned to capitalise on current and upcoming change – both in cybersecurity and beyond. At its core, Darktrace is not a cybersecurity company that leverages AI, it is an AI company that currently focuses on the large opportunity in cybersecurity. Watch this space.

	Prospectus	**FY 2022**	**FY 2023 (CC)**
ARR ($m)	235.7	515.6	628.4
Customers	4,000	7,437	8,799
Multiplier (related to 150k opportunity)	37.5	20.2	17.0
Cross sell opp	2	2	2
Upsell opp	1.5	1.5	1.5
New products	1.5	1.5	1.5
TAM ($bn)	**40**	**47**	**48**

1. Shailendra Upadhyay, Christian Canales, Ruggero Contu, Lawrence Pingree, Elizabeth Kim, Swati Rakheja, Rustam Malik, Nat Smith, Rahul Yadav, Mark Wah, Akshita Joshi, Matt Milone, Mark Pohto, Sean O'Neill, Travis Lee, Dan Ayoub (2023) Forecast: Information Security and Risk Management, Worldwide, 2021-2027, 2Q23 Update, Gartner.

2. The figure of 150,000 addressable companies is defined as being those that have more than 250 employees globally, compared to Darktrace's roughly 8,800 customers as of 30 June 2023 (addressable global companies based on OECD, Eurostat, US Bureau of Labor Statistics, and UK Office for National Statistics, excluding China or Russia).

DELIVERING VALUE TO CUSTOMERS

CTO Statement

At Darktrace, AI has been in the company's DNA since day one – we founded this business on the premise that we wanted to approach cybersecurity from a different angle. We did that through Self-Learning AI - an AI that learns you, your business, every person, and device within the organisation and all the interactions between them. That is different to the way that the rest of the market approaches cybersecurity, which is predominantly through a signature-based approach or AI trained on historic attacks (as described in the Market Overview section).

Darktrace's AI is now protecting over 8,700 customers around the world from sophisticated cyber-attacks. I believe that one of the key reasons our technology is so successful is because of the culture of innovation within our R&D team and indeed within the wider business. We want to ensure that our people have the time and space not only to generate ideas but to see those ideas through from start to finish, to trial things and to test different possible outcomes in order to reach the best solution. That philosophy is central to the way we develop our products.

It was only by encouraging people to be brave and creative with their ideas that we were able to create Self-Learning AI. Because of the way that AI works, and the fact that it doesn't have to be continually programmed by humans, our R&D team can dedicate more of their time to exploring new ideas and working on exciting projects. The R&D model at Darktrace is uniquely efficient because of the way our AI works.

Following the launch of PREVENT at the beginning of the fiscal year, the R&D team was focussed on HEAL which was launched in August 2023. These were milestone moments for Darktrace and the culmination of a huge amount of hard work from our development teams based in both Cambridge and The Hague. We set out our ambitious technology vision of bringing the full product set to organisations around the world some time ago, and we are now delivering this powerful AI engine to customers, enabling them not only to defend every single touchpoint within their organisation from today's threats, but also to proactively mitigate the increasingly onerous and complex cyber risks that come with being a modern organisation.

The threat landscape has always moved rapidly with the evolution of technology, and in 2023 AI has been at the forefront as new capabilities have emerged and cyber criminals have been equipped with a new set of tools. Against this backdrop, my focus as I look ahead remains the same as it was before generative AI swept through the public consciousness – to ensure that the R&D team continues to develop innovative solutions which protect our customers from cyber-attacks using AI. We have always applied and combined different AI methods across our products (we introduced LLMs into the product set in 2021) and we will continue to innovate in order to ensure our customers can stay one step ahead of cyber attackers.

Jack Stockdale

Jack Stockdale OBE
Chief Technology Officer
5th September 2023

Self-Learning AI

Self-Learning AI sits at the heart of Darktrace's technology differentiation.

A foundational part of how Darktrace protects its customers is by training on the uniqueness of their individual environments. No two organisations are the same, and their security solutions should be able to adapt to the specific requirements of each.

The Only True Self-Learning Cyber AI

- AI that trains on the uniqueness of each individual organisation.
- Designed to address the challenges of Generative AI-based threats by pitting AI against AI.
- Takes a self-learning approach that is always on, always learning, always improving.
- Allows for the reduction of cost through the consolidation of legacy security tools.

Active, Reactive and Proactive

- Delivers active, reactive and proactive cyber threat capabilities in a feedback loop that continuously learns and enforces normal.
- Autonomously detects, contains and disarms threats, all supported by AI-driven threat analysis.
- Enables security teams to identify vulnerable attack pathways and proactively protect critical assets.
- Empowers informed human decisions for restoring assets already compromised.

Anywhere, Everywhere and Everyone

- Monitors and protects all digital assets across the entire organisation.
- Provides end-to-end cybersecurity coverage, including Network, Email, Apps, OT, and Cloud for a single, holistic picture of the entire environment.
- Lives in any environment, big or small, simple or complex, across all industries.
- Learns any type of organisation, from SMBs and enterprises to critical infrastructure and government.

Make Humans Better at Cybersecurity

- Supports human performance with AI coverage of digital ecosystems at a scale far beyond human purview.
- Leverages human skills with autonomous AI information.
- Improves decisions and outcomes based on total visibility into the digital ecosystem.
- Empowers security teams to be proactive with AI Adversary tools, as well as gain agility in the recovery process.

The Darktrace portfolio

Darktrace's vision is to free the world of cyber disruption. To do this, Darktrace has developed the use of self-learning AI applied to the challenges of cybersecurity. This core engine of self-learning AI is unique in that it is trained on each customer's actual IT and business environment. By doing this, Darktrace has the ability to identity and take action on both existing and emerging threats in a way that other solutions simply cannot do.

From a product portfolio perspective, Darktrace takes a platform approach to cyber resilience by applying its self-learning AI engine across critical IT domains, as follows:

- Network
- Cloud
- Endpoint
- Zero Trust
- Email
- SaaS
- Operational Technology (OT)

The uniqueness and strength of Darktrace's approach is in its ability to take action on new and existing threats (including those generated by AI) while extending this across every part of a company's digital estate. Furthermore, because the AI engine is shared across each of these domains, Darktrace has the unique ability to enhance visibility and strengthen actions across each domain. For example, Darktrace can correlate a security incident that occurs in email with what is happening on the network. Or, Darktrace can ensure a consistent defence across network to cloud. Essentially, Darktrace can provide a completeness of cyber resilience across the entire organisation with a more hardened defence due to being able to triangulate and correlate insights from each domain.

Coverage areas

Darktrace technology can be brought to any environment, protecting cloud infrastructure – from AWS to Microsoft Azure – the full range of SaaS applications, endpoints, zero trust technologies and IT/OT networks.

Embrace the Benefits of Cloud, Without Taking on the Risks

Delivers the only cloud cybersecurity solution that provides complete visibility into the cloud footprint, detects and responds to novel threats, and ensures the correct posture and entitlements for cloud workloads.

Interrupt SaaS Application Misuse

Understands users' patterns across every application an organisation uses to spot behaviour that doesn't belong, from compromised credentials to malicious insiders.

Neutralise the Full Range of Email Attacks

Understands email users and how they communicate to spot and stop email threats. Protects against Microsoft 365 account takeovers and prevents accidental data loss from misdirected emails. Educates and engages employees in email security. Boosts productivity by sorting non-productive mail.

Protect your Workforce, Everywhere

Analyses rich, host-level data via Darktrace agents or EDR integrations, enhancing threat protection across the dynamic workforce, on or off the VPN.

Shut Down Network Threats Instantly

Learns normal 'patterns of life' to discover unpredictable cyber-threats across the corporate network, and then takes targeted action to minimise disruption. Detects and responds to ransomware at every stage.

Complement and Enhance Zero Trust Policies

Validates the organisation's zero trust policies and informs future decision-making with always-on, real-time visibility into every system and asset.

Light up your Industrial Environment

Passively learns repetitive as well as evolving ICS behaviour to protect the business from known and unknown OT and hybrid IT/OT threats. Protocol agnostic.c.

In addition to this completeness of coverage, Darktrace also provides a complete lifecycle of cyber resilience including the ability to prevent attacks, rapidly detect them when they do occur, automate the response, and finally recover rapidly once a breach has occured. Darktrace customers benefit from a core AI platform approach across their entire organisation combined with a 360 degree life-cycle readiness that is defined as:

- PREVENT
- DETECT
- RESPOND
- HEAL

DARKTRACE
PREVENT™

Prioritise threats. Harden Defenses. Reduce risks.

Darktrace PREVENT allows the security team to identify, prioritise, and test vulnerabilities, reducing risk and hardening defences both inside the organisation and outside on the attack surface - continuously and autonomously.

Darktrace uses AI to "think like an attacker", finding pathways to an organisation's most critical assets from inside and outside. And it continuously analyses the most disruptive attacks on an organisation and feeds that information back into DETECT + RESPOND.

The PREVENT product family consists of two products:

- PREVENT/Attack Surface Management (or ASM), which continuously monitors a business' attack surface for known and unknown external risks,
- and PREVENT/End-to-End (E2E), which hardens defences internally, testing and prioritising the most critical attack paths.

PREVENT/ASM

Darktrace PREVENT/Attack Surface Management™ continuously monitors an organisation's attack surface for risks and high-impact vulnerabilities digitally exposed to the outside world, offering an outside-in perspective.

It uses AI to understand what makes an external asset "yours" for a business, searching beyond known servers, networks and IP.

Within the PREVENT/ASM capability sits Darktrace Newsroom, launched in February 2023 which keeps security teams informed of newly discovered critical vulnerabilities and supports timely mitigation actions to prevent exploits.

PREVENT/E2E

Darktrace PREVENT/End-to-End delivers a set of five capabilities based on new AI algorithms developed by researchers at the Darktrace AI Research Centre in Cambridge, UK to help organisations pre-empt attacks.

Attack Path Modelling

A revolutionary approach to mapping the most impactful attack paths through an organisation in real-time. Crucial support for that modelling comes from Darktrace Self-Learning AI, which provides a continuous understanding of the most vulnerable and valuable paths across the digital ecosystem.

Pentest Augmentation

Does what traditional human and conventional Red Teaming cannot: tests all potential attack pathways around-the-clock and analyses every touchpoint across the digital ecosystem.

Breach & Attack Emulation

Emulates how an adversary might attack. Security teams can deploy harmless "attacks" that emulate malware, phishing, spoofing, and other common threats. Automatically monitors for unsafe testing by auto-switching to a theoretical attack if necessary.

Security Awareness Training

Identifies users who are exposed or potentially prone to phishing, allowing IT teams to tailor training based on real-world data. The product mimics the best attackers to test human defences and incident response processes.

Cyber Risk Prioritisation

Enables the security team to harden defences with a prioritised list of vulnerabilities - complete with suggestions about how to harden them. Combined with Darktrace DETECT + RESPOND, it autonomously implements countermeasures to ensure critical vulnerabilities and attack paths can't be exploited and cause damage.

DARKTRACE DETECT™

See attacks instantly

Most cybersecurity vendors claiming to use AI rely on identifying threats based on historical attack data and reported techniques. In contrast, Darktrace DETECT delivers instant visibility into threats – even the most advanced threats, novel malware strains, and new techniques – by knowing what's normal, to identify what's not.

Darktrace DETECT learns from the organisation's data.

It detects cyber-threats not because it has seen them before, but because they represent a departure from an organisation's normal activity. It learns what makes an organisation unique, from the ground up and without any prior assumptions as to what constitutes a threat. This understanding allows it to detect subtle patterns that reveal deviations from the norm, making it possible for the security team to identify attacks in real time, not after the damage has been done.

The solution feeds data into Darktrace RESPOND to disarm threats that could disrupt operations.

Darktrace DETECT works across the entire digital ecosystem, wherever an organisation's data resides – from cloud infrastructure and applications to email systems, endpoints, zero trust technologies, on-prem networks and Operational Technology ("OT").

DARKTRACE RESPOND™

Disarm withing seconds

Darktrace RESPOND delivers autonomous, always-on action to contain and disarm attacks within seconds. When a threat is detected, Darktrace RESPOND leverages Darktrace's understanding of "self," bespoke to each organisation, to pinpoint signs of an emerging attack, interrupting malicious or dangerous activity, while allowing normal business to continue. It works with precision, targeting actions tailored to the threat.

Because Darktrace RESPOND doesn't rely on pre-programming, threat characteristics are not defined in advance.

This enables it to neutralise unknown and unpredictable cyber-attacks that have never been seen before on the first encounter, before damage spreads.

Darktrace RESPOND takes action either via integrations into an organisation's existing security controls, allowing the CISO and security team to leverage and supercharge existing investments, or through native response mechanisms. Integrations allow Darktrace RESPOND to reach every corner of the business from cloud systems and endpoints to zero trust technologies.

The AI technology runs autonomously at all times, elevating humans from making micro-decisions about individual events to making "decisions about decisions" – setting parameters for the solution to act, and then allowing the AI to do the heavy lifting. Darktrace RESPOND acts within guidelines and boundaries set by the security team.

DARKTRACE HEAL™

Be ready, recover quickly

Darktrace HEAL, which became generally available in August 2023, uses AI to understand a business's data to ensure readiness to recover from an active cyber-attack and to rapidly restore the business to an operational state.

It enables organisations to determine the least disruptive way to eradicate the threat, recover to an operational state, and strengthen and adapt that organisation's security posture to harden against repeat or similar offenses.

Darktrace HEAL is designed to become more valuable and effective as the complexity of the incident increases. It achieves this by deeply understanding the organisation, its assets, and the full range of security events that can occur.

By having this understanding, Darktrace HEAL can adapt its recovery decisions to provide the most ideal path to recovery. Moreover, Darktrace HEAL also reduces the time needed to restore the organisation to a fully operational state after an incident occurs. The product/capability leverages its knowledge about the organisation and its security events to make the best recovery decisions. This ultimately leads to quicker recovery, resource savings, and a faster restoration of normal operations for the company.

DARKTRACE AI ANALYST™

Explainable AI

Cyber AI Analyst investigates threats throughout the cycle, delivering readable reports to keep the human updated. It creates the interface between the AI technology and human decision making.

Cyber AI Analyst optimises threat investigation by continuously examining every security threat that arises. It spotlights the highest priority threats at any one time and rapidly synthesises all of the context around an attack into a natural language report.

The result is that time-to-meaning and time-to-response are dramatically reduced – allowing security team members time to use their expertise where it really matters.

DARKTRACE SERVICES

An extension of your team

Darktrace is committed to ensuring that its customers receive the maximum value from Darktrace's Self-Learning AI technology and expert analysts. Darktrace's bespoke service options can be customised around Darktrace's offerings to uplift and augment security teams. Services are delivered by Darktrace's dedicated Cyber Analysts, Cyber Technicians and the Darktrace 24/7 SOC operation, comprised of experts in threat analysis and risk mitigation. Most importantly, these offerings are crafted based upon Darktrace's extensive experience working with over 8,700 customers of every size and across every industry – it is this expertise that allows Darktrace to provide services that are tailored to any organisation.

Proactive Threat Notification (PTN)

Proactive Threat Notification (PTN) provides comprehensive threat notification around the clock. Cyber Analysts in the global Darktrace Security Operations Center (SOC) triage high-priority DETECT alerts within a customer's digital ecosystem – helping investigate the alert, jumpstarting the remediation process, and boosting the customer security team with additional expertise when they most need it.

Ask the Expert (ATE)

Ask the Expert (ATE) gives the customer's security team 24/7 access to expert Darktrace Cyber Analysts. Customers can send queries if they need assistance during live threat investigations, or even during day-to-day operations, and receive rapid feedback. Collaborating with Analysts through the service ensures customers are benefitting from the latest understanding of the threat landscape and getting the best possible support.

CUSTOMER CASE STUDIES

THE ROYAL MINT®

- Founded in 886.
- The world's leading export mint.
- Supplies millions of coins to countries around the world.

With a history spanning more than 1,100 years, The Royal Mint is Britain's oldest company and the original maker of UK coins. In recent years, the organisation has gone through digital transformation to meet the needs of the 21st century.

Darktrace DETECT and Darktrace RESPOND protects The Royal Mint across IT, OT, Cloud and Email operations to help save time while also keeping employees and data safe from cyber threats, – including those which could disrupt coin production.

Since starting its partnership with Darktrace, The Royal Mint has also extended its deployment with additional Darktrace Email coverage, using the AI to intercept and respond to numerous solicitation and social engineering attacks at machine speed.

The AI keeps up with the growing sophistication of email attacks and language profiling within emails, achieving a higher detection rate and flagging fewer false positives – both keeping the network safe from threats, while also saving the security team time by not having to manually react to alerts.

> "Using Darktrace's AI has been a huge timesaver for our security team and for our employees. The AI knows when the language within an email is out of character and as such, we've been able to intervene in attempts at solicitation, which could have resulted in downtime or disruption to the business. Darktrace enables us to identify threats across our network in a timely manner, and we have built trust in its decision making.
>
> There's a huge benefit in having the AI look at data across email, software-as-a-service and the network. With this cross-platform visibility, we can see every stage of an attack from an initial phish, all the way through to impact on the wider business."
>
> Rich Fowler,
> Chief Information Security Officer, Royal Mint

PRODUCTS USED:

DARKTRACE DETECT™
DARKTRACE RESPOND™

Qatar World Cup 2022

- One of the world's biggest sporting events – 1.5 billion people watched the final.
- 8 connected stadiums with interconnected IT and OT systems.
- Every second counts – can't afford any disruption.

Watched by billions of people around the globe, the football World Cup is one of the grandest spectacles in sport. With the increased complexity of the digital infrastructure underpinning global tournaments, and the sophistication and ferocity of the threat actors seeking to disrupt them, cyber security has been pushed to the top of organisers' agendas.

This football World Cup represented a challenge like no other. The tournament introduced the world's first 'connected stadium' concept whereby all eight stadiums were managed by a single unified technology from the state-of-the-art Aspire Command Centre in Doha. The centre managed everything, from the lighting and access gates through to communications and IT.

Initially, Darktrace was brought in to improve OT visibility, but the World Cup organisers realised they could use Darktrace AI to monitor and protect their interconnected and IT systems, mitigate cyber-threats, and present all the findings in one place.

On top of this, Darktrace's own security analysts were on the ground throughout the tournament supporting the customer's security team with investigations.

Darktrace didn't just successfully protect the World Cup against cyber-attackers; it protected the more than 1.4 million people entering the stadiums. Because while the interconnected stadiums carried benefits, the blurred lines between IT and OT systems can create physical risk arising from attacks against OT, for example by shutting gates on people. Fortunately, with the aid of Darktrace, there were no successful attacks against OT.

> "Darktrace AI has been instrumental in supporting our people on the ground to produce remarkable results. Their team has played a crucial role in ensuring the success of this World Cup in Qatar and delivering an amazing tournament for the fans free from cyber disruptions."
>
> Niyas Abdulrahiman,
> Executive Director, Tournament ICT, World Cup

PRODUCTS USED:

DARKTRACE DETECT™
DARKTRACE RESPOND™

City of Las Vegas

- Internationally recognised entertainment capital welcomed almost 39 million visitors in 2022.
- Hosts global sporting events, including the Formula One Las Vegas Grand Prix taking place on the Las Vegas Strip in November.
- A modern smart city thriving on technology and innovation, including unique autonomous vehicles and underground transportation systems.

PRODUCTS USED:

DARKTRACE DETECT™
DARKTRACE RESPOND™
DARKTRACE PREVENT™
DARKTRACE HEAL™

The City of Las Vegas is one of the most iconic tourist destinations in the world, with its casinos, hotels, and other venues hosting a combined total of tens of millions of visitors every year.

Securing its diverse and complex digital smarty city environment from attacks is essential for both visitors to and citizens of Las Vegas; especially as City of Las Vegas gears up to host a Formula One World Championship race on its iconic streets in November.

Darktrace has helped to protect Las Vegas for a long time; the city was an early adopter of Darktrace DETECT, using it to gain instant visibility on cyber-attacks. After being impressed with Darktrace's AI, Las Vegas also brought in Darktrace RESPOND to contain cyber threats, as well as Darktrace PREVENT to proactively get ahead of threats by identifying and hardening weaknesses in the network.

In 2023, the city became one of the first customers to deploy Darktrace HEAL, Darktrace's new product for incident response and incident management AI engine. Before HEAL, the city's incident management relied on tabletop exercises and static playbooks. Now, if Las Vegas is faced with an active cyber-attack, HEAL creates bespoke, AI-generated playbooks to help the security team respond based on precise incident details, rather than a pre-determined, one-size-fits all playbook.

In the event of an attack, this allows the IT team to understand what has happened quicker, allowing them to bring systems back online faster, therefore reducing the disruption to the city.

As the final part of the Darktrace Cyber AI Loop, HEAL works alongside PREVENT, DETECT, and RESPOND to dynamically and autonomously improve the city's cyber reliance against attacks and disruption.

> "Darktrace gives us confidence. We know we have an AI teammate that is continually learning how our entire ecosystem operates, strengthening our defences and looking out for any abnormal activity.
>
> "Having Darktrace with us at every stage of an incident lifecycle is so important. Having AI that knows the nuances of our digital environment helps us ward off cyber disruption and keep the city in operation."
>
> Michael Sherwood, Chief Innovation and Technology Officer, City of Las Vegas.

gcp HOSPITALITY

- Corporate headquarters in Bangkok, Thailand with over 30 years of expertise.
- Now a global company, operating over 60 hotels and apartment complexes around the world.
- Flagship Hotels G brand in global cities including Bangkok, Perth, Singapore and San Francisco.

With an established history going, GCP Hospitality runs over 60 properties worldwide with an enviable reputation in the hospitality industry for providing hotel management, asset management, and business development services of the highest standard.

Its dedicated headquarters are in Bangkok, overseeing projects around the world in many different time zones. The lean security team wanted to invest in technology which could help to augment that team and make the task of dealing with today's cyber challenges easier.

After initially trialling Darktrace DETECT in 2020, Darktrace's AI-powered cyber defence capabilities have become crucial to securing the network at GCP Hospitality against cyber threats – particularly when many of those based out of the central office need to remain protected when they're travelling to and working from GCPH sites around the world.

Darktrace DETECT/Cloud and Darktrace DETECT/apps keep GCPH's cloud environment and applications free from cyber disruption by providing a clear vision of the cloud environment and helping to investigate and respond to unusual behaviour which could represent a malicious threat.

By autonomously blocking anything suspicious, the limited resources of the GCPH corporate cybersecurity team are freed up to focus on other tasks, safe in the knowledge that Darktrace's AI is protecting cloud-based applications and systems from cyber threats and disruption.

> "Darktrace combines many capabilities like visibility in the cloud and network protection, and its AI tools help the security team to operate more precisely and efficiently. The ability to have a better security posture while not having people dedicated to do that all the time is a blessing."
>
> Pierre-Yves Sarrat, Group Director of IT, GCP Hospitality

PRODUCTS USED:

DARKTRACE DETECT/APPS™
DARKTRACE DETECT/CLOUD™

The Board considers that it, both as a whole and its individual members, has acted in a way that would be most likely to promote the success of the Group, for the benefit of its members as a whole, whilst having regard to the interests of its other stakeholders in the decisions it has made during the year. The Directors confirm that the meetings and considerations of the Board, which underpin its decisions, incorporate appropriate regard to the matters detailed in section 172 of the Companies Act 2006.

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

The Board considers the Group's key stakeholders to be its customers and partners, its people, its shareholders, its suppliers and the communities in which it operates.

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

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

Stakeholders

End-users

Darktrace delivers its cyber AI technology to its customers which defends their most critical digital assets. Whether that business is a multinational corporation with a huge digital footprint or a local business, Darktrace seeks to help them to continue to deliver their products and services to their customers by protecting their digital ecosystem from those who are seeking to exploit it for personal or political gain.

At the heart of Darktrace are its customers and Darktrace remains focussed on bringing more of its cyber AI technology to more organisations around the world. Darktrace customers want products that give them security and peace of mind to focus on what is important to them and their businesses alongside confidence that Darktrace operates efficiently and ethically, keeping its customers' data secure.

People

Darktrace's people are its greatest asset and are critical to the success of the business. Darktrace's people are ambitious: they want to be invested in so that they can succeed in their roles and beyond and they want to play their part in innovating cutting-edge cyber AI technology that plays its part in Darktrace's aim of freeing the world from cyber disruption. Simultaneously, Darktrace's people want to work in an inclusive, ethical environment that they feel connected to and a part of.

As headcount continues to grow, Darktrace has focussed on building and delivering talent development programmes, evolving its internal communications infrastructure to boost engagement and embarking on its Diversity, Equity and Inclusion journey. More information on Darktrace's approach to ESG can be found in the ESG section (page 61).

Management has received positive feedback on these efforts through its Influencer Network and more information on this can be found in the ESG section, Investing in People. Darktrace also conducted a company-wide survey in January 2023 to understand employees' needs and to develop strategies to boost culture, engagement and development. Feedback from this survey was strong with a response rate of 74% with an overall score of 7.7 out of 10. The 'relationships' category scored the highest out of all categories, with an average rating of 8.5. Personal growth was identified as an area that employees stated they wanted more of. The launch of the Darktrace Academy is a good first step in this area and the programme will continue to evolve in FY 2024. Darktrace is also evolving its employee surveys to provide richer insights that are tailored to departments and easier for managers to action.

Shareholders

The Investor Relations team supports the CEO, CFO, Chair and other Board members on regular engagement with institutional shareholders and venture capital investors.

Shareholders want Darktrace to deliver long-term sustainable growth and appreciate Darktrace's profitable growth model. Key metrics for investors include:

- ARR – Annualised Recurring Revenue – subscription revenue;
- Adjusted EBITDA – profit metric; and
- Customer growth – total number of subscription customers for Darktrace's cyber AI technology.

Darktrace shares are covered by 15 analysts at leading investment banks in the UK, Europe, and the US.

Management are frequent participants at investor conferences, undertake a full management roadshow twice a year, and host numerous investor meetings at Darktrace offices in the UK and US, as well as meeting investors at cybersecurity conferences such as RSA.

It is vital that Darktrace remains in constant discussions with all of its stakeholders, to understand their long term goals and how Darktrace can support achieving those goals.

For more details on the Investor Relations team, the upcoming financial calendar, financial results and reports, or governance topics at Darktrace, please visit the Darktrace Investor Relations website: https://ir.darktrace.com/.

Channel Partners

Darktrace relies on channel partners, including resellers and referral partners, to generate a significant portion of its revenue.

The Partner Programme, the supporting processes and the Partner Team have been enhanced and continue to be improved. This includes the hire of a senior manager to lead the Global Partner Organisation alongside the facilitation of onboarding more high-quality partners and continuously improving its processes and controls around partners.

These enhancements are designed to support Darktrace in making the most of the opportunities provided by the channel community with a view to a faster route to market for Darktrace and, in particular, faster expansion into new markets. In addition the new leader of the Global Partner Organisation and its team will build best-in-class programmes and processes to protect both Darktrace and its customers led by Darktrace's new VP of Partner Programmes & Strategy, who will also lead redesigning the Partner Portal, Deal-registration process and partner enablement programmes.

Suppliers

Darktrace's suppliers support the efficient operation of the business. Suppliers want to receive a fair price and to be paid on time for the products and services they provide.

Darktrace has excellent relationships with its key suppliers and ensures the stability of these relationships by establishing appropriate credit lines that support Darktrace's growth. There are supplier due diligence checks in place, and Darktrace continues to evaluate and, where appropriate, improve controls and processes including in relation to onboarding processes.

Community and broader ecosystem

Darktrace acknowledges that it will only succeed as a business if it uses its technology, expertise and scale to solve the challenges faced by the communities it serves and depends on.

Darktrace understands its core responsibilities to be:

- Data protection and security – empowering society by freeing the world from cyber disruption, particularly small and medium sized businesses ("SMBs");
- Responsible AI innovation;
- Building a diverse technology and cyber workforce; and
- To act as a responsible user of its appropriate share of the world's finite resources.

Management is currently conducting a materiality assessment, comparing external frameworks against community feedback to inform its long term ESG strategy. More information can be found in the ESG section (page 56).

Principal Board decisions and stakeholder engagement

Set out below are examples of decisions taken by the Board where the impacts on various stakeholders have been considered.

EY Independent Review

Context: Following a short seller report published in February 2023, Management and the Board felt it was important to have an additional independent third-party review of its key financial processes and controls to provide reassurance to stakeholders.

Decision making process: While the Board and Management were confident that Darktrace's independently audited public company financial statements fairly represented Darktrace's financial position and results, they believed it appropriate to demonstrate that confidence by commissioning an independent review.

Stakeholder considerations: Shareholders – confidence in Darktrace's Management and its processes; Employees – job stability and prospects; Customers and Suppliers – improving confidence in Darktrace's financial stability and governance; Partners (Channel Partners in particular) - improving confidence in Darktrace's partner engagement processes, Management and financial stability.

Strategic actions supported by the Board: The Board believes fully in the robustness of Darktrace's financial processes and controls. As a sign of that confidence, it commissioned the independent third-party review by EY to provide an additional independent third-party review of its key financial processes and controls. EY reported directly to the Chair of the Darktrace Audit & Risk Committee, Paul Harrison.

Impact of these actions on the long-term success of Darktrace: The review has further reinforced the Board's confidence that Management has set a tone and culture consistent with good governance.

Outcome: On 18 July 2023 Darktrace announced that EY had delivered its written report and presented its findings to Darktrace's Audit and Risk Committee, all other Board members and Darktrace's independent auditors, Grant Thornton (UK) LLP. Further, copies of EY's report were provided voluntarily to the Financial Conduct Authority and the Financial Reporting Council to ensure they also had full visibility of EY's review. Neither Management, nor the Board considered EY's report to have any impact on Darktrace's previously filed public company financial statements or to change their belief that those financial statements fairly represented Darktrace's financial position and results. In addition, Grant Thornton's audit opinions for prior years remained unchanged. In its review, EY reported a number of areas already known to Darktrace where systems, processes or controls could be improved. For example, as part of its work around channel processes and controls, EY reviewed a risk weighted sample of new channel contracts which identified a small number of errors and inconsistencies. Neither Management nor the Board considered these to be material to the financial statements and controls enhancements in this area are already underway. The Board was pleased that EY concluded its review and with the cooperation and transparency EY received from Darktrace employees at all levels.

EBT Market Purchase Programme

Context: Darktrace's significant cash balance combined with its low share price meant that there was an opportunity to increase the EBT's shareholding for the purposes of satisfying the EBT's obligations to hold shares to settle share awards under the various share plans for current and future awards granted to employees.

Decision making process: Following advice from its legal and financial advisors considering the advantages and disadvantages of an EBT market purchase programme, the Board were presented with papers to consider whether to take the opportunity to increase the number of shares held through the EBT.

Stakeholder considerations: Employees – increased opportunity of being granted awards; Shareholders – antidilutive effect as otherwise Darktrace would have to issue more shares to the EBT over time to satisfy employee awards as they vest.

Strategic actions supported by the Board: Purchases under the EBT Market Purchase Programme for an aggregate consideration of £85 million (inclusive of brokerage and dealing charges) were performed in three tranches. Shares purchased under the EBT Market Purchase Programme will be used to satisfy existing, planned and anticipated options and awards under Darktrace's employee share schemes, or as otherwise permissible within the terms of the EBT trust deed.

Impact of these actions on the long-term success of Darktrace: Purchasing shares reduces the dilutive effect of issuing more shares to the EBT to satisfy future vesting and option exercises of employee awards.

Outcome: An equal amount of £85 million shares has been accounted for as Treasury shares at a consolidated level.

Share Buyback Programme

Context: Darktrace has developed industry-leading AI technologies for cybersecurity and has an innovative product pipeline which continues to bring more technologies to market. Darktrace also has a resilient business model as demonstrated by the strength of its margins, its significant cash position and ongoing cash generation. Darktrace's strong cash position allows it to continue to sufficiently invest in its product pipeline, Go-to-Market strategy, business foundations and targeted M&A. The purpose of the Share Buyback Programme is to reduce Darktrace's issued share capital and the purchased shares will be cancelled.

Decision making process: After advice from legal and financial advisors considering the advantages and disadvantages of the Share Buyback Programme, the Board concluded that it was the best use of Darktrace's surplus cash in current market conditions. Through this Share Buyback Programme, Darktrace is able to return value to shareholders, while maintaining a strong cash position to enable it to fund continued investments in the business, including in scaling and diversifying Darktrace's R&D teams.

Stakeholder considerations: Shareholders – returning value to shareholders.

Strategic Actions supported by the Board: The maximum amount allocated to the Share Buyback Programme is £75 million and Darktrace has made and will continue to make appropriate disclosures during the buyback period of the number of shares it has repurchased.

Impact of these actions on the long-term success of Darktrace: Returning value to shareholders.

Outcome: As at 30 June 2023 Darktrace had bought back and cancelled shares for a total value of $ 43.7 million.

Governance:
Recruitment of New Independent NEDs

Context: Darktrace is working towards a majority independent Board, and aims to broaden the skills held across the Board.

Decision making process: The Board has been looking actively for additional independent Board members and were very keen to appoint an additional independent Board member with strong experience in the cybersecurity and technology sector. Elaine Bucknor was formerly CISO at Sky, so her credentials made her an extremely strong candidate.

Stakeholder considerations: Shareholders, Employees and Customers – an additional independent Board member with strong experience in cybersecurity at Board level will help steer strategy and decision making with a better informed view of the market and the complexities faced by Darktrace.

Strategic Actions supported by the Board: The Board appointed Elaine Bucknor and will continue to search for additional independent Board members with certain identified skill sets to support Management and strategic decision making.

Impact of these actions on the long-term success of Darktrace: Improving and broadening the skills of the Board will strengthen Darktrace's long-term sustainability.

Outcome: Appointment of Elaine Bucknor and continued search for additional independent non-executive directors.

Governance:
ESG Strategy and Decarbonisation Policy

Context: Darktrace recognises the importance of improving and embedding its ESG strategy within its high-performance culture.

Decision making process: The various policies related to ESG (for example the Modern Slavery Policy, Decarbonisation Policy and various HR policies) were reviewed and considered to be appropriate to the embedding of ESG focussed matters and decision making within the business., including opportunities for the business to engage with community projects.

Stakeholder considerations: Employees – improved workplace culture, engagement and work environment, pride in employment, better diversity and inclusion; Customers – continued and improved trust in Darktrace as a reputable supplier; Suppliers – reputable customer, timely payments; Community – engagement with social programmes, responsible tenant and employer; Shareholders – improving levels of trust in, and the long-term sustainability of Darktrace.

Strategic Actions supported by the Board: Approval of the various policies and strategic ESG decisions proposed by Management.

Impact of these actions on the long-term success of Darktrace: Improve the long-term sustainability of Darktrace.

Outcome: The Board approved decisions that would support the embedding of ESG as a central factor in Darktrace's high-performance culture.

Approve FY23 Budget

Context: The Budget provides the necessary resources in the appropriate areas to align with strategy and targets for the coming year.

Decision making process: After significant input from internal teams, the CFO provided the Board with the budget for the year ahead.

Stakeholder considerations: Employees – job stability and benefits, safe work environment, workplace culture and engagement, diversity and inclusion; Customers – product development, product support; Suppliers – financially secure customer, timely payments; Community – engagement with social programmes, responsible tenant and employer; Shareholders – high performing business.

Strategic actions supported by the Board: Workforce engagement and retention, engagement with social programmes, prioritisation of good governance practices; appropriate selection and onboarding of customers, suppliers and partners; appropriate investment into the business to drive product development and Go-to-Market strategy to drive continued growth.

Impact of these actions on the long-term success of Darktrace: An effective budget will enable Darktrace to continue to operate in a sustainable and responsible manner and deliver value to all stakeholders.

Outcome: The Board approved the budget and will monitor it throughout the year through engagement at Board and Audit and Risk Committee meetings, updates from the CFO and other reports.

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

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

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

s. 172 Factor	More Information	Page Reference(s)
The likely consequences of any decision in the long term	Business Model and Strategy	4-6; 12-14; 16-17
	Principal Risks and Uncertainties	68-71
The interests of the Group's employees	People strategy	16
	Product update	15
	Responsible business	64-65
	Section 172 (1) Statement	50
	Principal Risks and Uncertainties	68-71
	Board Leadership and Reporting	88-93
	Values	7
	Directors' Remuneration Report	106-129
The need to foster the Group's business relationships with suppliers, customers and others	Product update	16
	Positioning update	16
	Delivering Value to our Customers	40-49
	Responsible business	64-65
	Section 172 (1) Statement	50
	Principal Risks and Uncertainties	68-71
	Board Leadership and Reporting	88-93
The impact of the Group's operations on the community and the environment	Environment	57-59
	Ethics and Governance / Responsible business	64-65
	Section 172 (1) Statement	50
The desirability of the Group maintaining a reputation for high standards of business conduct	Ethics and Governance / Responsible business	64-65
	Section 172 (1) Statement	50
The need to act fairly between members of the Group	Values	7
	Ethics and Governance / Responsible business	64-65
	Board Leadership and Reporting	88-93
	Section 172 (1) Statement	50

Non-Financial Information Statement

The following table sets out where the key content requirements of the Non-financial Information Statement (as required by sections 414CA and 414CB of the Companies Act 2006) can be found in this report and on the Darktrace website.

Content requirement	Page Reference(s)
Darktrace's Business Model	4-6
Darktrace's Key Performance Indicators	18-27
Principal Risks	68-71
Ethics and Governance	
Governance and Leadership	10-12; 12-14; 64-65; 88-93
Risk Management	68-71
Respect for Human Rights and Anti Modern Slavery	This page/section below
Anti-Bribery and Corruption Matters	This page/section below
Environmental matters	56-59
Darktrace's People	
People and Culture	16-17; 60-62; 64-65
Employee Engagement	50
Diversity	60-62
Social Matters	
Community Engagement	60-62
Women in Technology	60-62
Protecting Critical Infrastructure and Public Services	60-62

Ethics and Governance

Human Rights: Darktrace supports international standards on human rights and takes a zero-tolerance approach to modern slavery, as stated in the Modern Slavery Policy, and expects Darktrace people to do the same. Darktrace has a Modern Slavery Policy and the latest Modern Slavery Statement can be found on the Darktrace website at www.darktrace.com.

Anti-Bribery and Corruption

Darktrace has updated its Anti-Bribery and Corruption Policy this year to make it more accessible, and has launched an automated Gifts and Hospitality process available to all employees to support reporting and compliance, as well as updating and delivering training and guidance to its people on anti-bribery and corruption.

Governance and Oversight

In addition to the matters above, Darktrace has an Anti-Fraud Policy, an Anti-Money Laundering Policy and a number of other policies that support a robust compliance environment all of which are regularly reviewed and updated to remain in line with current requirements. A Whistleblowing Policy and reporting procedures alongside a third party whistleblowing portal, which allows for anonymous reporting, are in place to ensure all Darktrace people, including contractors, are able to report any suspected wrongdoing safely. All reports are taken seriously and thoroughly investigated, and reported to the Chair of the Audit and Risk Committee (as further described in the Audit and Risk Committee Report).

Defining Strategy

Darktrace develops cutting-edge AI technology to fight cyber-crime targeting the businesses, governments and critical infrastructure that we all rely upon. It enables organisations to harness their most valuable asset, their data, to defend themselves against cyber-crime, to enable a responsible, AI-powered future and to enable the next generation of technologists regardless of their background.

Darktrace's ESG strategy is being developed to make increasingly impactful contributions that benefit both the organisation and its stakeholders. As part of this process external frameworks and standards were reviewed including the Sustainability Accounting Standards Board standards for the Software and IT Services Industry. Management is now evaluating this list against stakeholder feedback to determine the access where it can have the greatest impact.

The Board has oversight and approval of Darktrace's ESG strategy, including Darktrace's commitments to reduce its environmental impact and progress toward net zero emissions by 2040.

The Audit & Risk Committee supports the Board by overseeing the Group's Enterprise Risk Management framework, evaluating climate related risks and opportunities as well as the ongoing significance of sustainability to stakeholders and their specific areas of interest. The Audit & Risk Committee and the Board will continue to include updates on these issues on its yearly agenda so that it can track and supervise progress.

The ESG Strategy Team is chaired by the General Counsel, consists of members of Management, and finance, legal and HR and committees team members and receives direct input from departmental heads. Climate and broader ESG risks and opportunities, are embedded within Darktrace's Enterprise Risk Management (ERM) Framework. See risks on pages 66-73 for details.

The ESG Strategy Team meets monthly to discuss Darktrace's ESG strategy and climate related matters. The ESG Strategy Team helps to identify potential climate-related risks, which are then approved by the Risk Steerco.

Together, the ESG Strategy Team and the Audit & Risk Committee have overall responsibility for ensuring that climate and ESG related issues and risks are considered when reviewing and guiding strategy, major plans of action, risk management policies and annual budgets.

Environmental

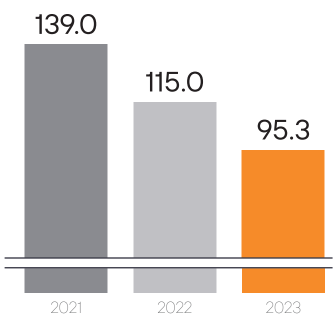
Given the nature of Darktrace's operations management has assessed that environment and climate related risks are not material to the business. Nevertheless as a responsible business seeking sustainable growth in compliance with applicable regulatory requirements, Darktrace is seeking to deliver greater energy efficiency and lower carbon emissions in its products and operations as a critical component of achieving its business objectives.

In line with the Companies Act requirements that allow supplementary information to be included outside the annual report LR 9.8.6R(8), Management is publishing at the same time as this Annual Report, a separate report that summarises detailed progress on meeting the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), Streamlined Energy and Carbon Reporting (SECR).

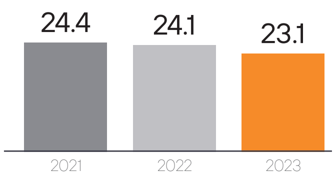
Darktrace established its initial decarbonisation strategy in FY 2022, setting its baseline year as FY21 and calculating its carbon footprint in line with WRI GHG Protocol standards and Science Based Target Initiative (SBTi) guidance, including all relevant scope 1, 2 and 3 emissions within its reporting boundary.

Darktrace set a net zero target for 2040 and a near term target of a 37.8% reduction in scope 1 & 2 emissions and 63% reduction in tonnes of CO2 equivalent (tCO2e) of scope 3 emissions per dollar of gross profit by 2030. The targets are currently awaiting validation by the SBTi.

TCFD Framework		Compliance Status and rationale for non-compliance	Next steps and timeframes for non-compliance
Governance	**a)** Describe the board's oversight of climate-related risks and opportunities.	Compliant	n/a
	b) Describe Management's role in assessing and managing climate- related risks and opportunities.	Compliant	n/a
Strategy	**a)** Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Compliant	n/a
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Partially Compliant: Further study is needed at this time to broaden the measurement of the operational effect for the long-term physical risks. Darktrace's initial assessments assess the impact to be low.	Further Assess the full extent of long term affects for physical risks to the business. To be completed by end of FY 2024.
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Partially Compliant: Further study is needed at this time to broaden the measurement of the financial effect for the long-term physical risks. Darktrace's initial assessments assess the impact to be low.	Further Assess the full extent of long term affects for physical risks to the business and to include these within Darktrace's operational resiliency plans. To be completed by end of FY 2024.
Risk Management	**a)** Describe the organisation's processes for identifying and assessing climate- related risks.	Compliant	n/a
	b) Describe the organisation's processes for managing climate- related risks.	Compliant	n/a
	c) Describe how processes for identifying, assessing, and managing climate- related risks are integrated into the organisation's overall risk management.	Compliant	n/a
Metrics and Targets	a) Disclose the metrics used by the organisation to assess climate- related risks and opportunities in line with its strategy and risk management process.	Compliant	n/a
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Compliant	n/a
	c) Describe the targets used by the organisation to manage climate- related risks and opportunities and performance against targets.	Compliant	n/a

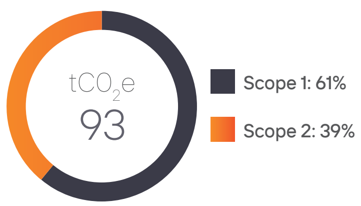


Emissions per revenue (tCO_2e/$million)

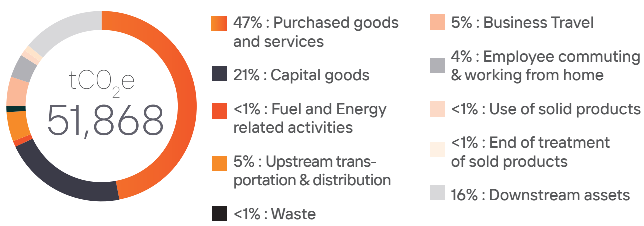


Emissions per employee (tCO_2e/FTE)

FY 2023 Scope 1 and 2 Emissions (tCO_2e)



FY 2023 Scope 3 Emissions (tCO_2e)



Decarbonisation strategy

Sustainable Property

Management's careful oversight of a hybrid working and hot desk policy has allowed Darktrace to optimise the footprint of the business, ensuring that offices are placed strategically around the world. This year, Darktrace reduced its carbon footprint by purchasing Renewable Energy Certificates (RECs)[5]. Investment in RECs has matched 100% of Darktrace's electricity consumption[6]. Through the purchase of RECs, Darktrace has supported the operation and development of facilities that generate clean, renewable energy.

Sustainable Employees

Management introduced a new, robust travel policy which considers sustainability criteria as part of the employee travel approval process.

Sustainable Product

This year, Management continued to evolve its repair, rebuild or recycle policy on hardware to ensure its hardware has a sustainable lifecycle. Going forward, Management will focus on reducing the number of hardware or 'appliance' deployments, moving towards a cloud first deployment strategy. Management intends to set targets for this reduction in the next fiscal year. In addition Darktrace will explore options in the design and specification of its hardware to reduce carbon consumption in manufacture, shipping and use. Likewise Darktrace will look to consider design factors in the development of its software to reduce power consumption during use.

Sustainable Supply Chain

Darktrace is committed to identifying its largest suppliers and conducting reviews to understand how they are decarbonising their operations. For example, this year, Darktrace moved to a green freight tariff with one of its key shipping providers. The introduction of Workday in the coming year will improve supply chain data quality and Workday will also facilitate Darktrace's evolution to a centralised procurement process, allowing the consideration of sustainability criteria for onboarding new suppliers. Driving data quality improvement in its scope 3 emissions, by reducing reliance on spend-based estimates and instead using primary data sourced directly from suppliers, is an immediate priority. This will allow Darktrace to better understand what drives the supply chain emissions as well as how to reduce them.

5. Darktrace followed RE100 guidance when purchasing RECs: https://www.there100.org/sites/re100/files/2022-12/Dec%2012%20-%20RE100%20technical%20criteria%20%2B%20appendices.pdf

6. Unbundled RECs were not available in South Korea, Taiwan or Hong Kong. For these markets, RECs from nearby markets were instead procured.

Darktrace's SECR Compliant Directors' Statement

Darktrace recognises that its operations have an environmental impact and is committed to monitoring and reducing its emissions year-over-year. Management is aware of its UK reporting obligations under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Darktrace has operational control of all of its subsidiaries which are also included in the data presented here.

2022-23 Performance

Darktrace has increased its overall carbon footprint on a market basis by 7.8%. The main performance changes are:

1. Building emissions reduced by 87% in FY 2023, mainly due to the acquisition of REC's to eliminate electricity-based emissions;
2. Business travel emissions increased by 115.8%, due to a full year of post COVID-19 pandemic travel, with flights having the highest emissions increase; and
3. Transportation and distribution emissions reduced by 2.9%, despite a 31.3% increase in revenue, mainly due to the switch to a green shipping tariff with a key supplier.

Energy and Carbon Action

In the period covered by this report, Darktrace has undertaken the following energy and emissions reduction initiatives:

- Purchasing of REC's to cover 100% of its electricity supply;
- Switching to a green freight tariff with a key supplier; and
- Introducing a sustainable travel policy

Methodology of Calculation

The methodology used to calculate the greenhouse gas emissions is in accordance with the requirements of the following standards:

- World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version);
- Defra's Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting requirements (March 2019); and
- The relevant conversion factors have been sourced from Defra 2021 and Defra 2022 for UK sites and IEA for international sites.[7]

Following an operational control approach to defining its organisational boundary, Darktrace calculated GHG emissions from global business activities within the reporting period 1st July 2022 to 30th June 2023, using the reporting period of 1st July 2021 to 30th June 2022 for comparison.

7. Based on IEA data from the IEA (2021 and 2022) Emissions factors, www.iea.org/data-and-statistics. All rights reserved; as modified by Darktrace Plc.

Global greenhouse gas emissions and energy use data for the period 1 July 2020 to 30 June 2022		FY 2021 (baseline)	FY 2022	FY 2023	Percentage change on baseline (%)	Percentage on FY 2022 (%)
Emmissions data by activity	**Activity**					
Scope 1 emmissions tCO2e	Natural Gas	18.3	46.0	56.5	209.7%	22.9%
	Refrigerants	1.2	-	-	-100.0%	n/a
Scope 1 Subtotal		**19.5**	**46.0**	**56.5**	**190.0%**	**22.9%**
Scope 2 emmissions tCO2e (Market-based)	Electricity	457.3	652.0	-	-100.0%	-100.0%
	Heat & Steam	30.2	28.0	35.7	18.2%	27.5%
Scope 2 Subtotal (Market-based)		**487.0**	**680.0**	**35.7**	**-92.7%**	**-94.7%**
Scope 2 emissions tCO2e (Location-based)	Electricity	419.9	566.0	532.8	26.9%	-5.9%
	Heat & Steam	30.2	28.0	35.7	18.2%	27.5%
Scope 2 Subtotal (Location-based)		**450.1**	**594.0**	**568.5**	**26.3%**	**-4.3%**
Scope 3 emmissions tCO2e	Purchased goods & services	18,034.2	20,035.8	24,835.5	37.7%	24.0%
	Capital goods	8,545.9	10,791.5	10,958.4	28.2%	1.5%
	Fuel and energy related activities	103.7	210.8	191.0	84.1%	-9.4%
	Upstream transportation & distribution	2,982.0	2,729.7	2,651.5	-11.1%	-2.9%
	Waste	29.7	47.4	59.0	98.9%	24.5%
	Business travel	213.4	1,298.8	2,802.6	1213.6%	115.8%
	Employee commuting & working from home	2,222.8	3,624.7	2,108.0	-5.2%	-41.8%
	Use of sold products	616.5	1,002.2	181.0	-70.6%	-81.9%
	End of life treatment of sold products	0.05	0.08	0.03	-38.5%	-61.9%
	Down stream assets	5,711.0	7,751.5	8,081.5	41.5%	4.3%
Scope 3 Subtotal		**38,459.2**	**47,491.5**	**51,868.4**	**34.9%**	**9.2%**
Total gross emissions tC02e (Market based)		**38,966.2**	**48,217.5**	**51,960.6**	**33.3%**	**7.8%**
Total gross emissions tC02e (Location based)		**38,928.8**	**48,131.5**	**52,493.4**	**34.8%**	**9.1%**
Intensity Metrics	Emissions per ($ million) revenue (tCO2e/$ million)	139.0	115.0	95.3	-31.4%	-17.1%
	Emmissions per employee tCO2e/FTE	24.4	24.1	23.1	-5.2%	-4.0%
Energy (kWh)	This includes electricity, Natural Gas and Employee cars as per SECR Guidance.	1,539,189.0	2,338,041.0	2,786,466.7	19.2%	19.2%

Market based emissions and energy use		FY21			FY22			FY23		
		UK	Global (exc. UK)	Total	UK	Global (exc. UK)	Total	UK	Global (exc. UK)	Total
Market based emissions (tCO2e)	Scope 1 and 2 plus employee cars	122	430	552	292	486	778	83	183	266
Energy use (kWh)	Energy from natural gas, heat & steam, electricity and company cars	395,644	1,143,545	1,539,189	1,009,216	1,328,825	2,338,041	1,169,073	1,617,394	2,786,467

Social

The World Economic Forum has made two things clear: firstly, the next decade will be defined by cyber risk[7] and secondly that responsibly designed artificial intelligence could lead to profound benefits for society[8]. As a first mover in AI designed specifically to bolster cybersecurity, Darktrace is uniquely placed to make a social contribution in this area, particularly in this new era of generative AI. In this respect, Darktrace will focus on three key areas: empowering society by freeing the world from cyber disruption; the responsible advancement of AI; and building the next generation of diverse technologists at Darktrace and beyond.

Empowering Society by Freeing the World from Cyber Disruption

Darktrace acknowledges the significance of its role as a trusted partner of not only large organisations, but also for small and medium sized businesses (SMBs), often referred to as the backbone of economies. Darktrace also acknowledges the rising trend in cyber-attackers targeting SMBs as part of supply chain attacks to access larger companies. In the last year Darktrace has continued to invest in complementary customer training programmes that enable organisations with lean security teams to best use Darktrace products to protect themselves. Darktrace now offers over one hundred on-demand eLearning modules to its customers and through the recently launched Darktrace Academy also offers four certifications including Darktrace Essentials, Cyber Analyst, Cyber Engineer and Darktrace/Email to upskill in-house security teams. Through the Darktrace Academy, Darktrace also now offers its employees external training, for example Cloud Certifications with AWS, to expand the technical skills of its go to market teams to better support SMBs. Darktrace has also continued to evolve its 'Inside the SOC' blog series which is exclusively authored by Darktrace's expert cyber analysts and is designed to share lessons learned from cyber incidents and the latest threat trends with the wider community.

As a responsible business Darktrace will seek to share the insights that it has gained as it has developed its products using AI with the relevant policymakers, regulators and other authorities seeking to ensure that AI innovations are developed securely and responsibly. Furthering its commitment to collaboration and information sharing, in the last year Darktrace provided strategic threat notifications to the National Cyber Security Centre– a part of GCHQ ("NCSC"); is an active member of the NCSC Operations Industry Threat Community and has strengthened its membership of the Royal United Services Institute for cross industry collaboration on nation state threats and the resilience of critical infrastructure. In the next financial year, Darktrace intends to become a member of the Industry100 (i100), the principal initiative from the NCSC to facilitate close collaboration with the best and most diverse minds in UK industry. Darktrace will collaborate with other public and private sector talent to challenge thinking, test innovative ideas and enable greater understanding of cybersecurity.

Responsible Advancement of Artificial Intelligence

During the course of the year, Darktrace has continued to advance its proprietary self-learning AI which does not need to be trained on large volumes of data. As a result, its AI is not vulnerable to biases inherited from data sets. Darktrace's R&D team has remained focussed on innovating to ensure that from development to deployment, users are able to explain how the AI got to its output and evaluate their confidence in that output.

Darktrace has also made a significant investment in a new partnership with Loughborough University to fund five AI Research PhD students over the next five years in critical areas such as how Generative AI will alter cyber-attacks and AI regulation. Darktrace has accepted one student and intends to accept at least one more in the next financial year.

Building the next generation of diverse technologists at Darktrace and beyond

Darktrace has traditionally hired people from a broad range of academic backgrounds seeking a career in cybersecurity and the technology industry. Darktrace will continue to invest in developing the skills and capabilities of its employees to ensure that they are equipped to bring the best of Darktrace technologies to customers and prospects. Darktrace's R&D team benefits from a multidisciplinary approach with people from a range of academic backgrounds, including medieval historians, linguists and civil engineers who all uniquely contribute to the development of its products. Darktrace believes that it also has a responsibility to contribute to developing skills in the wider talent pool in order to bring fresh perspectives to the world of cybersecurity and technology more broadly.

This year, Darktrace continued its internship programme with CyberFirst, a programme led by the NCSC aimed at inspiring young people to develop cybersecurity skills and learn more about careers in the industry. Darktrace successfully placed four interns for eight-week summer placements at its Cambridge office and has seen positive engagement from the students.

Building on these efforts, Darktrace launched partnerships with Year Up in the United States and Code First Girls ("CFG") in the UK to close the opportunity gap in the cybersecurity industry and diversify its own talent pipeline. Year Up's mission is to enable young adults to move from minimum wage to meaningful careers in just one year. Through this partnership Darktrace has sponsored two individuals to learn technical and professional skills followed by a 6-month internship at

7. The World Economic Forum Global Risks Report 2023, Page 6
8. The AI Governance Journey: Development & Opportunities, Page 6

Darktrace in its Analyst team in Reston which began in June 2023. Darktrace's objective for this partnership is to diversify its own talent pipeline, aiming to maintain relationships with its interns to bring them into the business as full time employees. As such, these partnerships are a critical first step for Management in achieving their ambition of building the next generation of diverse technologists both within Darktrace and beyond.

CFG is focussed on providing free coding courses to women and non-binary people from underrepresented backgrounds and those who are amongst the first generation of their family to attend university or have no university education. Darktrace intends to hire four CFG graduates into its analyst or development teams in Cambridge & London in 2024.

Diversity, Equity and Inclusion Journey

Darktrace understands that as part of building the next generation of cyber technologists it must work towards diversifying its own talent pipeline, retaining diverse talent and promoting them through the business.

These partnerships are the first steps from Management as it evolves and advances its approach to Diversity, Equity & Inclusion. Management has made early progress on this journey by conducting analysis to understand the infrastructure it needs to build to be able to measure where the business is today and how it will evolve its approach in the future, with an initial focus on building out its people analytics function and publishing a set of key Darktrace DE&I principles.

During the year ahead Management will map out its DE&I strategy, objectives and action plan in more detail and will begin to deliver on that strategy. This year, Management oversaw the launch of an employee resource group initiative and intends to establish six resource groups, focussed on topics nominated by employees, each sponsored by an executive committee member. Management has begun testing initiatives linked to Employee Resource Groups, such as our LGBTQ efforts around Pride month. In the year ahead, Darktrace will deliver a consistent programme of DE&I initiatives to support major external events and to celebrate Darktrace's own diversity.

As of the date of the Annual Report Darktraces' employees were asked to declare their gender identity and the overall composition of employee gender is: Female 760 (31.5%), Male 1567 (64.9%) and 85 non-binary or undisclosed (3.5%).

Reporting on FCA proposals set out in CP 21/24 'Diversity and inclusion on company boards and executive committees'

Management acknowledges the proposals set out by the FCA and the accompanying reporting requirements. Below is Darktrace's reporting in the standardised table format and where Darktrace is compliant against the targets set. The data pertaining to the Board is self-reported by Board members based on the Office of National Statistics ("ONS") categories, whilst the data regarding Executive Management is collected via employee HR profiles, which is voluntary and accessed by employees via the company intranet.

Gender representation across the Board & Executive Management

Board representation

Men (7): 70%
Including 2 Senior positions

Women (3): 30%
Including 2 Senior positions

Executive Management representation

Men (6): 55%

Women (5): 45%

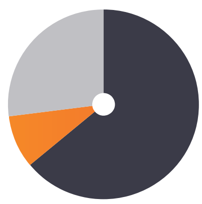
Ethnicity representation across the Board & Executive Management

Board representation

White British or other White (including minority-white groups) (9): 90%
Including 4 Senior positions

Mixed/Multiple Ethnic Groups (1): 10%
Including 0 Senior positions

Executive Management representation



White British or other White (including minority-white groups) (7): 64%

Mixed/Multiple Ethnic Groups (1): 9%

Not specified/ prefer not to say (3): 27%

FCA Targets

- At least one senior board position (Chair, CEO, SID or CEO) is a woman – **compliant and exceeded**
- At least one member of the board is from a non-White ethnic minority background (as referenced by the categories recommended by the (ONS) – **compliant**
- 40% of the board women – **not compliant**

Attracting, Retaining & Developing Talent

Employee Engagement

Earlier in the year, Management oversaw the design and launch of an employee engagement programme, "Inside the Loop". This includes a new employee value proposition, a refreshed set of values, and a new approach to delivering internal communications and engagement to the business through a comprehensive set of channels and initiatives. At the beginning of the project, Management carried out a listening phase to hear feedback from employees across the business which helped from the basis of the programme design.

These insights are the basis for Darktrace's employee communications and engagement programme, with key activations including:

- **The Inside the Loop Conversation Series**
  A new quarterly webinar series, live streamed from one of the key offices featuring a member of the executive team, sharing insights on what's happening across the business, reflecting on the previous quarter and looking ahead at the upcoming quarter.
- **Working Hard, Thinking Fast Podcast & Blog**
  New monthly leadership podcast and blog series for employees to hear more from the leadership team, and insights into a particular topic.
- **Your Inside Loop**
  Weekly email round-up of corporate updates on what's happening across the business, keeping employees informed, including customer stories, team updates, internal news, senior hires and so on.
- **Stay in the Loop: Pillar Updates**
  A continuation on the communications from the four pillars – Product, People, Positioning and Performance – when relevant throughout the year.
- **Influencer Network**
  A group of 16 employee ambassadors from across the geographic and functional spread of the organisation who are acting as Darktrace's sounding board on employee engagement initiatives.

These initiatives have improved the flow of information through the organisation and fostered stronger connections, providing more timely and relevant information about the business, and giving employees the opportunity to hear more from the leadership team.

Talent Development

Darktrace has fostered an environment where its employees can move laterally across different parts of the business to develop new skills and in the last year has continued to support employees who want to expand their capabilities. Furthermore, Darktrace has dedicated investment and resource into launching The Darktrace Academy focussed on attracting, retaining, and developing its biggest asset: its people. The Darktrace Academy is designed to get the best out of each Darktrace employee not only for their role in the business, but in cultivating skills they can use to add value beyond their careers at Darktrace through the optimisation of the way training is delivered and a state-of-the-art central learning system that services every single employee in the business. Alongside clear, trackable learning paths assigned to each employee there is an evolving public library, with courses designed for independent development. Management has also overseen the design of a 'Top Talent Programme' which will develop the highest potential employees across the business globally to fast track their careers and realise their potential. Recruitment for the first ever Top Talent Programme has commenced, and delivery of the Programme will begin in September.

PEOPLE STORIES

Kien Tran

/ Cloud Solution Architect, Toronto

Darktrace empowers employees with a range of opportunities to pursue new skills and certifications. This both enables colleagues to grow, while also providing the Darktrace customers and clients they support with valuable additional expertise.

One of these opportunities enables Darktrace employees to validate their cloud expertise with an AWS Certification. This learning and development initiative is led by Kien Tran, Cloud Solution Architect at the Darktrace Toronto office.

"It benefits the business, but first and foremost, it benefits individuals, allowing them to upskill themselves. The certifications have a lot of weight in the market, and it not only provides more confidence, but it also provides a solid background when talking to clients", he says.

Certifications don't just benefit Darktrace employees individually; additional skills and abilities provide them with a better understanding of technological solutions which benefits Darktrace customers helping them stay secure against cyber threats.

"It's one of the great things about the company, there is a very strong drive to challenge yourself and upskill yourself", says Kien.

Ishana Gupta

/ Customer Success Director, Strategic Accounts, New York

Darktrace prides itself on its people. Over 2,200 employees around the world work together to make Darktrace what it is, pulling together in a strong and supportive culture which embraces diversity and lets people grow.

People from a wide range of different backgrounds are encouraged to thrive through development opportunities. One of these people is Ishana Gupta, Customer Success Director at Darktrace.

Originally from India, Ishana joined Darktrace after university, initially working from the New York office, before moving to the Toronto office for 18 months. This enabled her to meet and work with a whole new set of people before moving back to New York. "Those experiences of change shaped me", she says.

Emboldened by the supportive culture, Ishana was keen to take part in the Darktrace leadership development programme when she was offered the opportunity to take part as one of Darktrace's high performers and potential future leaders of the business.

The training identified and developed unique skills for each Darktrace employee taking part, including Ishana, a method which ensured she became more aware of her strengths and provided her with the insight to become the leader she wants to be, something she describes as giving her an invaluable confidence boost, as well as helping her direct her leadership skills towards supporting others.

"More importantly, it taught me the value of empowering other capable individuals on my team and beyond and to better advocate for people", she says.

Keen to use what she learned on the leadership development programme to help promote visibility throughout Darktrace, Ishana became the leader of an employee led initiative for sharing stories about colleagues around the world, the "Inside the Loop" Darktrace newsletter.

It showcases successes and initiatives across Darktrace, along with personal updates from colleagues, allowing everyone to get to know their co-workers better. This has enabled Ishana to get to know a wide range of people throughout Darktrace.

"It's awesome to meet different people in different teams to understand what their world is like, what you can learn from each other.

People are so passionate about the business. I had the opportunity to see that", she says. "We're welcoming, we're inclusive, we're not afraid of new ideas".

PEOPLE STORIES

Suzanna Beanland

/ Global Head of Analyst Development, Cambridge, UK

Curiosity and breaking moulds are central to Darktrace values, so it hires people from a broad range of academic backgrounds from the global talent pool.

"As long as someone has the curiosity and the hunger for learning, we can teach them the skills", says Suzanna Beanland, Global Head of Analyst Development for Darktrace.

Suzanna was a physicist with no background in cybersecurity but joined Darktrace and trained to be a cybersecurity analyst. Now she helps to train the next generation of cyber technologist – with a special focus on recruiting people with a range of academic and cultural backgrounds, who will think differently. All of these pathways enable analysts to continue to improve their skills, while providing inspiration for future career development, no matter their original background.

"They embody the Darktrace value of curiosity. They're going to be asking questions, they're going to be challenging other people in the team. If someone is asking these questions, you can improve things. It's great to have different voices and to be able to share these ideas", Suzanna explains.

Within six months of starting at Darktrace, a new analyst learns all the technical knowledge required to get out there and help Darktrace customers. Following that, further Darktrace training allows analysts to learn and practice several areas of cybersecurity. Analysts also have the chance to learn about consultancy, threat intelligence and analyst scripting.

"I didn't think I would be in this role, so I don't want anyone else to be put off and I'm open to what backgrounds people apply from", says Suzanna.

"That's a great thing about Darktrace; if you've ever got ideas, if you ever want to try something, there's a great support network to do that. If you ask a question, it's unlikely someone is going to say no – that's where I've got where I have. To be able to support other people to do the same makes me very proud".

Governance

Darktrace is clear that strong governance is fundamental to protecting stakeholder value and empowering its employees. More in depth information on Governance at Darktrace can be found in the 'Corporate Governance Report'.

Darktrace's Governance strategy, guided by early results of its materiality assessment, principally focuses on evolving three key areas: data protection and security; good business practices; and Board composition.

Data protection

Cyber resilience is at the heart of Darktrace's purpose so it will continue to unwaveringly prioritise data protection and security both for its customers and its own systems

Protecting customer data

During the year Darktrace continued to advance its approach of bringing its AI to each customer's data rather than aggregating customer data to train an AI across one general model which, amongst other benefits, provides customers with peace of mind that their data is not being used inside LLM training sets without their knowledge. The Darktrace security team continuously updates and matures its processes relating to the storage and processing of data (customer, internal and third party) in line with applicable legal and regulatory requirements.

Darktrace's ISO 27001 certification is the central pillar for maintaining an effective information security management system to protect sensitive data across the enterprise. The scope of Darktrace's certified information security system expanded during the course of this year following the acquisition of Cybersprint. In addition, Darktrace is certified to ISO 27018, an industry recognised Information Security standard that speaks to the protection and management of Personally Identifiable Information ("PII") in public cloud environments. This provides independent validation on a regular basis that customer data is protected and managed appropriately in Darktrace's cloud hosted product.

Protecting Darktrace systems

Darktrace uses all four key product capabilities - PREVENT™, DETECT™, RESPOND™ and HEAL™ - to defend its systems from cyber-attack, resulting in key improvements in Darktrace's risk metrics, security objectives and strategic goals. To safeguard the use of AI across the business, Management introduced a new ChatGPT policy in order to enable employees to safely operate at the cutting edge of AI research and continue to be active in AI transformation.

Darktrace's internal security function's organisational structure comprises of Security Engineering, Internal SOC, Security Compliance, Privacy and DevSecOps teams. Processes are aligned to the Enterprise Risk Management ("ERM") framework to enumerate secure by design DevSecOps and Security risks. Darktrace's onboarding, governance and risk processes have been enhanced this year to accommodate an increased appetite for cloud services and ensure the risks of operating in the cloud, and the relevant security controls, are adequate and managed appropriately. The cyber crisis management plan has also been updated and stress tested in a simulation exercise during the period.

Darktrace's security team will further develop its continuous feedback loop to support product development, operational usage of Darktrace products and support the R&D team as they innovate, improve and test in Darktrace's global environment.

Good business practices - Robust oversight, management and effective communication

Darktrace is committed to robust oversight through processes and regular communication of good business practices. As a fast growing business, Darktrace has a culture of continuous improvement and has an ongoing programme to advance its systems, processes and controls.

Darktrace will continue to modernise and re-architect its internal data requirements, workflows and governance during the course of the next financial year. As part of this, Darktrace has invested in cloud solution Workday to enhance its HR, finance and expense processes. The implementation of Workday is underway and will allow Darktrace to connect operating, finance, and HR data more accurately and quickly for reporting and decision-making purposes, as well as to automate manual processes and improve detective controls. Workday will also provide a better experience for Darktrace employees with, amongst other things, its mobile app for expenses and HR requests.

In FY24, Darktrace will commence implementation of an industry leading CRM tool as its main customer and contract data repository and integrated pricing and quoting system. This will enable a data environment with more granular data capture, less manual inputting and processing, and better visibility, reliability and consistency.

Darktrace has also updated its policies in relation to Whistleblowing, Anti-Bribery and Corruption and Gifts & Hospitality & Modern Slavery. The Group is updating its training programmes for employees in each of these areas, supported by coordinated internal communications to bolster employee knowledge and engagement with those policies. Darktrace also has an easy-to-use, third party whistleblowing platform to enable employees to report issues confidentially and anonymously.

Darktrace will continue to promote a culture of open dialogue, thorough investigation and action with evolved training programmes on policies as well as building a centralised policy repository to further improve Darktrace employees' knowledge and awareness of best practice and how to raise issues quickly and effectively.

Board Composition

In depth information on Darktrace's Board can be found in the Governance section of this report.

The Board members have a range of skills and experience across the public and private sector and a range of industries and bring valuable perspectives to Darktrace. The Board is committed to identifying where gaps in its skills and experience exist and recruiting additional independent Non-Executive Directors as it moves towards majority independence. The Board's first step in in this process was to appoint Elaine Bucknor, former Group Chief Information Security Officer at Sky, as a Non-Executive Board Director in June of 2023. With over 25 years of experience in the technology industry and direct experience as a CISO, Elaine's appointment brings deep cybersecurity experience to the Board. The Board continues to search for additional independent Non-Executive Directors and is specifically looking at candidates in the US as well as in Europe.

Enterprise Risk Management Framework

Enterprise Risk Management ("ERM") is distilled into Darktrace's culture and is a key aspect of how the business operates. The entire business takes an active role in managing risks throughout day-to-day operations, guided by the Board and the risk parameters set out as part of Darktrace's business objectives.

Darktrace's subscribes to the ISO 3100 risk management methodology and the ERM approach to managing its risk profile, which enables it to manage all forms of risk and maintain a consistent approach in the identification, management and reporting of risks.

Darktrace's ERM framework continues to evolve as the business develops and the Principal and Emerging Risks are reviewed and updated accordingly.

Risk Governance

Board

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

Audit and Risk Committee

The Audit and Risk Committee plays a key role in determining the Group's risk appetite and making sure that procedures are in place for identifying, managing, and reducing the Principal and Emerging Risks of the Group and reports to the Board on ERM.

The Audit & Risk Committee evaluates the Principal Risks to determine whether they remain pertinent, efficient, and in line with achieving Darktrace's strategic goals while being within the Group's risk appetite.

Risk Steerco

The Risk Steerco is made up of representatives from across the business both functionally and geographically and is responsible for identifying and overseeing the Principal, Emerging and Business Risks.

The Risk Steerco convenes monthly, to ensure appropriate review and reporting of organisational risks to ensure that up to date information is provided to the Audit and Risk Committee.

The responsibilities of the Risk Steerco in relation to ERM include:

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

The Board

- Overall responsibility for Risk Management
- Establishes Darktrace's risk appetite
- Establishes appropriate governance arrangements and acts as a champion of "top-down" risk culture

The Audit and Risk Committee

- Meets quarterly to review and monitor the Principal, Emerging and Business Risks
- Receives in-depth analysis of Principal Risks and relevant Business Risks from "top down" and "bottom up" perspectives
- Reports to the Board

Risk Steerco

- Meets monthly to review and monitor the Principal, Emerging and Business Risks (Chaired by the Head of Enterprise Risk Management)
- Reviews risk mitigations and controls
- Reports to the Audit & Risk Committee

Business Functions

- Manage and monitor risks on an ongoing basis and communicates Emerging Risks
- Support engagement and culture of risk awareness, control focus
- Identify key risks to business strategy and mitigation factors
- Report on status of risks to Head of Enterprise Risk Management

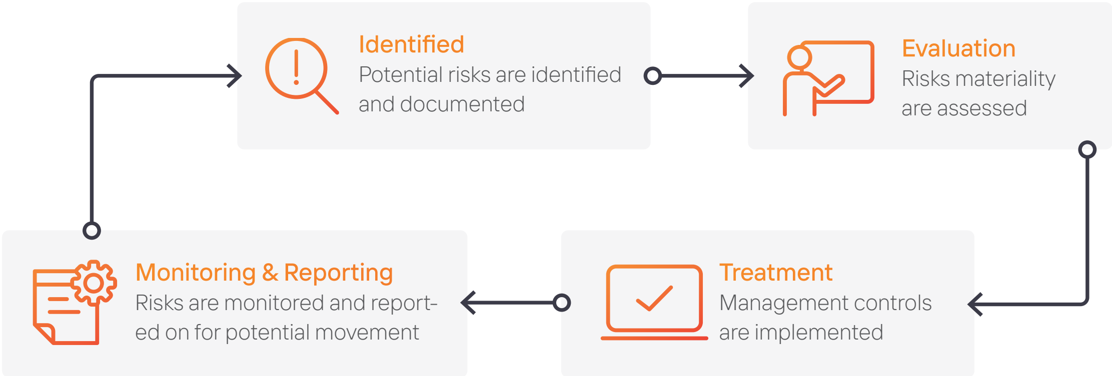


Figure 1: Darktrace Risk Assesment Process

Risk identification

Darktrace's risk identification process uses a "top-down, bottom-up" approach that is applied across the entire organisation. The top-down approach identifies Principal Risks that pose the greatest threat to the delivery of Darktrace's strategic objectives. The bottom-up approach identifies Strategic, Operational, Compliance, Security and Change Risks ("Business Risks") that occur at a regional and functional level.

Risk assessment

All identified risks are assessed for likelihood and impact using the ISO 3100 risk assessment methodology, which takes into account the likelihood and potential impact of the risk, e.g. to Darktrace's security, customers, employees or finances. The analysis takes into account risk both before any mitigation ("Inherent Risk") and after all existing mitigations ("Residual Risk"). This facilitates decision making with appropriate consideration of risk at all levels. The primary advantage of assessing Inherent Risk is that it indicates possible risk exposure if mitigations were to fail entirely or not be implemented.

Risk appetite

Risk appetite is how much risk exposure Darktrace is willing to accept. The Board, based on the recommendations of the Audit & Risk Committee and the advice of the Risk Steerco has defined the risk appetite level within Darktrace's ERM framework which helps Executive Risk Owners make more informed decisions on the level of acceptable risk.

Darkrace's risk appetite is set at low as outlined within its Risk Management Policy and is formally approved by the Audit & Risk Committee. Low risks are deemed to have a very low to moderate impact to Darktrace and a conceivable to possible probability of realisation.

Risk Management

Darktrace acknowledges that risk elimination is frequently neither realistic nor desirable, so it uses risk appetite to provide its leaders with guidance to support appropriate decision making in the pursuit of Darktrace's strategic goals. Ultimately, Darktrace's Board has responsibility for the ERM Framework and internal controls and the Board has given its approval to the risk appetite declaration.

All Principal risks are given an Executive Owner. The Executive Owner oversees management of the overall risk, ensuring that sufficient controls are in place and that, should a risk exceed the appropriate appetite level, the requisite action plans are implemented effectively. Principal Risks are reviewed quarterly with the assigned Executive Owner and relevant supporting business functions.

Business Risks are recognised and recorded at a regional or functional level. Reviews of business risks are completed on a quarterly cycle by the relevant functions and are also reviewed by the Risk Steerco.

Risk reporting and Monitoring

Through bottom-up risk registers that are regularly updated in Darktrace's risk and control system, global visibility of risks recognised by its regions, company departments and sectors is developed. Bottom-up risks are coupled with top-down risks using the ERM framework with the latter being recognised and owned by an Executive.

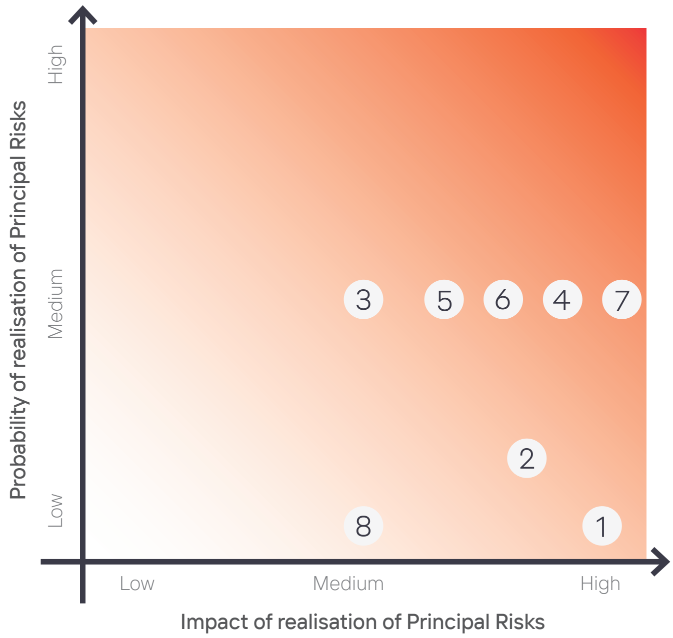
The Audit and Risk Committee is responsible for reviewing the effectiveness of Darktrace's internal controls for Principal Risks and for reporting relevant matters to the Board. The Risk Steerco ensures that Darktrace's Business Risks are comprehensive, managed, and communicated appropriately to the Audit and Risk Committee.

Whilst there is a formal process in place for reporting on risks, risks can be reported to the Board and Audit and Risk Committee outside of the established reporting cadence, should events dictate that this is necessary and appropriate.

Principal Risks

The aim of this section is to describe the principal risks and uncertainties facing Darktrace and explain how they are managed or mitigated. These are the risks, or a combination of risks that can seriously affect the performance, future prospects or reputation of Darktrace.

1. Inability to innovate Darktrace products
2. Customer service delivery failure
3. Inadequate channel sales and support
4. Cloud service providers downtime
5. Failure to retain and attract new employees
6. Darktrace Cyber Incident
7. Intellectual property theft or exposure
8. Autonomy related matters



1. Inability to innovate Darktrace products

Links to Strategic Objective(s):
- Product
- Positioning

Risk level: Low

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
Failure to innovate, develop and enhance the AI Cyber Loop, to adapt to the increasingly sophisticated and changing nature of cyber-attacks posed by threat actors and the emergence of new generative AI LLMs. Darktrace may also fail to innovate against the market's current requirements and in line with Darktrace's overall business strategy.	- Customers suffering Security Incidents or Data Breaches. - Reputational damage. - Business not achieving the desired level of growth. - Competition are more innovative than Darktrace and Darktrace is no longer perceived as an AI Cybersecurity leaders. - Delivery of products and features not wanted by customers.	Darktrace has several world leading experts within the Cyber-security and Artificial Intelligence fields that contribute to thought leadership within the cybersecurity space. Secondly, Darktrace continues to grow its teams to support R&D initiatives. This also ensures that Darktrace's products remain at the forefront of technology as well as allowing Darktrace to anticipate and effectively respond to changes in the cybersecurity market, develop new or enhanced technologies or processes or to extend Darktrace's offering to new and evolving platforms, operating systems or appliances.	The continuous investment and growth within R&D and the expansion of the product offering has reduced the overall residual risk.

2. Customer service delivery failure

Links to Strategic Objective(s):
- Performance

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Group may fail to anticipate and understand customer needs appropriately and in a timely manner, therefore risking failure to deliver value to the customers.	- Contract termination and higher churn. - Reputational damage. - Business not achieving the desired level of growth	The Group has significantly restructured and bolstered its Go-to-Market teams, including providing enhanced learning and development. This offers long term better alignment to retaining customers and providing the customers with an improved experience.	Go-to-Market teams are being expanded to match growth demand and processes for dealing with customer demands are being improved and automated.

3. Inadequate channel sales and support

Links to Strategic Objective(s):

- Performance
- Positioning

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Group relies on the channel i.e., third parties, including distributors, resellers, referral partners and managed service providers, to generate a significant portion of its revenue.	- Contract termination and higher churn. - Business not achieving the desired level of growth.	Darktrace continues to consolidate and enhance its group of strategic partners who can enhance Darktrace's go-to-market, and customer maintenance strategies, and who align to it's governance and ethics practices.	No change.

4. Cloud service providers downtime

Links to Strategic Objective(s):

- Performance

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Group relies on Cloud Service Providers, such as Amazon Web Services ("AWS") and its own data servers to host and operate an increasing number of deployments for the Darktrace product line.	- Inability to deliver the services agreed with the customers. - Contract termination and higher churn. - Reputational damage.	Darktrace continues to monitor and update its business resiliency plans, in respect of cloud service provider, to ensure that this is in line with ISO 27001 and 27018 certifications.	No change.

5. Failure to retain and attract employees

Links to Strategic Objective(s):

- Performance
- Product
- People

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Group relies on the performance of highly skilled personnel, including key employees, to deliver on its strategic objectives.	- Inability to deliver the services - Inability to continue to innovate. - Business not achieving the desired level of growth	Darktrace continues to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of the organisation. A renewed focus on retention, which has been implemented using the employee value proposition, performance process management, and improvement of practices. Employee learning and development has been bolstered with the release of the Academy, enabling upskilling of employees.	No change.

6. Darktrace cyber incident

Links to Strategic Objective(s):

- Performance
- Product
- People
- Positioning

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
Risk of failure of its systems and compromise of its data, through cyber-attack, cyber-intrusion, insider threats or otherwise. Failure to responsibly collect, process and store data, together with ensuring an appropriate standard of cybersecurity across the business.	• Business not achieving the desired level of growth. • Potential non-compliance with applicable legislation and standards, including regulatory fines. • Reputational damage. • Contract termination and higher churn.	Darktrace uses a layered approach of people, technology, and process to protect the group from numerous threats Darktrace's ISO 27001 and 27018 certification enables an effective delivery of a layered security approach, with mitigating controls constantly being reviewed and updated. Darktrace utilises its own proprietary self-learning AI and autonomous response to discover unpredictable cyber-threats, which includes assessing and remediating weaknesses identified with Darktrace/PREVENT.	Overall, the Darktrace Cyber Incident risk remains at medium to the business. The minor increase of the threat to Darktrace is due to Darktrace's expansion of its use of new SaaS vendors to enable better productivity which may introduce potential security risks. The Darktrace Security team are aligned with all new business change projects and continue to advise and monitor the introduction of new SaaS vendors vigilantly.

7. Intellectual property theft or exposure

Links to Strategic Objective(s):

- Performance
- Positioning

Risk level: Medium

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Group may fail to adequately protect its intellectual property, proprietary rights and prevent others from making unauthorised use of its platform and technologies, especially at a time when competitors are embracing new generative AI LLMs.	• Potential loss of competitive edge • Reputational damage • Business not achieving the desired level of growth • Contract termination and higher churn • Competitors look to use new generative AI LLMs to mimic Darktrace products and processes.	Darktrace continues 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	No change.

8. Autonomy related matters

Links to Strategic Objective(s):

- Positioning

Risk level: Low

Risk Description	Risk Impact	Mitigating Actions	Risk Posture Change
The Autonomy related litigation represents a potential risk for Darktrace from both a reputational and a legal perspective.	o Reputational damage o Business not achieving the desired level of growth	Darktrace has developed a forward-looking communications plan to ensure Darktrace is prepared for any developments in the Autonomy litigation process and the various scenarios that could play out. Darktrace analysed the legal risk at the time at the IPO and this analysis remains unchanged. Darktrace continues to monitor any developments within the ligation process with our legal advisors.	No change. During the period the Audit & Risk Committee approved the Risk Steerco's assessment of the overall materiality impact of the risk remains low.

Major changes

Brand & Reputation

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

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

Customer Service Delivery Failure

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

Principal Risk Renaming and Restructuring

During FY 2023 Darktrace further scrutinised its Principal Risks and renamed certain of them to ensure that they reflected the true nature and evolution of the risks in relation to Darktrace as it has now developed since its IPO in 2021. The Audit & Risk Committee, with the advice of the Risk Steerco formally accepted the renaming of the Principal Risks as set out below.

New name	Previous names
Customer Service Delivery Failure	o Unable to develop Darktrace products to mitigate evolving cyber threat landscape o Insufficient Customer Support Resources
Inability to innovate Darktrace products	Unable to meet customer requirements within the product line
Inadequate Channel Sales and support	Reliance on Partners and Resellers to generate new business
Cloud Service Providers downtime	Reliance on outsourced hosting for services
Failure to retain and attract new employees	Employee retention and recruitment
Intellectual Property theft or exposure	No Change
Darktrace Cyber incident	Cyber attack or systems failure
Autonomy related litigation	Brand & Reputation

Principal Risk downgrading

As part of the ERM Framework evolution the Principal Risks were scrutinised for their potential material impact on the business goals and a Principal Risk was downgraded to Business Risk.

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

Emerging Risks

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

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

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

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

Risk Name	Risk Description	Risk Impact	Mitigation Actions
AI Market Product Saturation	Darktrace is a at the forefront of Cyber AI products, as the Group's reputation grows more imitation products will appear using the same core product principles alongside the growth in new generative AI LLMs that competitors are incorporating in their own products which could potentially lead to an over saturation of the market, with cheaper and inferior product lines and the use of new generative AI LLMs trained on inferior data.	Customers may opt to purchase third party products due to restricted budgets. This could lead to a more difficult market for Darktrace to operate in. Darktrace could potentially be perceived to have lost its competitive edge due to the growth in organisations using new generative AI LLMs within their own products.	o Darktrace has world class R&D facilities and teams to stay at the forefront of the market through innovation and diversification of its products. o Darktrace retains and employs AI leaders and has been at the fore-front of Cyber AI for 10 years. o Providing best in class Customer Success through go-to-market teams. o Darktrace's own generative AI LLM is unique to Darktrace and is trained on data specifically focussed on cybersecurity.
AI & Cyber Regulatory uncertainty	Current regulatory trends have prompted companies to re-examine the effectiveness of their governance and oversight. The continued adoption of new or proposed regulations can lead to compliance challenges and to increasing regulatory complexity for Darktrace.	AI and cyber related regulation continues to gain prominence and is one key example of where this risk can emerge. Furthermore, over-regulation, mis-regulation but also non-regulation have been identified as potential risks in some areas.	o Horizon scanning processes for future impactful legislation. o Inclusive community engagement with external expertise. o Updating business policies to en-sure compliance with government or market regulator standards and regulations.

VIABILITY STATEMENT

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

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

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

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

Viability Period

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

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

Viability Scenario Frameworks

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

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

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

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

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

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

1. Revenue/ ARR Scenario

The impact of material reputational damage on new customer acquisition and existing customer churn arising as a result of a data breach or cyber incident, combined with significant operational disruption and declines in salesforce productivity, as a result of a service provision downtime or a lack of future product innovation. Gradual and limited recovery after a sustained period of zero new logo ARR and a material deterioration in ARR retention trends. Darktrace continues to invest for growth and recovery throughout; no active cost saving measures.

Principal Considerations

- Impacts on employees, retention and wider company culture;
- Product, customer and route-to-market strategies;
- Zero new logo ARR for a sustained period and limited subsequent recovery in growth;
- Salesforce restructuring and customer success trends;
- Material deterioration in trends of ARR upsell, churn, and downsell trends (for existing ARR);
- Corresponding impact to revenues;
- No active cost saving measures;
- Covenant compliance; and
- Damage containment, actions for reputational repair.

The overall impact to total net ARR added across the viability period is a 57.1% decline relative to the base case forecast, with ARR at the end of the period representing a 26.1% decline relative to the base case forecast. Meanwhile total revenues across the period declined 20.0% relative to the base case forecast. Cash and equivalents at the end of the Viability period declined by 67.0% relative to the base case forecast.

2. Cost Scenario

Either as a result of increased industry competition and/or reputational damage, the impact of a material and prolonged failure in Darktrace's ability to attract and retain employees was considered, leading to significant increases in employee churn and a material increase in hiring and compensation related costs, particularly for technical and sales-related personnel. Extended general cost inflation was considered, with material increases to key unit costs (such as appliance and hosting costs). Darktrace continues to invest for growth, no active cost saving measures.

Principal Considerations

- Impacts on employees, retention and wider company culture;
- Forecast churn rates for all employees were increased relative to base case churn levels by at least 20%, with particular focus given to increased salesforce churn, which was increased by 25% vs base case assumptions for the entire period;
- Material wage and overall compensation inflation (particularly for technical and go-to-market personnel) considered;
- Supply chain and deployment risks considered, combining extended periods of general cost inflation, with additional increases to key unit costs (e.g. appliances, hosting, IT equipment);
- No active cost saving measures; and
- Covenant compliance considered.

Overall the increased costs and reduced revenue in the scenario reduced Darktrace's forecast operating income for the entire period by 180.3% relative to the base case forecast. Cash and equivalents at the end of the Viability period declined by 50.4% relative to the base case forecast.

3. Balance Sheet Scenario

Either as a result of a significant macro-economic event with recessionary impact and/or inadequate channel partner management and support, the impact of changes to direct and indirect customer payment terms and increased customer insolvencies was considered. Darktrace continues to invest for growth, no active cost saving measures.

Principal Considerations

- Impacts to employees and retention and wider company culture;
- Customer insolvencies and viability;
- Bad debt provisions were tripled vs the base case forecast for the entire period;
- Relationships with creditors and customer invoicing profiles;
- The trend towards annual invoicing, from quarterly and monthly invoicing, was materially reversed across the period;
- Collection rates modelled to drop to a materially lower rate than at any point during the worst of the COVID-19 or current macro-economic uncertainty;
- Covenant compliance; and
- No changes to cost and revenue/ARR profiles

The overall impact of this scenario was that cash and equivalents at the end of the Viability period declined by 42.1% relative to the base case forecast.

4. Combined Worst-Case Scenario

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

A combination of the three aforementioned scenarios would leave Darktrace with negative cash headroom by 31 July 2025, resulting in a likely breach of its financial covenants. In order for Darktrace to remain viable and in compliance with its covenants in the combined, worst case scenario, active cost saving measures of varying degrees would need to be enacted.

Principal Considerations

- Impacts to employees, retention and wider company culture;
- Material deterioration in trends of new logo ARR growth, ARR upsell, churn, and downsell trends (existing ARR);
- Supply chain and deployment risks;
- Material wage and cost inflation;
- Payment terms, direct and indirect customer and creditor relationships;
- Covenant compliance; and
- An exploration of cost saving measures available.

The combination of the three prior scenarios without any cost mitigation actions would leave Darktrace with negative cash headroom by 31 July 2025, resulting in a likely breach of covenants. The following actions are illustrative of the magnitude of costs savings Darktrace would likely need to make for Darktrace to remain viable throughout the period:

- While employee compensation expectations were left unchanged, reductions were made to non-sales related headcount targets, reducing forecast total headcount at financial year-end (FYE) for FY 2024/FY 2025/FY 2026 by 3%/23% /32% respectively;
- A 35% reduction to base case Federal spend throughout the period; and
- For the respective financial years FY 2024/ FY 2025/ FY 2026:
  - A 50%/40%/30% reduction in forecast discretionary senior management compensation;
  - A 50%/40%/30% reduction in forecast travel and entertainment spend; and
  - A 30%/20%/10% reduction in forecast direct marketing spend.

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

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

Macro-economic Environment

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

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

Confirmation of Longer-term Viability

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

PART 2
GOVERNANCE

DARKTRACE

PART 2 - GOVERNANCE

CORPORATE GOVERNANCE REPORT

UK Code Compliance

The Board confirms that for the year ended 30 June 2023, the principles of good corporate governance contained in the UK Corporate Governance Code 2018 (the Code) have been consistently applied. We were, however, unable to comply in full with provision 11 (our explanation for non-compliance is provided below). Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk.

- Code Provision 11 recommends that at least half the members of the Board, excluding the Chair, should comprise Non-Executive Directors determined by the Board to be independent. For the purposes of assessing compliance with the Code, the Board considers that Lord Willetts, Sir Peter Bonfield, Paul Harrison and Elaine Bucknor, who was appointed to the Board on 1 June 2023, are independent of Management and free from any business or other relationship that could materially interfere with the exercise of their judgement.
- The Board also considers that I, as Chair of Darktrace, was independent at the time of appointment.
- As well as our two Executive Directors, we have three other Non-Executive Directors who were nominated by major shareholders (pursuant to shareholder agreements executed at the time of the IPO in 2021) and are therefore not considered to be independent for the purposes of the Code.
- A further search for an additional independent Non-Executive Director, who we expect to be US based is currently underway.

Whilst the Board is therefore not fully compliant with this part of the Code , we are confident that the three Non-Executive Directors nominated by major shareholders bring valuable insights and experience to the Board alongside the independent Non-Executive Directors and we expect to complete the hire of at least one new independent Non-Executive Director during the course of the next financial year.

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

Later in this corporate governance report:

1. An introduction to our Board is given in the biographies of our Directors on the next pages.
2. More detail on the role and activities of the Board commencing on page 89.
3. Lord Willetts, the Chair of the Nomination Commitee, reports on its work commencing on page 94.
4. Paul Harrison, the Chair of the Audit & Risk Committee, reports on its work commencing on page 96.
5. Sir Peter Bonfield CBE, FRC Eng, the Chair of the Remuneration Committee, reports on its work, commencing on page 106.

On behalf of the Board

Gordon Hurst

Gordon Hurst
Chair

5th September 2023

THE BOARD

Our Board

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

A: Audit & Risk Committee
N: Nomination Committee
R: Remuneration Committee
I: Independent Non-Executive Director
S: Nominee of a Major Shareholder
E: Employee Forum

Poppy Gustafsson OBE – Chief Executive Officer

Ms. Gustafsson joined the Group in 2013, and has served as the CEO of the Group since 2016. Under her leadership, the Group has experienced significant growth and global expansion, and listed on the London Stock Exchange in 2021. She was named CEO of the Year at the 2021 Digital Masters Awards and Tech CEO of the Year at the UK Tech Awards 2021. Together with Darktrace CTO Jack Stockdale, Poppy was awarded an OBE for services to cyber security in 2019. She is a qualified chartered accountant and holds a BSc in Mathematics from the University of Sheffield, where she was also awarded an honorary degree in Doctor of Science in recognition of "outstanding achievements in the field of Cyber Security" in 2022.

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / cybersecurity expertise
- Technology transformation
- Strategy & risk
- Human resources & talent management
- Purposeful business and sustainability experience
- ESG
- Geo-political exposure
- Mergers & acquisitions
- Investor relations
- US experience
- Rapid growth businesses

Catherine Graham – Chief Financial Officer

Ms. Graham joined Darktrace as CFO in February 2020, with more than two decades of professional experience in financial disciplines. Over her career she has been at the helm of several businesses through periods of rapid growth and capital structure evolution, including leading five IPO processes at six public companies. Previously at 2U, a global leader in education technology, she has extensive experience in developing and maturing high-growth technology companies. In 2015, she was named as Northern Virginia Technology Council's 'Public Company CFO of the Year' and was included in the Washington Business Journal's 2018 list of 'Women Who Mean Business.' Cathy is a key part of the team leading Darktrace through an exciting period of continued growth and technological innovation. She holds an MBA from Loyola University Maryland and a BA in Economics from the University of Maryland.

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / cybersecurity expertise
- Technology transformation
- Strategy & risk
- Human resources & talent management
- Purposeful business and sustainability experience
- ESG
- Geo-political exposure
- Mergers & acquisitions
- Investor relations
- US experience
- Rapid growth businesses

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

Mr. Hurst joined the Group on 28 July 2019 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Hurst has 27 years' experience with Capita plc (LON: CPI), a leading consulting, digital services and software business company, from 1988 until February 2015, including having served as the Group Finance Director on its board since 1996. During this period, Mr. Hurst was instrumental in managing acquisitions, large outsourcing deals, and building a team of commercially-focussed finance directors to enable continued development of the business. Since then, Mr. Hurst served as non-executive director of Marston Holdings until March 2020 and is currently non-executive director and chair of the board of Featurespace and the non-executive chair of the PE funded services business, Azets Ltd.

Skills brought to the Board

- Listed environment experience
- Financial expertise (including Audit)
- Technology transformation
- Strategy & risk
- Human resources & talent management
- ESG
- Mergers & acquisitions
- Investor relations
- Rapid growth businesses

The Rt Hon. Lord Willetts FRS – Sr. Independent Director, A, R, N, I

Lord Willetts was appointed to the Board on 1 April 2021. He is the President of the Resolution Foundation, the Chair of the UK Space Agency and serves on the Board of UK Research and Innovation (UKRI). He chairs the Foundation for Science and Technology and he serves as a non-executive director of SatixFy Communications Ltd, Tekcapital plc and the BioTech Growth Trust. He is also Chairman of Verditek plc.

Lord Willetts was the MP for Havant from 1992 to 2015. He served as Minister for Universities and Science in the Cabinet from 2010-2014. He had previously served as Paymaster General in John Major's Government and then in the Shadow Cabinet in a range of roles. Lord Willetts has also worked at HM Treasury and in the Number 10 Policy Unit. He is an honorary fellow of Nuffield College, Oxford, a governor of the Ditchley Foundation and a member of the Council of the Institute for Fiscal Studies. Lord Willetts has been a trustee of the Booker Prize Foundation since 2018.

Skills brought to the Board

- Financial expertise (including Audit)
- Technology transformation
- Strategy & risk
- Geo-political exposure
- Rapid growth businesses

Sir Peter Bonfield CBE, FREng, A, R, I

Sir Peter was appointed to the Board on 1 April 2021. Sir Peter has previously served as the CEO and Chairman of the Executive Committee of British Telecommunications from 1996, when he was appointed, until early 2002. Sir Peter is currently serving as Chairman of Truchas Associates Limited, is a director of Imagination Technologies Group Limited, TSMC Taiwan, and is a member of the Longreach Group Advisory Board, Hong Kong. He is also a board mentor of CMI and a senior advisor to Alix Partners. Sir Peter has previously served as Chairman and CEO of ICL and Deputy Chief Executive of STC plc. Sir Peter's career has also included Chairman of NXP Semiconductors and of GlobalLogic, Senior Independent Directorship of AstraZeneca, Member of the Citigroup International Advisory Board, Advisor to Apax Partners LLP, Senior Advisor to Rothschild and Directorships on the Boards of Sony Corporation in Japan, Mentor Graphics Corporation in the USA, Ericsson in Sweden, the Department for Constitutional Affairs and the Ministry of Justice. In total, Sir Peter has been a Board Member of 13 quoted companies around the world. Sir Peter has an Honours Degree in Engineering from Loughborough University and is a Fellow of the Royal Academy of Engineering.

Skills brought to the Board

- Leadership of global entities
- Financial expertise (including Audit)
- Technology transformation
- Strategy & risk
- Geo-political exposure
- Mergers & acquisitions
- Investor Relations
- US experience

Paul Harrison, A, R, N, E, I

Mr. Harrison was appointed to the Board on 1 April 2021. Mr. Harrison is a chartered accountant with over 35 years' business experience. Mr Harrison is Chief Operating Officer and an Executive Director of Ascential plc. holding these roles since January 2021 though he originally joined Ascential plc as a Non-Executive Director and Chair of the Audit Committee in February 2016 and held these posts until his appointment as an executive director. From 2016 to 2020 Mr Harrison served as the CFO of Just Eat plc, a FTSE 100 on-line food marketplace business, serving also as interim CEO from April to September 2017. Prior to Just Eat, Mr. Harrison served as CFO of WANdisco plc in California and as Group CFO of one of the largest UK (& FTSE 100) software businesses, The Sage Group plc for 13 years. In addition, Mr. Harrison served from 2007 to 2017 as a Non-Executive Director and, in the last 5 years of his appointment, Senior Independent Director of FTSE 250 recruiter, Hays plc. During this time, Mr. Harrison initially chaired the Audit Committee switching midway through his appointment to chairing the Remuneration Committee. Mr. Harrison has formerly served as a Governor of Royal Grammar School Newcastle, a large independent school based in Newcastle upon Tyne.

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- Technology transformation
- Strategy & risk
- ESG
- Mergers & acquisitions
- Investor relations
- US experience
- Rapid growth businesses

Elaine Bucknor, I

Ms Bucknor joined the Board on 1 June 2023. She has over 25 years of experience in the technology industry. Ms Bucknor's last executive role was at Sky, one of Europe's leading broadcasting and media companies and one of the UK's largest telecommunications and mobile businesses, where she worked for over ten years and was an integral part of its senior leadership team, with overall responsibility for the Sky group's technology strategy. She was also Sky's Group Chief Information Security Officer, owning and delivering Sky's strategic plan for cyber security. Prior to Sky, Ms Bucknor held operational and consultancy roles with multinational market leaders in the Telecommunications, Media, Technology, Travel, Utilities and Financial sectors, including at ITV, the BBC and AOL/Carphone Warehouse, where she advised at Board, executive and leadership level on technology capabilities for growth, efficiency and resilience in highly disrupted markets. Ms Bucknor currently also serves as a Non-Executive Director of AIM-listed conveyancing software company, Smoove plc, and Notting Hill Genesis group, one of the UK's largest housing associations.

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / cybersecurity expertise
- Technology transformation
- Strategy & risk
- Human resources & talent management
- Purposeful business and sustainability experience
- ESG
- Mergers & acquisitions
- US experience
- Rapid growth businesses

Stephen Shanley, S

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

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / cybersecurity expertise
- Technology transformation
- Strategy & risk
- Mergers & acquisitions
- US experience
- Rapid growth businesses

Han Sikkens, S

Mr. Sikkens joined the Group on 14 July 2015 as a Director of Darktrace Holdings Limited, and was appointed to the Board of Darktrace plc on 1 April 2021. Mr. Sikkens serves as Managing Director and Head of Europe at Summit Partners, a global alternative investment firm with more than $37 billion in assets under management. Mr. Sikkens joined Summit Partners in 2004 and today manages the firm's London office. Mr. Sikkens focuses primarily on investments in the technology sector in Europe. In addition to Darktrace, Mr. Sikkens currently serves as a director at MUBI Inc., Odoo SA, Mobius Solutions, Ltd., and Syncron International AB, as an Observer of Ivalua S.A.S., and he is actively involved in Summit's investments in Akeneo and Solactive. His previous board and investment experience includes 360T Group, Acturis Limited, Avast (LON: AVST), Flow Traders (Euronext: FLOW), Multifonds, RELEX Solutions, SafeBoot, Siteimprove and Welltec International. Prior to Summit, Mr. Sikkens worked for Scotia Capital and IBM Corporation. Mr. Sikkens holds a BS in Business Administration from the University of Groningen, an MSc in International Business from the University of Groningen, and an MSc in International Finance from the CERAM Graduate School of Management & Technology.

Skills brought to the Board

- Leadership of global entities
- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / cybersecurity expertise
- Technology transformation
- Strategy & risk
- Human resources & talent management
- Purposeful business and sustainability experience
- ESG
- Geo-political exposure
- Mergers & acquisitions
- Investor relations
- US experience
- Rapid growth businesses

Patrick Jacob, S

Mr Jacob joined the Board on 7 December 2022. Mr Jacob is Managing Director of Anthem Corporate Finance Limited, an independent, privately-owned financial services firm that provides financial advisory, M&A and strategic advisory services to companies worldwide, which he co-founded in 2002. Prior to that he spent over 15 years at Dresdner Kleinwort ultimately as Co-head and then Chair of Global Debt Origination. Mr Jacob has a BA (Hons) in Archaeology & Geology from Bristol University and was also awarded an MSc (Econ) in Business Administration from London Business School.

Skills brought to the Board

- Listed environment experience
- Financial expertise (including Audit)
- SAAS expertise
- AI / Cybersecurity expertise
- Strategy & risk
- Geo-political exposure
- Mergers & acquisitions
- US experience
- Rapid growth businesses

THE EXECUTIVE TEAM

Poppy Gustafsson OBE - Chief Executive Officer

For bio please see Board section.

Catherine Graham - Chief Financial Officer

For bio please see Board section.

Jack Stockdale OBE - Chief Technology Officer

Mr Stockdale is the founding CTO at Darktrace. With over 20 years' experience of software engineering, Jack is responsible for overseeing the development of Bayesian mathematical models and artificial intelligence algorithms that underpin Darktrace's award-winning technology. Mr Stockdale and his development team in Cambridge were recognised for their outstanding contribution to engineering by the Royal Academy of Engineering MacRobert Innovation Award Committee in 2017 and again in 2019. Mr Stockdale has a degree in Computer Science from Lancaster University.

Nicole Eagan - Chief Strategy Officer, AI Officer

Ms Eagan has responsibility for understanding, formulating and documenting corporate, product and partnership strategy. Both a leader and a doer, Nicole has an advisory role that ensures that strategic initiatives align with product direction set by the CTO and go-to-market goals set by the CRO. Given the foundational importance of AI within Darktrace, Ms. Eagan is involved in the governance aspects of responsible, ethical use of AI in its products and compliance with its policies. Prior to Darktrace, Nicole's extensive career in technology spans 30 years working in large technology corporations including Oracle and HP and working with early-stage startups and venture capital.

Denise Walter - Chief Revenue Officer

Ms Walter is the Chief Revenue Officer for Darktrace and is responsible for leading the global go-to-market organisation, which includes worldwide sales, customer success and renewals, systems engineering, and the global partner organisation. With more than 25 years of leadership experience, Denise has proven success in building high performing teams with a focus on operational excellence and execution that have been fundamental in delivering predictable results quarter over quarter. Additionally, Denise's track record of recruiting and promoting strong leaders across the globe and building a positive and collaborative culture with strong employee engagement, trust, and retention will be instrumental in delivering the next phase of growth at Darktrace. Prior to Darktrace, Denise held senior leadership roles at VMware and Cisco Systems.

Carolyn Esser - Chief Corporate Affairs Officer

Ms Esser joins Darktrace with over 20 years of experience in corporate affairs across a range of diverse sectors. In her previous role, Ms Esser spearheaded communications across Europe, the Middle East and East Asia for the Bill & Melinda Gates Foundation, the world's largest private philanthropic organisation, working on global health and development issues. She previously directed global communications at Logica, a multinational IT and business consultancy company listed on the London Stock Exchange.

Nick Trim - Chief Operations Officer

Mr Trim is part of the founding team at Darktrace, prior to which he led a cyber security consultancy advising large businesses on their cyber risk, and has been a speaker and coach on the topic of economic espionage. He had a long and distinguished career in the intelligence community, working overseas developing cutting-edge capabilities to defend national interests against a range of threats. Originally responsible for the commercial team, Mr Trim established and grew the global sales team before becoming Chief Operations Officer in 2020.

Mike Beck - Global CISO

Mr Beck has spent 18 years working in technology, security and risk operations. He started his career as a software engineer on GCHQ's technologist programme, and progressed to support military operations. He has conducted intelligence analysis and assessment in operational theatres across the world, becoming a senior intelligence officer. In 2010, Mr Beck merged his intelligence and technology experience to run cyber defensive operations for UK government, including working on the implementation of the national cyber security strategy and protecting the London 2012 Olympic Games. Joining Darktrace at its early stages in 2014, Mr Beck developed the cyber analyst operation that supports thousands of Darktrace customers with 24/7 support and since 2020 has overseen Darktrace's internal security programme as Global CISO. He holds a first-class degree in Computer Science from the University of Plymouth.

James Sporle - General Counsel & Company Secretary

Mr Sporle qualified as a solicitor at Linklaters in 2001 before working in the corporate department there for several years advising blue chip clients on major transactions. In 2005 he joined BP's in-house M&A legal team, before going on to join online food delivery company Just Eat plc in 2013, where he was instrumental in its transformation from pre-IPO business to the FTSE 100 and in subsequently navigating its merger with Takeaway.com. In 2020, Mr Sporle was shortlisted for The Lawyer's General Counsel of the Year award. He has a Law degree from St Catharine's College, Cambridge and a Law Diploma from Nottingham Law School.

Max Heinemeyer - Chief Product Officer

Mr Heinemeyer is a cyber security expert with over a decade of experience in the field, specialising in a wide range of areas such as Penetration Testing, Red-Teaming, SIEM and SOC consulting and hunting Advanced Persistent Threat (APT) groups. At Darktrace, Mr Heinemeyer is closely involved with Darktrace's strategic customers & prospects. He works closely with the R&D team at Darktrace's Cambridge UK headquarters, leading research into new AI innovations and their various defensive and offensive applications. Mr Heinemeyer's insights are regularly featured in international media outlets such as the BBC, Forbes and WIRED. When living in Germany, he was an active member of the Chaos Computer Club. Mr Heinemeyer holds an MSc from the University of Duisburg-Essen and a BSc from the Cooperative State University Stuttgart in International Business Information Systems.

Chris Kozup - Chief Marketing Officer

Mr Kozup joins Darktrace as a proven marketing executive with over 20 years of experience across all domains of enterprise technology marketing. Prior to joining Darktrace, Mr Kozup was the CMO at Zscaler where he was responsible for global marketing strategy and execution. Prior to his time at Zscaler, Mr Kozup held senior leadership roles at a wide range of successful companies including HPE Aruba Networking, Nutanix, and Cisco. Earlier in his career, Mr Kozup was an industry analyst at the META Group, responsible for advising enterprise organisations on IT & Security best practices. Mr Kozup holds a Bachelor of Arts from Ohio University and a Master of Business Administration from IE Business School in Spain.

REPORT OF THE BOARD

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

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

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

Membership of the Board

The Board currently has ten members:

- its Non-Executive Chair, Gordon Hurst, who was independent on appointment;
- two Executive Directors, Poppy Gustafsson OBE (Chief Executive Officer) and Catherine Graham (Chief Financial Officer);
- four independent Non-Executive Directors, three of whom, Lord Willetts (the Senior Independent Non-Executive Director), Sir Peter Bonfield FRC Eng, and Paul Harrison, who were appointed shortly before Darktrace's IPO and Elaine Bucknor, a fourth independent Non-Executive Director who joined the Board on 1 June 2023; and
- three non-independent Non-Executive Directors, each of whom were nominated by a major shareholder, Stephen Shanley and Han Sikkens who have both served since before Darktrace's IPO and Patrick Jacob who joined the Board in December 2022.

Further details of our Directors are provided on pages 86-87.

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

Poppy Gustafsson OBE, the Chief Executive Officer, and Catherine Graham, the Chief Financial Officer, are both women as is one of the independent Non-Executive Directors, Elaine Bucknor. Accordingly, women make up thirty percent of the Board (which has been the case for most of the period since Darktrace listed in 2021), and two of the senior board positions, CEO and CFO, are held by women. At least one member of the Board is from a minority ethnic background (Mixed / Multiple ethnic groups – White and Black African). Although not currently compliant with one of the Listing Rules requirements on gender, namely women holding at least forty percent of the Board roles, Darktrace is actively looking at improving diversity at both Board level and across senior management and is endeavouring to ensure full compliance in the coming financial year. For more information on the diversity of both the Board and the Executive Team, please see page 61 of our ESG section. The Group's latest Gender Pay Gap Report is published on https://ir.darktrace.com/governance/documents.

Board roles	Amount of members
Chair	1
Executive	2
Independent Non-Executive	4
Shareholder nominated directors	3
Length of tenure of Non-executive Directors	
0-1 year	2
2 years	6

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

The Board believes that its current structure and membership is appropriate for this stage in the Group's development and represents a good balance of skills and experience necessary to manage Darktrace and its business in an effective and successful manner. The Board will be further strengthened with the appointment of at least one new Independent Non-Executive Director (for which the search is underway) which the Board expects to confirm during the coming financial year.

We maintain a register of Directors' interests and their related parties and seek updates from Board members at regular intervals throughout the year to ensure the register remains current. Board and Committee members are requested to declare any new interests or conflicts of interest arising at the start of each Board and Committee meeting. Where a conflict of interest is deemed by the Board to have arisen then in some instances the Board member may be entitled to participate in the meeting but not vote on the matter in question or in some instances may be asked to recuse themselves from the part of the meeting related to the matter upon which a conflict of interest is deemed by the remaining Board members to have arisen. In these circumstances, the Board minutes note the conflict of interest and the recusal accordingly.

Role of the Board

Key activities of the Board include the following:

Responsibility for the overall leadership of Darktrace and setting its purpose, values and standards, assessing and monitoring Darktrace's culture and promoting the alignment of culture with purpose, values and standards.	The Board and its Committees meet regularly and review matters of strategic importance. This is usually done in the context of a presentation to the Board (supported by papers provided in advance of Board meetings) providing updates on business performance and specific areas of the business. As part of Board discussions of strategic proposals Non-Executive Directors constructively challenge matters when they feel appropriate as part of reaching an overall consensus. The Board and its Committees have the purpose, values and standards of Darktrace in mind as they challenge Management in its assessment and monitoring of the culture in Darktrace, and discuss where they would expect to see specific action taken to align decisions with Darktrace's purpose and values. In addition, the Board reviews and seeks to identify risks at a strategic level. Paul Harrison is the Employee Forum Board Representative and is particularly focussed on the quality of engagement with employees. The Board also receives regular updates on initiatives from the Executive Team and interrogates them to ensure the values and purpose are meshing well with culture. The Board, through the Audit & Risk Committee receives regular updates on Whistleblowing reports and the status of any subsequent investigations. The General Counsel & Company Secretary provides a summary of all open and closed Whistleblowing reports and actions taken in relation to those matters to the Chair of the Audit and Risk Committee on a regular basis outside of the formal Audit and Risk Committee meetings. This enables the Chair of the Audit and Risk Committee to understand the volume and nature of employee concerns that are raised as well as enabling the opportunity to challenge the appropriateness of investigation steps and any actions taken.
Approval of the Group's strategic aims and objectives.	As part of their regular meetings the Board and its Committees receive updates on strategic aims and objectives and performance against those objectives.
Approval of the annual operating and capital expenditure budgets and any material changes to them.	This includes regular reviews of the financial performance and requirements of the Group. It also includes regular updates from the CEO and CFO on developing plans and any material changes to existing annual operating and capital expenditure budgets.
Review of the Group's performance in light of its strategic aims, objectives, business plan and budgets and ensuring that any necessary corrective action is taken.	As well as financial performance, the Board reviews the operational development of the Group and its markets at Board meetings and through regular Management Reports and other ad hoc reporting, to ensure its strategy remains appropriate and to consider and decide upon any adjustments to better align the operational development of the Group and its markets with the Group's broader strategic aims, objectives, business plan and budgets.

Board and Committee meetings

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

- minutes of previous meetings;
- progress against previously agreed actions;
- business performance and updates from specific areas of the business;
- matters that relate to the Darktrace's culture and the promotion of the alignment of culture with purpose, values and standards;
- shareholder communications and feedback;
- the Group's industry activity;
- operational matters of particular note for the Board;
- strategic considerations;
- reports of proceedings of Board Committees and the Employee Forum; and
- governance, legal and regulatory matters including whistleblowing reports and updates on investigations.

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

Members of Management in addition to the Executive Directors are invited to present relevant matters to the Board at regular intervals where considered appropriate. Executive Directors and members of Management also attend and present on relevant matters at Committee meetings at the invitation of the Committee Chairs.

Directors have the right to request that any concerns they may have are recorded in the appropriate Board or Committee minutes . Minutes are circulated for comment by all Directors before being formally approved at the next relevant meeting.

Support to Directors

The Directors have access to Darktrace's Management and advisors and may visit Darktrace's operations. On appointment the Directors received a comprehensive induction facilitated by the General Counsel & Company Secretary and supported by external counsel. This induction included meetings with key members of Management,the General Counsel & Company Secretary, external counsel and the auditors together with briefings on the Group's business, its industry and their duties as directors of a public listed company generally. Directors also have access to ongoing training as required in order to keep them updated on their duties and obligations and updated on developments that are relevant to the business.

All Directors also have access to the advice and services of the General Counsel & Company Secretary. The General Counsel & Company Secretary acts as secretary to the Board and to each of the Board Committees (reporting to their Chairs), and advises on compliance with Board and Committee procedures and applicable laws and regulations relating to governance and other matters. Directors are also able to take external advice at the expense of Darktrace, as appropriate.

Attendance at Meetings

The numbers of and attendance of current Board and Committee members at meetings[4] since 30 June 2022 is as follows:

Total Meetings	Board	Audit & Risk	Remuneration	Nomination
Gordon Hurst	●●●●●●[1]	–	●●[2]	●●●
Poppy Gustafsson OBE	●●●●●●	–	–	●●[3]
Catherine Graham	●●●●●●	–	–	–
Lord Willetts	●●●●●●	●●●●	●●●●	●●●[1]
Sir Peter Bonfield CBE FREng	●●●●●●	●●●○	●●●●[1]	–
Paul Harrison	●●●●●●	●●●●[1]	●●●○	●●●
Han Sikkens	●●●●●○	–	–	–
Stephen Shanley	●●●●●●	–	–	–
Venessa Colmar (Stepped down December 2022)	●●●	–	–	–
Patrick Jacob (Appointed December 2022)	●●●	–	–	–
Elaine Bucknor (Appointed 1 June 2023)[5]	–	–	–	–

1. Denotes Chair status.
2. Stepped down prior to February meeting
3. Stepped down after December meeting
4. The Board and Committees met outside these meetings to cover specific topics
5. Elaine Bucknor was appoint at 1 June 2023 and there were no Board meetings in June 2023

Division of Responsibilities

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

Matters reserved to the Board

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

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

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

The Chair, CEO and SID

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

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

In addition, Lord Willetts, in his capacity as Senior Independent Director, is available to fellow non-executive directors, either individually or collectively, should they wish to discuss matters of concern in an alternative forum. In July 2023, he led a series of discussions with each of the Non-Executive Directors without the Chair present to appraise the performance of the Chair. Based on those discussions Lord Willets subsequently provided feedback to the Chair.

Standing Board Committees

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

Performance reviews and Directors' development

During the period, as Chair I held informal discussions with the Non-Executive Directors without the Executive Directors being present and in addition an internal evaluation of the performance of the Board, its individual Directors and its Committees, and of the Chair, has been undertaken via a questionnaire provided to all Board Members. The conclusions of this internal evaluation were that Board Members were largely content with the meetings and information provided. The accountability of the Board, its standards and conduct, transparency and approachability were commonly identified as strengths. Board Members also noted a desire to improve the Board's sector skills and experience and further develop the Board's succession planning.

During the course of the next financial year an external evaluation of the performance of the Board, its individual Directors and its Committees, and of my performance as Chair will be undertaken and I look forward to providing an update on the results of that external evaluation in our next Annual Report.

Shareholder relations

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

Presentations given to analysts and investors along with all results, other regulatory announcements and further information for investors are included on Darktrace's Investor Relations website at www.ir.darktrace.com. Additional Shareholder Information is also set out on page 203.

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

In addition to the Chair of the Board, Gordon Hurst, Lord Willetts, the Senior Independent Director, serves as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through the normal channels. He may be contacted through the General Counsel & Company Secretary.

Update Statement on Remuneration Resolution Following the 2022 Annual General Meeting

At our 2022 Annual General meeting held on 4 November 2022, 79.30% of votes received in respect of the resolution to approve the Remuneration Report were in favour. In accordance with the UK Corporate Governance Code, as a result of 20% or more of the votes cast being against, Darktrace engaged further with shareholders.

Following the 2022 Annual General Meeting, the Chair of the Remuneration Committee Sir Peter Bonfield CBE, FREng, wrote to those of our largest shareholders who had voted against the remuneration resolution offering the opportunity for further engagement to understand their concerns on remuneration matters. Following this offer of engagement one shareholder took the opportunity to provide feedback regarding the use of discretion in determining remuneration outcomes. As noted when our 2022 Annual General Meeting results were announced, over 70% of the votes against the remuneration resolution were from just three of our shareholders.

The Remuneration Committee engaged with its major shareholders prior to the 2022 Annual General Meeting explaining the decisions made by the Remuneration Committee during the year and how it intended to operate the Remuneration Policy for the year ahead. As a result of this and the further offer of engagement after the AGM, the Committee and the Board remain comfortable that overall shareholders are supportive of the Darktrace remuneration arrangements.

Annual General Meetings

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

The Notice convening the 2023 AGM to be held on 7 December 2023 will be issued at least 21 working days in advance of the AGM to provide shareholders with the appropriate time to consider matters. Separate resolutions will be proposed on each substantially separate matter. The results of the proxy votes on each resolution will be collated independently by Darktrace's registrars and will be published on Darktrace's Investor Relations website after the AGM.

On behalf of the Board

Gordon Hurst

Gordon Hurst
Chair
5th September 2023

REPORT OF THE NOMINATION COMMITTEE

The Nomination Committee comprises of me, Lord Willetts as its Chair as well as Gordon Hurst, Chair of the Board, who was considered independent on appointment, and Paul Harrison, an independent Non-Executive Director who also chairs the Audit & Risk Committee and the Employee Forum. Poppy Gustafsson OBE, stepped down as a member of the Committee on 14 December 2022, however she continues to be invited to attend meetings as an observer and to present on specific items.

The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience of the Directors alongside the composition and structure of the Board and makes recommendations to the Board on retirements and appointments of additional and replacement Directors, including succession planning.

During the course of the year we have appointed two new Board Members. Patrick Jacob was nominated by the Invoke shareholders pursuant to the Invoke shareholder agreement entered into at the time of the IPO in 2021 and met with each member of the Nomination Committee prior to being appointed by the Board on 7 December 2022.

We also appointed Elaine Bucknor on 1 June, 2023. In the case of Elaine, we ran a search process with a third party search firm, Nurole (who had no prior connection to Darktrace although I had prior experience of engaging with them at a different organisation). Nurole ran a rigorous and transparent process and advertised the role on their platform. This process did not yield any successful candidates however we were fortunate to be introduced to Elaine through the CEO's network. As a former customer and CISO, Elaine brings skills and experience that are directly relevant to the business and hugely additive to the skills and experience of the existing Board members. Each member of the Nomination Committee met with Elaine prior to her being proposed to the Board for appointment and she spent time with the Executive team, the General Counsel & Company Secretary, external lawyers and auditors as part of the onboarding process. We welcome both Patrick and Elaine to the Board.

The Committee continues its process of succession planning and further strengthening the Board by increasing the diversity of skills, background and experience amongst Board Members with a particular focus on US experience. As part of this we are in the process of a further search for an additional independent Non-Executive Director and we have engaged Heidrick & Struggles to support this process. The Committee meets regularly with the Heidrick & Struggles team to monitor the progress of the search process. Heidrick & Struggles have no other connection with Darktrace or with individual Directors other than to provide recruitment services. We expect to appoint at least one additional independent non-executive director during the course of the next year.

One of the key considerations on any appointment to the Board relates to diversity. The Boards' policy is to continue to seek diversity, including with regard to gender, as part of the overall selection of the best candidates for Non-Executive Director roles. Any appointments to Executive Director roles will also be made within the Group's aims for its people and culture set out earlier in the Strategic Report. In accordance with the provisions of the Code, all our Directors will retire at each AGM, and if decided appropriate by the Board, may be proposed for reappointment. In reaching its decision the Board acts on the advice of the Nomination Committee.

In addition to reviewing the independence and diversity of the Board and its committees, the Committee has conducted an internal evaluation during the course of the year through an evaluation questionnaire provided to each of the Directors. The Board has considered the results of this evaluation and is looking to address areas highlighted in the evaluation results as set out in the Directors' Report above. During the course of the next financial year an external evaluation of the performance of the Board, its individual Directors and its Committees, and of the performance of the Chair of the Board will be undertaken..

The Chair is pleased to confirm that the performance of each of the Non-Executive Directors continues to be effective and to demonstrate commitment to their role. The Committee considers that they each provide distinct and valuable input to the overall operation of the Board and we continue in our efforts to strengthen the composition of the Board and our succession planning.

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

D L Willetts

Lord Willetts
Chair of the Nomination Committee
5th September 2023


DARKTRACE
PREVENT?
DETECT?
RESPOND?
HEAL?
YES.

REPORT OF THE AUDIT & RISK COMMITTEE

Annual statement

This report is divided in two sections:

1. this annual statement which provides an overview of the Committee activities over the year; and
2. The Audit & Risk Committee Report which sets out the detail of activities performed by the Committee over the course of the year, its engagement with Management, the external auditors and our regulators.

I am pleased to present the report of the Audit & Risk Committee for the year ended 30 June 2023.

As you will read below, Darktrace has been the subject of intense scrutiny in this, its second full year of being a public company. As a Committee, we welcome this scrutiny and have played a full part in ensuring that fulsome consideration has been given to the enquiries received. Where appropriate, we have challenged Management and our advisers to ensure that any questions raised have been fully answered, often agreeing extensions to the work undertaken that have gone beyond the specific questions raised in the first instance.

In particular, I refer to the challenges raised in the report published by a short seller in February with related questions from the FCA and the FRC's review of our 2022 financial statements. On the short seller matter, the Committee appointed EY to investigate the allegations raised. As Chair, over the course of that investigation, I held bi-weekly meetings with EY, without Management present, to ensure that the scope of their work was comprehensive, with a number of elements going beyond the particular challenge raised, to ensure that EY were receiving unfettered access to both Management and records and to consider their findings as they arose.

The FRC has concluded their review of Darktrace's report and accounts, and as a responsible member of the FTSE, Darktrace continues to engage with the FRC and subject to review of the FRC's revised summary of findings, Darktrace expects to consent to publication after the end of September 2023.

One of the Committee's most important roles is to ensure that our external audit is undertaken to the highest standards. Throughout the year, we met with Darktrace's auditors, Grant Thornton, to ensure their independence, to approve their audit plan (including the proposed scope of their work and materiality assessments) and to consider their findings. Therefore, we were pleased to learn that their FY22 audit was selected by their regulator, the Audit Quality Review team within the FRC, for review this year. As Chair, I met the AQR team at the commencement of their review and we were reassured that the AQR team recently concluded its review noting that there were no 'Key Findings'.

Looking forward, we have already stated that, as a fast growing business, Darktrace's internal systems and controls need to improve constantly. Currently, Darktrace is implementing a major overhaul of its ERP and other key systems to ensure they fully support its ambitious growth plans and the highest standards of governance. The Committee regularly considers progress on these key initiatives challenging Management constructively to ensure the best solutions are designed and implemented. We have also recruited a new Head of internal Audit to lead our Internal Audit Function and we look forward to setting its terms and considering reports from this additional source of assurance.

In conclusion, the Committee's agenda and commitment is fulsome and it goes well beyond the conventional calendar of activity. I hope that you find our report both reassuring and insightful.

Paul Harrison

Paul Harrison
Chair of the Audit & Risk Committee
5th September 2023

Membership

The Audit & Risk Committee comprises three independent Directors, Sir Peter Bonfield CBE, FREng, Lord Willetts and myself, Paul Harrison as Chair of the Committee.

Role and activities

The Committee assists the Board in its oversight of financial reporting, internal controls and risk management. In line with the Terms of Reference, the Committee has met four times during the year and considered this frequency of meetings to be appropriate for a listed business at this stage of its growth journey. In addition to those four regular scheduled meetings, the Committee met specifically to consider and approve EY's independent review and report (see below for further information). Poppy Gustafsson OBE, Chief Executive Officer, Catherine Graham, Chief Financial Officer, and senior representatives of the financial management, legal and risk teams also attended the Committee meetings, as do representatives of the external auditors, as appropriate. During the meetings in the past year, the Committee received presentations on, and reviewed and considered the following matters:

- the remuneration and proposed reappointment of the external auditors;
- the independence, objectivity and effectiveness of the external auditors, during the year the Committee has not been made aware of any matters that could impact the independence or objectivity of the auditors;
- during the year the Audit Quality Review ("AQR") group of the Financial Reporting Council ("FRC") in accordance with its usual cycle of UK audit inspections, undertook an inspection of Grant Thornton's audit of Darktrace for the year ended 30 June 2022. The Committee was pleased to learn that there were no key findings arising from this inspection;
- the preparation of the Group's Full Year accounts including associated presentations from both Management and the external auditors;
- the independent third-party review of Darktrace key financial processes and controls conducted by Ernst & Young LLP ("EY"). EY reported to the Chair of the Committee, Paul Harrison, who led that process alongside CFO, Cathy Graham;
- the review undertaken by the Corporate Reporting Review team ("CRR"), of the FRC of Darktrace's Annual Report for the year ended 30 June 2022 and Darktrace's response;
- The preliminary review undertaken by the Market Integrity Unit (MIU) team within the Market Oversight Directorate of the FCA in relation to the allegations made by a short seller in February 2023 and Darktrace's response;
- the Group's accounting policies, including the appropriateness of Alternative Performance Measures, significant financial reporting issues, judgements and estimates;
- the Group's system of internal controls, including financial, operational and risk management controls, supplementing at a more granular level the Board's consideration of principal and emerging risks;
- key internal policies including tax strategy, anti-bribery and corruption, and related policies and whistleblowing arrangements;
- involvement in the hiring of a Head of Internal Audit to establish an internal audit function within the Group reporting directly to the Committee to further develop the control and risk management procedures already being undertaken;
- oversight of the Enterprise Risk Management framework and the continuous reassessment of the Group's principal and emerging risks;
- the viability statement and the going concern assumption;
- review of the timeline and implementation plans for the new ERP system (Workday) which is expected to launch in the first half of FY 2024; and
- whether the Annual Report taken as a whole provides a fair, balanced and understandable assessment of the Group's position and prospects and whether it provides the necessary information to assess the Group's performance, business model and strategy, the ultimate decision on which is taken by the Board, as set out in the Directors' responsibility statement in the Directors' report on page 135.

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

Significant Matters

Prior to each meeting of the Committee at which they are to be considered, Management produces a paper providing details of any significant matter to be discussed and agreed. Management is also invited to attend these meetings where further guidance is required. The significant matters considered by the Audit & Risk Committee in respect of the 2023 Annual Report are as follows.

EY Report

Description of the matter

Following publication of a short seller report, the Board issued a RNS announcement stating that the Board and Management remained confident that Darktrace's independently audited public company financial statements fairly represented Darktrace's financial position and results. The Board and Management stood firmly behind the statement made on 1 February 2023 refuting the inferences made about current business practices and believed it appropriate to demonstrate that by commissioning an independent third-party review.

On 20 February 2023 Darktrace appointed EY to provide an additional independent third-party review of its key financial processes and controls. EY reported directly to the Chair of the Committee, Paul Harrison.

EY delivered its written report and presented its findings to Darktrace's Audit and Risk Committee, all other Board members and Darktrace's external auditors, Grant Thornton in July 2023.

How the matter was addressed

The Committee engaged EY to examine Darktrace's treatment of partner channel contracts and marketing spend, contract opt-outs and appliance deployments, as well as the process for calculation of non-current deferred revenue.

Darktrace gave EY unrestricted access to all information, employees, partners and customers necessary to allow it to conduct a thorough review of the policies, processes and controls related to the areas of scope referenced in its 20 February RNS announcement.

EY met regularly with the Chair of the Committee to provide updates on their work and address any questions raised by the Chair of the Committee.

During the review EY, in consultation with the Committee and Management, identified additional scope areas, which have been considered and adopted, and the scope of their work broadened accordingly to cover a review of the process for calculating Annualised Recurring Revenue and the status of certain third-party relationships.

At Management's request, EY met regularly with Darktrace's external auditors, Grant Thornton. Management instructed EY to share, with full transparency and through regular direct updates, the progress of the review and the content of the updates provided to Management.

Furthermore, throughout the process, the external auditor's team shadowed the EY team to ensure full understanding of the process, methodology used in the testing and the results. Bi-weekly meetings between the Chair of the Committee and the external auditors were organised to discuss progress and preliminary results to ensure full transparency to all stakeholders.

In its review, EY reported a number of areas already known to Darktrace where systems, processes or controls could be improved. For example, as part of its work around channel processes and controls, EY reviewed a risk weighted sample of new channel contracts which identified a small number of errors and inconsistencies. Neither Management nor the Board consider these to be material to the financial statements and control enhancements in this area are already underway.

The Committee has reviewed and assessed the appropriateness of the most significant changes to processes and procedures being implemented.

- a compliance function is being established: the team will combine controls now performed by different functions and will enhance the current controls, in particular around channel partners, also in line with the recommendations provided by EY, not only addressing financial risks but also legal and operating risks; the Head of the Compliance function will report directly to the General Counsel & Company Secretary;
- marketing spend: enhanced controls to improve monitoring of marketing spend by Partners are being implemented as part of the Workday implementation (see below for details);
- processes and controls around end-user contract verifications are being reinforced and strengthened;
- calculation of current and non-current deferred revenue: there were no significant findings about the calculation of current and non-current deferred revenue but the policy disclosed in the financial statements (see note 4) has been enhanced to incorporate a clear description of how deferred revenue is calculated and the KPIs section enhanced to include a description of the items in reconciliation between the future contracted revenue note and the RPO (see page 163); and
- preparation of a detailed accounting manual which will include not only IFRS measures but also APMs.

Neither Management nor the Board considered EY's report to have any impact on Darktrace's previously filed public company financial statements nor to change their belief that those financial statements fairly represented Darktrace's financial position and results. In addition, Grant Thornton's audit opinions for prior years remained unchanged.

Darktrace voluntarily provided a copy of the EY report to the FCA and FRC on 26 July 2023 and will continue to provide any further information requested.

All of the above gave further comfort to the Committee that Darktrace's independently audited public company financial statements fairly represent Darktrace's financial position and results and Management has a plan already underway to enhance systems, processes and procedures.

The Committee will continue to monitor this process of continuous improvement and enhancement with regular updates to be provided at each Committee meeting.

FRC review

Description of the matter

During the year the CRR team of the Financial Reporting Council ("FRC") undertook a review of Darktrace's Annual Report for the year ended 30 June 2022. The review has been carried out in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures, and the principal areas where the FRC required further information were as follows:

- Darktrace's sales arrangements;
- Alternative Performance Measures; and
- Share repurchases.

The review was based solely on Darktrace's annual report and accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework.

The FRC letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by Darktrace or any third party, including but not limited to investors and shareholders.

The FRC has concluded their review of Darktrace's report and accounts, in accordance with the FRC Corporate Reporting Review Operating Procedures.

Darktrace continues to engage with the FRC and subject to review of the FRC's revised summary of findings, Darktrace expect to consent to publication of the summary of findings after the end of September 2023.

How the matter was addressed

The Chair was involved in reviewing the response provided by Management to the FRC and the planned enhanced disclosure to the FY 2023 financial statements as a result of the review.

A summary of the intitial findings, response and related enhanced disclosures (as applicable) to the annual report, are described as follows:

<u>Sales arrangements that involve channel partners ('reseller partners' or 'distributors')</u>
The FRC asked for further information about sales made through channel partners as the contractual arrangements between Darktrace, channel partners and end-users were unclear to it. The FRC closed this enquiry after Darktrace provided relevant explanations and agreed to enhance the accounting policies and judgements presented in this FY 2023 annual report.

See revenue recognition policy in note 4 to the financial statements for the enhanced disclosure.

<u>Opt-out provisions included in sales contracts</u>
The FRC asked Darktrace to explain its accounting for sales contracts where end-users have the right to opt-out within six months of the commencement date. The FRC closed these enquiries after Management described its accounting policy and explained that sales contracts where opt-out rights had not yet expired at the reporting date did not have a material impact on revenue recognised during the year.

<u>Alternative Performance Measures</u>
The FRC asked for an explanation of the difference between total Remaining Performance Obligations ('RPO') of $1,003.9 million and the equivalent IFRS 15 disclosure (future contracted revenue) of $1,069.0 million. Darktrace explained the differences, including disclosing an error in the compilation of the IFRS 15 disclosure. It agreed to correct the error, provide an explanation of the differences and enhance the disclosures in this FY 2023 annual report (see page 163) to help users understand any differences between the measures.

The FRC also asked for an explanation of the difference between the short-term portion of RPO of $438.0 million and Annualised Recurring Revenue ('ARR') of $514.4 million. The FRC closed this enquiry after Darktrace gave satisfactory explanations and agreed to enhance the relevant disclosures in this FY 2023 annual report.

See KPIs section for further details.

<u>Prior year share-buyback and distributable reserve</u>
Prior to purchasing its own ordinary shares, Darktrace is required to ensure that it has the requisite level of distributable profits and the requisite level of net assets by reference in each

case to the relevant accounts (as defined in the Companies Act 2006 ('the Act'). Where relevant, Darktrace prepares interim accounts (as defined in the Act) showing the requisite level of distributable reserves and/or net assets and files them at Companies House. Ahead of the share-buyback in December 2021 (the "Relevant Buyback") (see note 9 to the consolidated financial statements), it was established that Darktrace had sufficient distributable reserves to undertake the Relevant Buyback. However, relevant interim accounts showing the requisite level of distributable reserves to undertake the Relevant Buyback were not filed at Companies House. As a result, despite there being sufficient distributable reserves available to Darktrace to undertake the Relevant Buyback, the Relevant Buyback was undertaken otherwise than in accordance with the Act.

Darktrace has been advised that as a consequence of the Relevant Buyback having been undertaken otherwise than in accordance with the Act, shareholder approval should be sought to rectify this procedural error. As a result, a resolution will be proposed to shareholders at the AGM to approve the required steps to remedy this matter.

Independent review of financial processes and controls

The FRC received the EY report and Management is engaged in a constructive dialogue ot provide any clarifications.

Workday implementation

Description of the matter

As Darktrace continues to mature and expand, the existing financial systems and prevalent manual controls and processes are becoming less scalable, therefore Management has decided to implement a new ERP system (Workday), to increase the number of automated controls and provide more granular and efficient information on a timely basis.

How the matter was addressed

The Committee requested a detailed overview of the project governance and regular updates on progress at each Committee meeting.

Project Governance

As the CFO is the sponsor of the project, a steering Group was created to allow major stakeholders involved in the project to input throughout the implementation, these included the: HR Director, Finance Director, IT and Security Directors.

Major decisions and project decision gateways were tabled at a steerco level along with status and Risks, Actions, Issues and Decisions (RAID) logs on a monthly basis and each meeting is appropriately minuted.

For each financial and operating process involved in the implementation, process owners were identified and documented as they became responsible for all decisions for configuration, completion and sign-off of testing in each process area.

Workday governance (post go live)

Darktrace is due to complete its implementation of the new finance system, in the first half of financial year 2024, which should automate many of the current manual processes and transition controls from mainly detective to preventative.

The strategic steering group of senior finance, HR, IT and Workday support team will meet quarterly to agree the product roadmap.

A smaller tactical group will meet more regularly to resolve any issue and drive efficiencies.

Revenue recognition policy

Description of the matter

Significant Judgement in Revenue Recognition in Determining one Performance Obligation Exists

Group revenue is predominantly from subscription contracts and is recognised over the term of the contract in line with applicable standards.

In line with previous years, 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 include 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.

Principal vs agent disclosure

Following the FRC review, Darktrace agreed to enhance the accounting policies and judgements presented in this FY 2023 annual report.

How the matter was addressed

The Committee has asked Management to review the appropriateness of the significant judgement in revenue recognition and in determining that one performance obligation exists and agreed the significant judgements are still appropriate given no changes in the circumstances in the year.

Furthermore, following the FRC review, the Committee requested a review of the disclosures provided with reference to the revenue recognition policy and in relation to sales arrangements that involve channel partners ('reseller partners' or 'distributors').

Management has expanded its disclosures within the revenue recognition policy section which specifically explain the principal vs agent assessment (see note 4) and the Committee has challenged whether the accounting policy provided consists of a significant accounting judgement for disclosure.

There is inevitably judgment involved in determining whether an intermediary partner is principal or agent versus the end-user.

As Darktrace does not have access to all applicable contractual conditions between the partner and the end-user, and in particular, while it may or may not have informal indications of the price paid to the partner by the end-user, it has no visibility or control over that price, Management has determined that the partner is acting as principal in its relationship with the end-user. However, Darktrace remains the principal in its transaction with the reseller partner for the conditions noted above.

Acknowledging that there is some element of judgement involved, after considering the significant evidence that Darktrace controls all aspects of the products and services it sells, sets the price to the reseller partner but not the end-user, and bears the credit and foreign exchange risk in its contract with the reseller partner, it has concluded that Darktrace is a principal in its contracts with reseller partners.

Darktrace has also considered the role of the reseller partner in their contract with the end-user and based on all information available to it, primarily considering the control of pricing and the assumption of credit and foreign exchange risk, has concluded that the reseller is principal in their contract with the end-user.

While Darktrace has responsibility under its MSA for fulfilment of the products and services provided to the end-user, the reseller partner has responsibility for the pricing of Darktrace products to the end-user, any invoicing and or payments terms and conditions related to those Darktrace products and services and any contractual terms and conditions that they wish to enter into that are unrelated to that partner's contract with Darktrace. While Darktrace considers the reseller partner to be the principal in their contract with the end-user, it notes that if it did not come to this judgement there would be no change to its revenue accounting.

Per IAS 1.125 - An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The lack of information available on the pricing applied by the partner to the end-user, does not enable Management to estimate reliably what the implication of an alternative accounting treatment would be.

Therefore, Management considered this to be a judgement to be clearly disclosed to ensure greater clarity for the users of its financial statements, but not a significant judgement. The alternative accounting treatment would have not changed the financial statements presented therefore the Committee agreed that this does not meet the definition of a significant accounting judgement.

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

Description of the matter

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

<u>Significant judgement</u>

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

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

<u>Significant estimate</u>

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

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

See note 25 to the consolidated financial statements for details.

How the matter was addressed

The Committee challenged the outlook period used as a base for assessing the recoverability of the DTA.

The Group forecast indicates profitability for the next three years and when looking at the UK forecast profits before tax (derived by the group forecast and adjusted to determine the taxable profit for the separate entity), there is an indication that there will be UK profits for the three years. Whilst from a cash flow perspective given the very strong cash position, a 3-year period for a viability analysis is considered appropriate, the profitability (taxable) is sensitive to changes that depend much more on the current and future macro-economic environment, inflation and foreign exchange trends.

The estimate of profitability requires sufficient certainty on two key assumptions: inflation and foreign currency trends which can significantly impact the operating costs.

Considering the significant uncertainty in relation to inflation, foreign currency and ARR trend, it is difficult for Management to consider a period longer than two years for recognition of the DTA.

Management proposed the UK deferred tax asset on losses carried forward should be recognised in line with the two year forecast period consistent with the judgment taken for FY 2022. The longer the estimates/forecasts extend into the future, the less reliable they are and their weight should be assessed accordingly. Given this, whilst use of the full (three year) forecast period is arguable, Management considers the profitability certainty continious to be restricted to two years.

Two years was therefore considered by the Committee, to be a period where convincing other evidence is appropriate to determine if the profitability expected would allow the recoverability of the current unrecognised UK deferred tax asset on losses carried forward. $10.9 million has been recognised in the year as a result of this analysis.

Appropriate disclosure around the significant judgement and the significant estimate has been requried by the Committee and in particular indication of the impact that a different judgement or a change in estimate could have on the amount of DTA recognised.

Therefore sensitivity on a 10% variance of operating costs has been included in the consolidated financial statements.

Refer to note 25 of the consolidated financial statements for details of the disclosure provided.

Fair, balanced and understandable

The Committee assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Furthermore, the Committee reviewed the processes and controls that underpin the preparation of the Annual Report and considered the following:

- recommendations provided by EY in their review report (see above for details) on processes and controls;
- apporpriateness of the changes made to the KPIs and agreed with managment the APMs presented reflect the financial indicators regularly monitored by Management and presented to the Board;
- ensuring that all contributors, the core reporting team and Management are fully aware of the requirements and their responsibilities. This included the responsibilities of the Directors under section 172 of the Companies Act 2006 to promote the success of the Group for the benefit of its members as well as considering the interests of other stakeholders which will have an impact on the Group's long-term success.

The Committee reviewed the Annual Report to enable input and comment. This work enabled the Committee to provide positive assurance to the Board to assist them in making the statement required by the 2018 UK Corporate Governance Code.

Internal controls and Risk Management Environment

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

Darktrace has complied with the FRC's 2014 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting in the period from the end of the last financial year to the date on which these financial statements were approved.

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

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

Internal control environment

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

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

In addition the internal control environment will be enhanced in FY 2024 with the appointment of a Head of Internal Audit to lead the Internal Audit Function and provide enhanced assurance to the Committee.

Risk management framework

As part of the IPO process the Group implemented a robust Enterprise Risk Management framework and risk assessment methodology that follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities. A register is kept of all corporate risks and is monitored by Management and reported to the Committee.

The risk register and the methodology applied is the subject of continuous review by senior management who are members of the Risk Steering Committee which includes the ongoing process of categorising and prioritising risks already identified in addition to reflecting new and developing areas which might have a material impact on business strategy.

The Committee will continue to review the risk register throughout the year and assess the actions being taken by senior management to monitor and mitigate the risks. Those risks which are considered to be the Principal and Emerging Risks of the Group are presented on pages 68-73

Review of effectiveness

The Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and Enterprise Risk Managment processes in place, taking account of any material developments and the recommendations from the EY report (see above for further details). Periodic presentations have been provided by Management to the Committees which have included the self-assessment results of the review of key processes and controls within the finance function in particular and the overall Enterprise Risk Management framework. In the absence of an Internal Audit function the assessment of processes and procedures effectiveness has been performed by Management through self-assessment exercises. With the recent hire of the Head of Internal Audit we will transition the review of the effectiveness of controls and procedures from Management to this new Internal Audit function.

A key recommendation from the Committee during the year was to move to a control environment where automated and preventative controls are more prevalent. The implementation of Workday will support this request once completed in the first half of the next financial year. Once implementation has been completed, a new assessment of the controls and procedures in place will be performed and the Committee has requested regular updates on this during the course of the next financial year.

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

Whistleblowing

The Committee confirms that it is satisfied that, as at the date of this report, arrangements are in place to ensure that employees are able, in confidence, to raise any matters of concern, and for the proportionate and independent investigation of such concerns, including assessment of the financial impact and any appropriate follow-up action. During the course of the year, the Committee was satisfied that investigations and follow-up actions were appropriate. As at the date of this report, all of the Group's operating entities had access to the same whistleblowing platform.

Independence and performance of the external auditors

The Committee has developed and recommended to the Board a formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved including an assessment of whether non-audit services have a direct or material effect on the audited financial statements. This was approved by the Board on 18 May 2022.

During the year, the auditors have provided non-audit services to Darktrace in relation to the half-year report review for the six-month period ended 31 December 2022 and a review of Darktrace's responses to the FRC. Furthermore the auditors provided confirmation of their independence at their meetings with the Committee during the course of the year.

The fees paid for these other services during the year represented 6.9% of the fees paid for the statutory audit and audit-related assurance services together. Further details of these amounts are included in note 5 of the accounts.

The Committee has primary responsibility for conducting a tender process and making recommendations on the appointment, reappointment and removal of the auditors, approving the terms of engagement and the remuneration of the external auditor. The Committee keeps under review the requirements on audit-tendering and rotation from the European Union and the Competition and Markets Authority. Darktrace will be required to change its audit firm for the year ending 30 July, 2038, at the latest.

The audit was last tendered in 2018 and Grant Thornton UK LLP has been in place as Darktrace's auditor for ten years. Auditors are required regularly to report on and confirm their independence in their role. Darktrace's policy on appointment and rotation of the key audit partner is contained in the Committee's Terms of Reference.

On behalf of the Committee

Paul Harrison

Paul Harrison
Chair of the Audit & Risk Committee
5th September 2023


DARKTRACE
DARKTRACE

REPORT OF THE REMUNERATION COMMITTEE

Annual statement

I am pleased to present, on behalf of the Committee, the Report of the Remuneration Committee (the 'Report') for the year ended 30 June 2023.

This Report is divided into three sections:

1. this Annual Statement, which summarises the work of the Committee and our approach to Directors' remuneration;
2. the Directors' Remuneration Policy, which provides the framework for the Directors' Remuneration; and
3. the Annual Report on Remuneration, which with this Annual Statement, is put to shareholders as an advisory shareholder vote and sets out the remuneration outcomes for the financial year ended 30 June 2023 and the proposed remuneration for the upcoming year.

I would also like to direct readers to both our section 172 statement and ESG report on pages 50-56 which provides additional information on our approach to both supporting and engaging with our colleagues and wider ESG matters.

Role of the Remuneration Committee

The Committee comprises of me, as the Committee Chair, Lord Willetts and Paul Harrison, all of whom are independent Non-Executive Directors, and Gordon Hurst, the Chair of the Board, was also a member until February 2023. Following a review of Committee memberships Gordon Hurst stepped down as a member of the Committee from February 2023, but has continued to attend meetings as an observer. The members of the Committee provide an appropriate balance of skills and experience for the efficient operation of the Committee. The full Committee terms of reference are available on Darktrace's corporate website at www.darktrace.com. In summary, the Committee's scope is as follows:

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

2022 AGM and approval of our 2022 Remuneration Report

Our 2022 Directors' Remuneration Report was approved by shareholders at the 2022 Annual General Meeting ('AGM'), with 79.3% support. The Committee would like to thank shareholders who provided feedback ahead of the 2022 AGM and was pleased that the vast majority of shareholders were supportive of the resolution.

However where a shareholder resolution receives 80% or less support certain further disclosures and shareholder engagement are required under the UK Corporate Governance Code and it is in respect of this requirement that I make the following comments. Over 70% of the 20.7% vote against the Remuneration Report resolution were from just three of our shareholders. In light of the AGM vote, I wrote to these shareholders offering the opportunity for further engagement to understand their concerns on remuneration matters. Following this offer of engagement, one shareholder took the opportunity to provide feedback regarding the use of discretion in determining remuneration outcomes. Mindful of this engagement and noting feedback received prior to our 2022 AGM, the Committee remains of the opinion that the decisions set out in 2022 Directors' Remuneration Report were aligned to the interests of shareholders and wider stakeholders.

FY 2023 Business performance

Amidst a challenging macro-economic backdrop, which had a significant impact on new customer additions and related ARR growth in the period, Darktrace delivered a strong financial and operational performance in FY 2023. Leveraging its multi-year contract model, Darktrace delivered year-over-year constant currency ARR growth of 29.6%, ending the year with an ARR balance of $628.4m. FY 2023 revenue grew by 31.3% year-over-year to $545.4m in the period, and continued improvements Darktrace's underlying profitability profile is demonstrated by the 3.1 percentage point year-over-year increase in its Adjusted EBIT margin to 15.1%. This provides confidence in the sustainability of Darktrace's growth and Management's ability to realise its long-term steady-state economic model of an Adjusted EBIT margin in the mid-20%s.

Approach to Executive Directors' Remuneration for FY 2023

Executive Directors' Annual Bonus for FY 2023

Both Executive Directors participated in the Annual Bonus with a maximum opportunity of 150% of salary. Performance was assessed against Net Annualised Recurring Revenue ('ARR') Added (50%), Constant Currency Gross Churn (30%) and strategic ESG targets relating to colleagues and communities (20%).

The Annual Bonus outcome for both Executive Directors is 60.6% of maximum. In respect of the financial targets, there was strong performance against the targets set for Gross Churn with 6.8% achievement providing a payment of 80% of maximum for this element. Net ARR Added was $143.6 million against a threshold target of $136.5 million providing a payment of 33.2% of maximum for this element. The ESG element of the Annual Bonus was based on colleague and community targets and more specifically focussed on increasing the gender balance in our senior leadership teams and increasing STEM and Cyber skills in the community. The Committee set measurable, quantifiable stretch targets for both the colleague and community elements, with the targets being met in full.

The Committee reviewed the formulaic outcome of the Annual Bonus recognising the strong performance achieved against the challenging targets set. The Committee agreed that there were no circumstances making the exercise of discretion appropriate. In line with the Remuneration Policy, one-third of the Annual Bonus will be paid in shares subject to a two-year holding period during which clawback will continue to apply.

Full details of the Annual Bonus performance targets and achievement against these targets can be found on page 122.

Executive Directors' Award Incentive Plan vesting determined by performance periods ending in FY 2023

No AIP award performance periods ended during the year. The first vesting under the AIP will be based on a performance period ending in FY 2024.

Approach to Executive Directors' Remuneration for FY 2024

As highlighted in previous reports, the Committee has been mindful that since IPO the base salaries and total target remuneration of both our Executive Directors has been significantly below market when compared to similar sized FTSE companies and that steps would be needed to address this.

The performance of our CEO and CFO since IPO has been very strong with both of them having significantly grown in role and experience in managing the business. It is within this context that the Committee has considered the remuneration and market positioning of our two highly regarded Executive Directors.

Salaries for both Executive Directors have been increased by 15% for FY2024, which is an increase of 7.5% above the average workforce increase. The Committee is mindful of the fact that investor preference is to make larger salary increases in stages; however, given the significant gap to market, the Committee determined that an increase of 15% for this year is both fair and appropriate.

Following these increases the CFO's salary is broadly at a market level. However, our CEO's salary and total target remuneration remains significantly below market and further increases will be needed to bring it closer to market. The Committee will consider this further over the course of the next 12 months as part of our review of the Directors' Remuneration Policy.

Our remuneration strategy is to provide market salaries with a significant focus on incentive pay to drive and reward business performance, with an emphasis on longer term sustainable performance. We have ambitious long-term growth plans and our long-term incentive awards are a key remuneration tool to drive and reward this growth. As part of the review of the CFO's remuneration, we have increased her AIP award to 250% of salary, so that it is the same AIP award level as our CEO. This aligns with our remuneration strategy and also ensures that the increase to remuneration from the enhanced AIP award level is only delivered alongside increased performance and returns to our shareholders.

Bringing the CFO's AIP award to the same level as the CEO results in a total remuneration package for our CFO which is still no more than the mid-market for FTSE companies of a similar size.

AIP awards continue to be measured as to 80% on Total Shareholder Return against the FTSE 350 (excluding investment trusts) and as to 20% on constant currency Annualised Recurring Revenue growth.

The FY 2023 AIP award was the first time that targets have been set for ARR growth rates and the Committee set an extremely ambitious but wide range of 18% CAGR to 28% CAGR reflecting business and market expectations at that time. For the FY 2024 AIP awards the Committee has reviewed the range and set growth targets of 16% CAGR to 23% CAGR. These targets are lower in absolute terms than those set for the FY 2023 AIP awards, reflecting the economic backdrop and market expectations at this time. However, the entire range still represents strong growth in our most important financial KPI and we consider the range to be even more challenging than the range we set for the FY 2023 awards.

We have also reviewed the basis of our TSR measurement and have set the starting and end TSR as the average TSR for ten business days commencing with our Q4 results announcement for the beginning and end of the performance period. Our starting TSR is therefore the average over 18 July to 31 July 2023 providing a high starting point on which to drive further returns for our investors. This is a change from the approach to date which aligned to our financial year, and one that the Committee believes aligns Management much closer to the investor experience.

Overall, taking both the ARR and TSR performance measures, we are confident that the achievement of these will generate long term shareholder value.

As a result of these increases in remuneration the Committee is comfortable that the CFO's total target package is aligned to, but no more than, the mid-market for FTSE companies currently comparable to Darktrace. The CEO's base salary and total target remuneration remain significantly below market and the Committee will consider this further over the course of the next 12 months as part of our review of the Directors' Remuneration Policy.

I am engaging on an ongoing basis with our largest shareholders about these increases, and as at the date of writing this report, there have been no significant concerns raised with this approach.

Executive Directors' Annual Bonus for FY 2024

The FY 2024 Annual Bonus structure and maximum opportunity levels (150% of salary for both Executive Directors) remain the same as for FY 2023.

Following a review of the annual bonus measures and weightings, it was determined that whilst Constant Currency Net ARR added should be retained, Constant Currency Gross Churn should be replaced by Net US Dollar Retention Rate which is a key performance indicator for both the business and our investors. This change will ensure simultaneous focus on gross retention and upselling to the existing customer base as gross churn remains a critical component of net retention rate. As such, this change will allow for a broader range of KPIs to be assessed rather than replacing churn in its entirety and aligns the Executive Directors to a key area of growth for the business.

The remaining 20% continues to be focussed on our ESG strategy and our colleagues and communities.

The Committee is cognisant of the investor focus on all areas of ESG but particularly environmental and sustainability targets. As the Committee reviews the current Directors' Remuneration Policy in advance of its triennial vote, it will consider how both annual bonus and LTIP metrics can be aligned to and support our environmental strategy. The Committee also understands investor concerns that ESG targets should be challenging and include an appropriate level of stretch. As the business evolves its ESG strategy and sets its medium to long term targets the Committee will consider carefully how incentive targets are aligned to this to provide an appropriate level of stretch.

Executive Directors' Award Incentive Plan awards to be granted in FY 2024

As noted above, the FY 2024 AIP grant for the CEO and CFO is 250% of salary with performance measures and weightings the same as those applicable to the FY 2023 grants being Total Shareholder Return relative to the FTSE 350 Index, excluding investment trusts 80%, and CAGR growth in constant currency Net Annualised Recurring Revenue (ARR), 20%.

The Committee remains comfortable that ARR is used in both our Annual Bonus and AIP, noting that it is a key metric for our business and for our shareholders and in addition that the bonus measures ARR added on an annual basis and the AIP uses ARR CAGR growth rates.

Approach to workforce remuneration

As mentioned above the average FY 2024 salary increase for our workforce is 7.5%. Whilst the average scheduled annual increase for FY 2023 was 6%, the total salary increases made across the organisation during the year exceeded this, demonstrating our commitment to ensuring security of earnings for our employees as they continue to face cost of living pressures. This is an area that the Committee and Management will continue to monitor to ensure that our employees are appropriately rewarded and supported during what is a challenging time for many employees. Noting our approach for FY 2023, our expectation is that the total increase over FY 2024 will similarly be above the current budgeted increase of 7.5%.

As noted last year, we continue to evolve our employee value proposition as a recently listed business. This year we have benefited from insights from and engagement with our Employee Forum where we have had rich debate on a diverse range of topics, led by Paul Harrison, our Non-Executive Director who chairs the Employee Forum, supported by our Global Head of People and Policy. The Committee continues to take an active interest in the pay and benefits offered to employees across the whole of our workforce as well as other related workforce policies and practices. The feedback provided from the Employee Forum is communicated to the Committee and the Board as a whole and is considered, alongside the views of wider stakeholders, on an ongoing basis by the Committee and Board in its decision making process.

Non-Executive Director fees

Non-Executive Director fees are not a matter for the Remuneration Committee but I refer to them here for completeness as they are reported in the Remuneration Report.

Our Nomination Committee report explains that the Board is looking to further strengthen its blend of skills and experience by the appointment of US based independent Non-Executive Directors.

During the course of FY 2024 the Board will consider and introduce a specific US based Non-Executive Director base fee for US based Non- Executive Director appointments. This is to ensure that that Darktrace is able to recruit Non-Executive Directors who are based in the US and have the appropriate skills and experience for the role, reflecting both the additional time travelling to meetings from another continent as well as the higher fee levels that are paid to US Non-Executive Directors. This new US base fee has not yet been determined and may form part of a wider review of Non-Executive Director fees. Any changes to Non-Executive Director fees made during the course of FY 2024 will be disclosed in our FY 2024 Remuneration Report.

Directors' Remuneration Policy review

As already noted above, over the next 12 months the Committee will be reviewing the Executive Directors' Remuneration Policy in preparation for our triennial shareholder vote at the 2024 AGM. This will be the first review of the Policy since our IPO in 2021. The Committee will be considering all aspects of the Policy covering quantum, incentive structure and performance measures and weightings to ensure that our approach to remuneration is aligned to and evolves with our strategy. In particular, as we develop our ESG strategy the Committee recognises the importance of ensuring we are aligning incentives to that strategy and that we consider all aspects of ESG, including employee, customer, community, environmental and sustainability. I very much look forward to engaging with our shareholders as part of this process.

Closing remarks

The Committee is satisfied that the remuneration outcomes for FY 2023 demonstrate a strong link between pay and performance reflecting the culture of our business and that the operation of the Policy for FY 2024 supports our long-term growth ambitions aligning our Directors to the interests of Darktrace and its stakeholders.

The Committee is also comfortable that its approach to increasing the remuneration for FY 2024 for the CEO and CFO, is appropriate, moderate and balanced noting that remuneration has been significantly below market and for our CEO continues to be so.

On behalf of the Committee, thank you for reading this report and I look forward to receiving your support at the AGM on 7 December 2023 in relation to the Directors' Remuneration Report (Resolution 15).

On behalf of the Remuneration Committee

Sir Peter Bonfield

Sir Peter Bonfield, CBE, FREng
Chair of the Remuneration Committee
5th September 2023

Overview of operation of Remuneration Policy for FY2024

	CEO - Poppy Gustafsson OBE	CFO - Catherine Graham
Annual Base Salary	£573,563 (15% increase on FY 2023, 7.5% above the workforce)	£452,813 (15% increase on FY 2023, 7.5% above the workforce)
Pension and Benefits	Executive Directors receive a contribution to pension arrangements in line with that available to the majority of the workforce in the country of appointment. This is currently equal to 4% of base salary. Benefits comprise family private health cover and life assurance cover, for the CFO as a US tax payer, an allowance towards the cost of tax and accounting advice and for the CEO advisor fees.	
Annual Bonus	**Maximum opportunity:** 150% of base salary	**Maximum opportunity:** 150% of base salary
	Performance conditions: 50% constant currency Net Annualised Recurring Revenue Added, 30% on constant currency Net $ Retention Rate and 20% Employees and Communities Structure: One third earned will be paid in shares with a two year holding period, the remaining two thirds will be paid in cash.	
Award Incentive Plan ("AIP")	**Award level:** 250% of base salary	**Award level:** 250% of base salary
	Performance conditions: 80% Relative TSR vs FTSE 350 index (excluding investment trusts) and 20% constant currency Net Annualised Recurring Revenue three year CAGR. Structure: 3-year performance period and post-vesting holding period such that there is a period of 5 years from the date of grant to the earliest opportunity to dispose of shares (except to pay taxes on vesting of an award).	
Minimum Share Ownership Guidelines	In-employment: 200% of base salary. Post-employment: the lower of shares held on cessation of employment and shares to the value of 200% of base salary, for 2 years post-cessation of employment.	

Directors' Remuneration Policy

This Directors' Remuneration Policy which has been prepared in accordance with the Large and Medium-sized Companies and Groups Accounts and Reports Regulations 2008 (as amended) (the "Regulations") was approved by shareholders at the 2021 AGM. Details of voting can be found later in this report. The Policy applies from the 2021 AGM for a three year period.

The Directors' Remuneration Policy has been designed to encourage long-term, sustainable growth, provide market competitive overall remuneration for the achievement of stretching performance targets aligned to the business strategy and to enable the cascade of incentives throughout the business to ensure that employee incentives overall are linked to Darktrace's performance and provide alignment between employees and shareholders. The policy further provides a framework for Darktrace to provide market competitive rewards to enable the business to attract and retain the best talent.

The Committee tested the operation of the Policy against the following six factors listed in Provision 40 of the UK Corporate Governance Code.

Clarity	The Committee is committed to clear and transparent disclosure of our Directors' Remuneration Policy, its operation and the rationale for decisions made.
Simplicity	Executive Directors receive fixed pay (salary, benefits, pension) and participate in separate short and long-term variable remuneration arrangements. These variable remuneration arrangements align to standard market practice.
Risk	The combination of fixed pay levels ensuring no overreliance on variable pay and reward for short term performance (payable in cash and deferred shares) and long term sustainable performance and shareholder returns ensures incentives drive the right behaviours for the Group, its shareholders, customers and employees. The Remuneration Committee retains the discretion to adjust variable remuneration outcomes where they do not reflect individual or business performance and all awards are subject to malus and clawback.
Predictability	Our remuneration has defined threshold and maximums as set out in our pay scenarios with targets set to determine variable pay.
Proportionality	Pay is clearly linked to performance. Where remuneration outcomes do not reflect the performance of the business, the Remuneration Committee retains the discretion to adjust formulaic outcomes.
Alignment to culture	Our Policy is designed to support our high-performance culture, driving long term sustainable growth and shareholder return and rewarding appropriate short term performance without encouraging inappropriate risk taking. Performance measures are selected to support the achievement of the Darktrace business plan and align to the culture of the business.

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

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

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

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

Choice of Performance Measures

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

Discretions retained by the Remuneration Committee

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

These include the following:

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

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

Malus and clawback

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

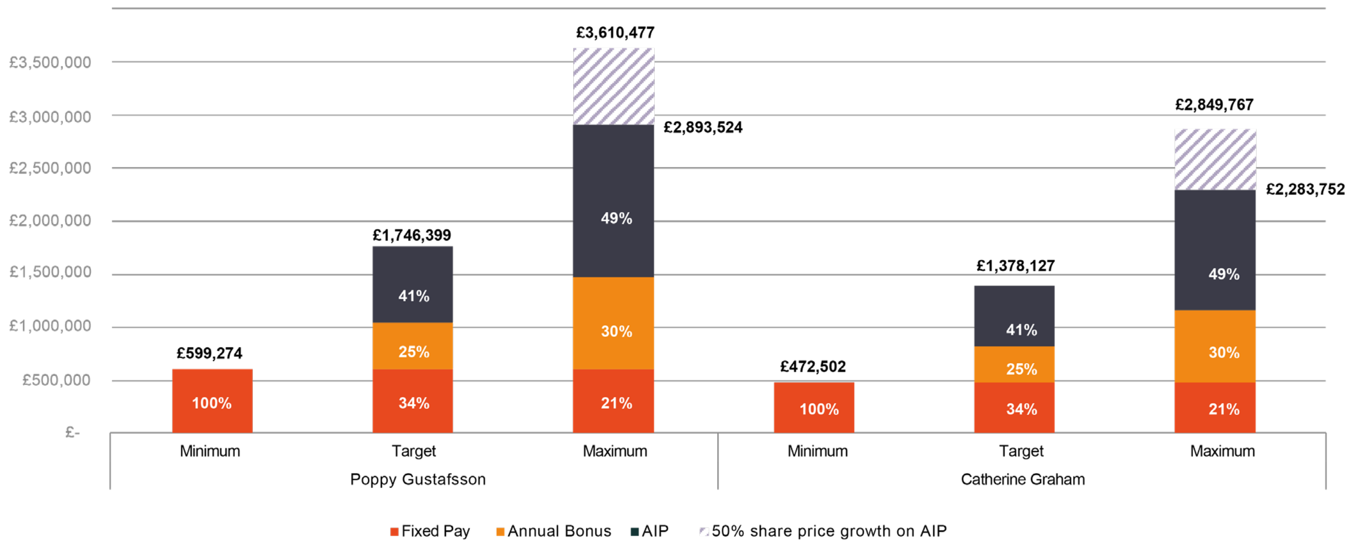
1. material financial misstatement;
2. gross misconduct by the participant;
3. an error in available financial information or misleading data which results in an error in calculating the grant or pay-out of an award;
4. significant reputational damage; or
5. corporate failure or failure of risk management

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

Remuneration scenarios for Executive Directors

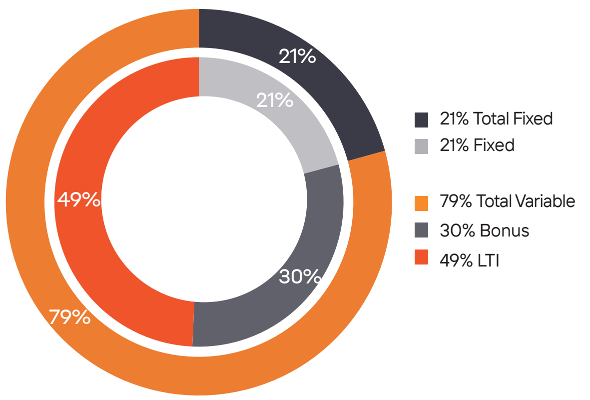
The charts below provide an indication of the level of total annual remuneration that would be received by each Executive Director under different scenarios in respect of minimum pay (fixed pay), an assumed on-target and maximum performance based on assumptions set out below.

- **Minimum:** Comprises fixed pay only using FY 2024 base salary, FY 2023 benefits (excluding advisor fees) and a 4% base salary employer pension contribution.
- **On-Target:** Comprises fixed pay (using FY 2024 base salary, FY 2023 benefits (excluding advisor fees) and a 4% base salary employer pension contribution) plus an Annual Bonus pay-out at 50% of maximum award (i.e. 75% of salary for the CEO and CFO) and the FY 2024 AIP award vesting at 50% of face value (i.e. 125% of base salary for the CEO and CFO).
- **Maximum:** Comprises fixed pay (using FY 2024 base salary, FY 2023 normal benefits (excluding advisor fees) and a 4% base salary employer pension contribution) and assumes full pay-out under the Annual Bonus (i.e. 150% of base salary for the CEO and CFO) and the FY 2024 AIP award vesting in full (i.e. 250% of base salary for the CEO and CFO). The maximum scenario includes an additional element to represent 50% share price growth on the AIP award from the date of grant to vesting. The Directors' Remuneration Reporting regulations provide that share price growth should be shown at 50%. This is not intended to represent Darktrace's expectation but rather to demonstrate total value receivable if the share price were to grow by this amount.

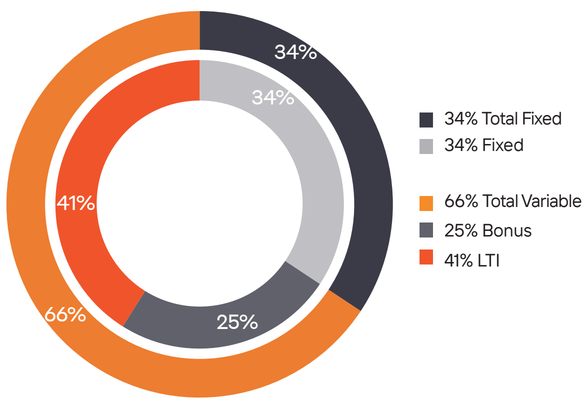


We are a high performing business with a significant amount of performance-based pay at risk as demonstrated below.

CEO and CFO at Max



CEO and CFO at Target



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

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

The Remuneration Committee takes into account wider workforce remuneration and related policies, and the alignment of incentives and rewards with culture when setting and operating the Policy for Executive Directors' remuneration and the Remuneration Committee receives regular updates on any changes to wider company remuneration policy.

As set out in the Corporate Governance section, during FY 2023 Darktrace established an Employee Forum with discussions being led by Paul Harrison, our independent Non-Executive Director who chairs the the Employee Forum. One of the topics for discussion during the year was the role of the Remuneration Committee, processes and governance in respect of Executive Director and wider Group remuneration and the approach to remuneration within the Group. As part of this discussion the Employee Forum considered the alignment of executive pay with the wider workforce as required under the UK Code.

Consideration of Shareholder views

In considering the operation of the Remuneration Policy, the Remuneration Committee will take into account the published remuneration guidelines and specific views of shareholders and proxy voting agencies. The Remuneration Committee will consult with Darktrace's larger shareholders, where considered appropriate, regarding changes to the operation of the Remuneration Policy and when the Remuneration Policy is being reviewed and brought to shareholders for approval. Furthermore, the Remuneration Committee will consider specific concerns or matters raised at any time by shareholders on remuneration. Specific engagement in a year of report will be set out in the Annual Report on Remuneration.

Recruitment Policy

When setting remuneration packages for new Executive Directors, pay will be set in line with the Remuneration Policy outlined above. Several factors will be considered, included but not limited to the geography in which the role competes or is recruited from, the candidate's experience and skills, as well as the remuneration levels of other Executive Directors and colleagues in the business. The Remuneration Committee is mindful that Darktrace should avoid paying more than is necessary to recruit the desired candidate.

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

Executive Directors' service contracts and letters of appointment

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

Executive Director	Date of Appointment	Date of Service Contract	Notice from Darktrace	Notice from the Individual	Unexpired Period of Service Contract
Poppy Gustafsson OBE	1 April 2021	6 May 2021	12 months	12 months	Indefinite term
Catherine Graham	21 March 2021	6 May 2021	12 months	12 months	Indefinite term

Payment for Loss of Office

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

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

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

Remuneration Element	Treatment
Salary, Benefits and Pension	○ If notice is served by either party, the Executive Director can continue to receive base salary, benefits and pension for the duration of their notice period. The Executive Director may be asked to perform their normal duties during their notice period, or they may be put on garden leave. Darktrace may, at its sole discretion, terminate the contract immediately, including at any time after notice is served, by making a payment in lieu of notice equivalent to base salary, benefits and pension, with any such payments being paid in monthly instalments over the remaining notice period. The Executive Director will normally have a duty to seek alternative employment and any outstanding payments will be subject to offset against earnings from any new role.
Annual Bonus	○ Good leavers will be eligible to receive Annual Bonus at the usual time with performance measured at the usual time. The Annual Bonus will normally be pro-rated for service during the financial year. ○ Bad leavers will not be eligible to receive Annual Bonus. ○ The Remuneration Committee has the discretion to apply an alternative treatment to the Annual Bonus where exceptionally it deems it to be appropriate. ○ Shares that have been awarded as part of the Annual Bonus are beneficially owned by the Executive Director from the date they are issued and so they are not at risk of forfeiture, other than in relation to clawback. Shares subject to a holding period will normally be released at the normal time.
AIP	○ Awards are forfeited on cessation of employment except for "good leavers" (where awards vest subject to performance conditions and are normally scaled back pro rata to the proportion of the performance or vesting period served). The Remuneration Committee has the discretion to apply an alternative treatment to awards where exceptionally it deems it to be appropriate. ○ Shares subject to a holding period will normally be released at the normal time.
Change of Control	○ There are no enhanced contractual provisions on a change of control. ○ AIP awards will vest based on performance and be prorated to the proportion of the performance or vesting period served, with the Remuneration Committee having the discretion to disapply pro rating partially or in full, and increase or decrease the extent to which an award vests, if it deems it to be appropriate, acting fairly and reasonably and taking into account relevant factors.
Other Matters	○ Darktrace may also pay outplacement costs, legal costs and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination of employment by exercise of its discretion. Payment may also be made in respect of accrued benefits, including untaken holiday. ○ On termination of employment, the CFO Catherine Graham, is entitled on relocation to the U.S.to reimbursement for the cost of a U.S. healthcare plan substantially similar to Darktrace's then-current employee sponsored healthcare plan for a period of up to 18 months (or until the CFO obtains a similar employee-sponsored plan, whichever is the earlier).

Legacy arrangements

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

Chair and Non-Executive Directors

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

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

Non-Executive Directors	Date of Appointment	Date of Current Letter of Appointment	Notice from Darktrace	Notice from the Individual
Gordon Hurst (Chair)	1 April 2021	1 April 2021	3 months	3 months
Stephen Shanley	1 April 2021	1 April 2021	3 months	3 months
Han Sikkens	1 April 2021	1 April 2021	3 months	3 months
Lord Willetts	1 April 2021	1 April 2021	3 months	3 months
Paul Harrison	1 April 2021	1 April 2021	3 months	3 months
Sir Peter Bonfield CBE FREng	1 April 2021	1 April 2021	3 months	3 months
Patrick Jacob	7 December 2022	7 December 2022	3 months	3 months
Elaine Bucknor	1 June 2023	1 June 2023	3 months	3 months

All Non-Executive Directors are in their initial term.

External appointments

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

Annual report on remuneration

This section of the annual report describes the operation of the Remuneration Policy during FY 2023 and sets out how the Policy will be operated in FY 2024. This part of the annual report will be subject to an advisory shareholder resolution at our 2023 AGM.

Remuneration Committee

Roles and responsibility

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

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

Remuneration Committee membership and meetings

The Remuneration Committee comprised during the year the four Non-Executive Directors listed below with Gordon Hurst stepping down as a member of the Committe in February 2023. The Remuneration Committee Chair has many years of experience both chairing and serving on remuneration committees of listed companies. The Remuneration Committee met four times during the year. Darktrace's General Counsel acts as secretary to the Remuneration Committee and the CEO, CFO and other members of Management are invited to attend as appropriate, although no individual is in attendance when their own remuneration is set.

Remuneration Committee Chair	Sir Peter Bonfield CBE FREng
Remuneration Committee Member	Lord Willetts
Remuneration Committee Member	Paul Harrison
Remuneration Committee Member (until February 2023)	Gordon Hurst

Key activities of the Remuneration Committee

During FY 2023, the Remuneration Committee carried out the following activities:

- determined Annual Bonus for FY 2022;
- finalised the operation of the Annual Bonus for FY 2023;
- determined the remuneration for the Executive Directors and Senior Managment for FY 2023;
- reviewed and approved the Remuneration Report for FY 2022;
- considered the operation of Annual Bonus for FY 2024;
- considered performance measures and weightings for the LTIP for FY 2024;
- reviewed and considered market practice and investor and proxy agency views including the use of ESG measures in incentives;
- considered wider workforce remuneration and engagement with the workforce on remuneration matters, including cost of living measures;
- reviewed the approach to granting of below board equity awards and the impact upon dilution limits;
- considered feedback from investors who voted against the 2022 Directors' Remuneration Report; and
- reviewed and considered the approach to incentivising employees and Management using short-term and long-term incentive awards.

External Advisers

Independent advice was provided to the Remuneration Committee by Korn Ferry, who were appointed in January 2021 by the IPO Committee following a tender process. Korn Ferry is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Remuneration Committee that it adheres in all respects to the terms of that Code.

The fees for the advice provided to the Committee for FY 2023 were charged on a time and materials basis and came to £105k in total. Other than remuneration consultancy, Korn Ferry provided no other advice or services to Darktrace during FY 2023. Taking these matters into account the Remuneration Committee is comfortable that the advice received from Korn Ferry was objective and independent.

Total remuneration payable for FY 2023 (audited information)

The following table sets out the total remuneration for Executive Directors for FY 2023 and for the prior year FY 2022.

	Year	Salary £000	Benefits £000[1]	Pension £000	Total fixed pay £000	Annual bonus £000	Long-term incentives £000[2]	Total variable pay £000	Total Remuneration £000	Total Remuneration $000
Poppy Gustafsson OBE	2023	498.8	686.9	20.0	1,205.7	453.4	-	453.4	1,659.1	2,043.6
	2022	475.0	10.2	19.0	504.2	688.8	10,090.4	10,779.2	11,283.4	15,044.6
Catherine Graham	2023	393.8	1.6	15.8	411.2	357.9	-	357.9	7,69.1	940.4
	2022	375.0	2.2	15.0	392.2	543.8	7,526.9	8,070.7	8,462.9	11,283.9

1. Benefits total represents the taxable value of benefits paid. Benefits provided to Executive Directors include family private health cover and life assurance cover and for the CFO as a US tax payer, an allowance towards personal tax and accounting advice. Poppy Gustafsson benefits include advisor fees paid on behalf of the CEO (total £362,609 of advisory fees and £684,169 after gross up for tax), as with certain other executives, in connection with proceedings related to a Darktrace shareholder.

2. The long-term incentives figure for FY 2022 is the vesting of a pre-Admission growth share award rolled-over on Admission. The value has been updated from the 2022 Remuneration Report to reflect the actual vesting value. 50% of the award vested on 3 August 2022 and was calculated using a share price of £3.60 and the remaining 50% vested on 2 November 2022 and was calculated using a share price of £3.58.

The following table sets out the total remuneration for Non-Executive Directors for FY 2023 and FY 2022.

	Year	Fees £000	Benefits £000[2]	Total Remuneration £000	Total Remuneration $000
Gordon Hurst	2023	215.0	4.8	219.8	264.8
	2022	215.0	-	215.0	287.8
Han Sikkens[1]	2023	-	-	-	-
	2022	-	-	-	-
Stephen Shanley	2023	-	-	-	-
	2022	-	-	-	-
Patrick Jacob[1,5]	2023	-	-	-	-
	2022	-	-	-	-
Vanessa Colomar[3,1]	2023	-	-	-	-
	2022	-	-	-	-
Sir Peter Bonfield, CBE, FREng	2023	82.5	5.5	88.0	106.2
	2022	82.5	-	82.5	110.4
Lord Willetts	2023	86.3	-	86.3	103.8
	2022	86.3	-	86.3	115.4
Paul Harrison	2023	95.0	0.1	95.1	114.5
	2022	86.4	-	86.4	115.4
Elaine Bucknor[4]	2023	5.0	-	5.0	6.2
	2022	-	-	-	-

1. From appointment Han Sikkens, Stephen Shanley, Vanessa Colomar and Patrick Jacob were not entitled to receive any Non-Executive Director fees. For FY 2022 and FY 2023 the NED base fee was £60,000.

2. Benefits are reimbursed travel expenses to Darktrace's London office which are not allowable expenses by HMRC for tax purposes.

3. Vanessa Colomar stood down from the Board with effect from 7 December 2022.

4. Elaine Bucknor was appointed to the Board with effect from 1 June 2023.

5. Patrick Jacob was appointed to the Board with effect from 7 December 2022.

Total Pension Entitlements

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

FY 2023 Annual Bonus

The FY 2023 Annual Bonus measures, targets and performance against them are set out below, with a calculation of the FY 2023 annual bonus payable to the Executive Directors.

Measure	Weighting	Threshold (25% of max)	Intermediate payment (50% of max)	Intermediate payment (80% of max)	Stretch (100% of max)	Outcome	% of max	Weighted % of max
Constant Currency Net ARR Added	50%	$136.5m	$157.9m	$183.6m	$200.7m	$143.6m	33.2%	16.6%
Constant Currency Gross Churn	30%	7.6%	7.2%	6.8%	6.5%	6.8%	80.0%	24.0%
ESG targets	20%	See summary below				See below	100%	20.0%
							Total	**60.6%**

ESG targets

		Outcome	Weighted % of max
Communities: increasing STEM and Cyber skills in the community			
10%	**Targets** Create a framework for, and launch, two partnerships (one in North America, one in Europe) with organisations supporting the advancement of underrepresented Gender and Diversity in the Technology industry. Full payout if both are launched. Committee judgement will be required to assess any payment if both launches are not achieved and any other adjustments around these success measures. **Outcome** Darktrace launched partnerships with Year Up in the United States and Code First Girls (CFG) in the UK to close the opportunity gap in the cybersecurity industry and diversify Darktrace's own talent pipeline. These partnerships are a first step in achieving Darktrace's ambition of building the next generation of diverse technologists both within Darktrace and beyond and are part of advancing and evolving Darktrace's approach to Diversity and Inclusion across the business.	100%	10%
Colleagues: Training, development and upskilling; inclusivity and diversity			
10%	**Target** For stretch performance (full payout) 40% of all the Leadership Development Programme participants will be female. A minimum of 30% of Leadership Development Programme participants must be female (25% payout for this performance) – below this no bonus will be payable. **Outcome** 54% of all participants in the Leadership Development programme sessions run in FY23 were women. Overall, 53% of total participants in the programme across FY22 and FY23 were women.	100%	10%

As noted in the Annual Statement of the Committee Chair, the Committee reviewed the formulaic outcome of the Annual Bonus and determined that the payment is appropriate and there are no circumstances requiring the Committee to exercise discretion.

Executive Director	Max opportunity (% of salary)	Bonus outturn as a percentage of max	Bonus outcome (% of salary)	Bonus outcome £000
Poppy Gustafsson OBE	150%	60.6%	90.90%	£453,366
Catherine Graham	150%	60.6%	90.90%	£357,920

AIP vesting during FY 2023

There were no AIP long-term incentive awards vesting based on performance periods ending in FY 2023.

Scheme interests awarded during FY 2023 (audited information)

AIP awards (in the form of conditional awards) were granted on 21 September 2022 as set out below.

Executive	Date of grant	Shares over which awards granted	Market price at award	Face value of the award at grant (% salary)	Face value at threshold	Face value at max	Performance period
Poppy Gustafsson OBE	21 Sept 22	332,500	£3.54	250%	£294,263	£1,177,050	1 July 2022 to 30 June 2025
Catherine Graham	21 Sept 22	210,000	£3.54	200%	£185,850	£743,400	1 July 2022 to 30 June 2025

The performance measures and targets for these awards are:

Measure	Weighting	Treshohold (25% of max)	Stretch (100% of max)
Relative TSR vs. FTSE 350 (excluding investment trusts)	80%	Median	Upper quartile and above
3 year Constant Currency ARR CAGR	20%	18% CAGR	28% CAGR

Payments to former Directors and for loss of office (audited information)

No payments were made to former Directors of Darktrace or in relation to loss of office during FY 2023.

Directors' shareholding and share interests (audited information)

The shareholding and share interests of the Directors' and their connected persons in the shares of Darktrace as at 30 June 2023 is set out on the right. Since 30 June 2023 there has been no change in the Directors' shareholding.

Director	Ordinary Shares Held at 30 June 2023
Poppy Gustafsson OBE	4,153,418
Catherine Graham	1,438,654
Gordon Hurst	697,368
Han Sikkens	-
Stephen Shanley	-
Patrick Jacob	-
Vanessa Coloma[1]	4,695,100
Sir Peter Bonfield, CBE, FREng	49,000
Lord Willetts	49,000
Paul Harrison	49,000
Elaine Bucknor[2]	-

1. Vanessa Colomar stepped down from the Board with effect from 7 December 2022, therefore her shares held are as at her date of departure.

2. Elaine Bucknor was appointed to the Board with effect from 1 June 2023.

Directors' shareholding requirements

During employment, Executive Directors are required to build and maintain a shareholding equivalent to 200% of their base salary. The shareholdings of the CEO and CFO on 30 June 2023 exceed this requirement. The table below summarises each Director's current shareholding, vested share options, and share awards subject to performance conditions and service requirements, and whether or not the shareholding requirement has been met.

Director	Beneficially Owned Shares on 30 June 2023	Options Exercised in Year	Vested Unexercised Share Options	Unvested Share Awards Subject to Performance Conditions	Unvested share awards subject to service requirement	Shareholding Requirement (% of Base Salary)	Current Shareholding (% of Base Salary)	Requirement Met
Poppy Gustafsson OBE	4,153,418	-	-	807,500	-	200%	2,565%	Yes
Catherine Graham	1,438,654	-	-	510,000	-	200%	1,125%	Yes
Gordon Hurst	697,368	-	-	-		-	-	n/a
Vanessa Colomar	4,695,100	-	-	-		-	-	n/a
Sir Peter Bonfield CBE FREng	49,000	-	-	-		-	-	n/a
Lord Willetts	49,000	-	-	-	-	-	-	n/a
Paul Harrison	49,000	-	-	-		-	-	n/a
Han Sikkens	-	-	-	-		-	-	n/a
Stephen Shanley	-	-	-	-		-	-	n/a
Patrick Jacob	-	-	-	-		-	-	n/a
Elaine Bucknor	-	-	-	-		-	-	n/a

/ Poppy Gustafsson holds 68,537 ordinary shares which were subject to service-based restrictions. These restrictions were lifted on 1 September 2023.

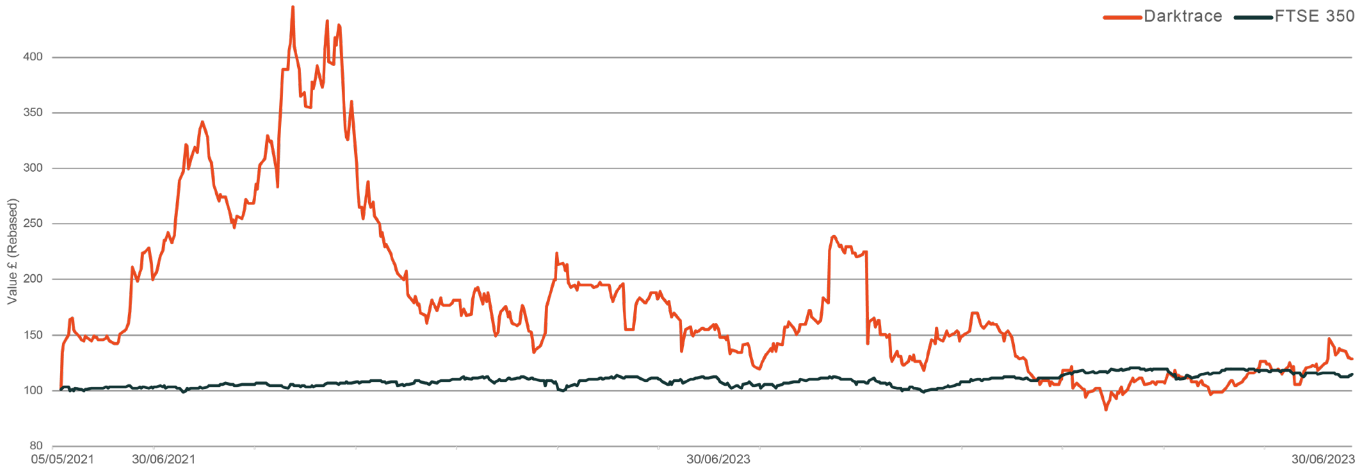
/ Post-cessation of employment, Executive Directors must retain shares to the value of 200% of base salary for a period of two years in accordance with the Remuneration Policy.

/ Unvested share awards subject to service only count towards the shareholding requirement on a net of tax basis.

/ Vanessa Colomar stepped down from the Board on 7 December 2022, therefore her shares held are as at the date of departure.

Performance Graph and Table

Darktrace shares began unconditional trading on the London Stock Exchange's main market on 6 May 2021. The chart below shows the TSR performance of £100 invested in Darktrace from 30 April 2021 at the commencement of conditional trading using the offer price of £2.50 per share to 30 June 2023 against the FTSE350 index. The FTSE350 index is considered an appropriate comparison as Darktrace is a constituent of the index.



	2021	2022	2023
CEO single figure total remuneration (£000s)[1]	162.1	11,283.4	1,659
Annual Bonus (as % of maximum opportunity)	100% of salary	99.7%	60.6%
Long-term incentive vesting (as % of maximum opportunity) [2,3]	n/a	100%	n/a

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

2. The long-term incentive shown as vesting at 100% for 2022 is in respect of the pre-Admission growth share award rolled over on Admission and not a normal annual LTIP grant.

3. There are no long-term incentive awards with performance periods ending in FY 2023.

Annual percentage change in Directors and employee remuneration

The table below shows the percentage change in each Director's salary / fees, taxable benefits and annual bonus between FY 2022 and FY 2023 compared with the average percentage change in each of those components of pay for the employees of Darktrace as a whole. The information in this table will build up each year to show a five-year history, as required under the reporting regulations.

	% change in 2022/23		
	% change in salary or fees	% change in benefits	% change in annual bonus
Executive Directors			
Poppy Gustafsson OBE	5.0%	6,634.3%	-34.2%
Catherine Graham	5.0%	-27.3%	-34.2%
Non-Executive Directors			
Gordon Hurst	0.0%	n/a	n/a
Han Sikkens	n/a	n/a	n/a
Stephen Shanley	n/a	n/a	n/a
Patrick Jacob	n/a	n/a	n/a
Sir Peter Bonfield, CBE, FREng	0.0%	n/a	n/a
Lord David Willetts	0.0%	n/a	n/a
Paul Harrison	10.0%	n/a	n/a
Elaine Bucknor	n/a	n/a	n/a

The CEO's benefits have increased. This is because of the adviser fees included as a benefit which are not a normal ongoing part of the CEO package (see note on page 125 under table of single total figure of remuneration). The fee for Paul Harrison has increased reflecting a full year of fees for his role as the Chair of the Employee Forum. There are some Non-Executive Director benefits for 2023 compared to no benefits for 2022 which are in respect of travel expenses. These are not shown as a percentage increase as the base point (2022) is zero.

CEO Pay Ratio

UK regulation requires companies with more than 250 UK employees to publish a ratio to show CEO pay versus that of its UK employees. For FY 2022 and future years we have moved to Option A as we believe this provides the most accurate and robust data. The employee data has been compiled using all employees employed on the last day of the financial year and grossing up where appropriate, for example for new joiners and part-time employees. For FY 2022 the ratio includes the value of the Executive Directors pre-IPO incentive awards that were rolled over into a post Admission AIP award. These awards are not part of the post Admission Directors' Remuneration Policy but part of the legacy pre-Admission incentive awards. For this reason we have shown the CEO pay ratio including the value of these incentive awards which we are required to do under the remuneration regulations but also without these incentive awards which the Committee believes is a fairer reflection of the remuneration paid to the Directors and Group employees as part of the post Admission remuneration structure. For FY23 we have shown the CEO pay ratio with and without the benefits consisting of advisor fees paid on behalf of the CEO. This is because this amount is not part of the CEO's normal annual compensation.

Financial year	Method	Lower Quartile	Median	Upper Quartile
2023 with advisor fee benefits [1]	A	41:01	31:01	18:01
2023 without advisor fee benefits	A	24:01	18:01	10:01
2022 with pre-IPO incentives [2]	A	357:01	271:01	138:01
2022 without pre-IPO incentives	A	36:01	27:01	16:01
2021 [3]	B	22:01	19:01	12:01

1. The pay ratio is higher than for 2022 even though the annual bonus payment is lower. This is because of the adviser fees included as a benefit (see page 125 under table of single total figure of remuneration).
2. Exceptionally for FY 2022 the CEO pay ratio is very high because of the exceptional vesting of the pre-IPO incentives.
3. Details provided in respect of the period between 29 April to 30 June 2021 being our first Directors' remuneration reporting period following Admission.

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

		CEO	Lower Quartile	Median	Upper Quartile
2023	Basic salary	£498,752	£33,538	£40,560	£54,951
	Total pay and benefits with adviser fee benefits	£1,699,427	£41,249	£55,146	£95,247
	Total pay and benefits without adviser fee benefits	£991,297	£41,249	£55,146	£95,247

The Remuneration Committee is comfortable that the pay ratio shown above is consistent with our pay, reward and progression policies for Darktrace's UK employees as a whole.

Variable pay for our Executive Directors forms a significant part of their overall remuneration package with actual payments under the variable elements varying from year to year. In addition, our post Admission long-term incentive awards will not start to vest until FY 2024. Therefore, it is anticipated that the CEO pay ratios will vary due to the variable nature of the CEO remuneration structure.

Relative importance of spend on pay

The table below shows Darktrace's expenditure on employee pay compared to distributions to shareholders.

£m	FY 2023	FY 2022	% change
Distribution to shareholders	-	-	n/a
Total employee pay	204.6	150.8	35.7%

Implementation of Remuneration Policy in FY 2024

Executive Director remuneration

Annual Base Salary

The annual base salaries for the Executive Directors have been increased by 15% effective from 1 July 2023. The workforce average increase in the UK was 7.5%.

- Chief Executive Officer £573,563 (15% increase)
- Chief Financial Officer £452,813 (15% increase)

Pension and benefits

There are no changes from FY 2023. Executive Directors will continue to receive an employer pension contribution of 4% of base salary. Other benefits include family private health cover and life assurance, for the CFO an allowance towards the cost of personal tax and accounting advice and for the CEO other professional and advisor fees.

Annual Bonus

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

Performance continues to be based 80% on financial metrics comprising 50% on constant currency Net Annualised Recurring Revenue Added, with Constant Currency Net US Dollar Retention Rate replacing Constant Currency Gross Churn and accounting for 30% of the total award. The remaining 20% of the annual bonus is based on strategic ESG targets including colleagues and communities.

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

Award Incentive Plan ("AIP")

The FY 2024 AIP grant is 250% of salary for the CEO and CFO respectively. The performance measures, weightings and targets for this award are set out below.

Measure	Weighting	Threshold (25% of maximum)	Stretch (100% of the award)
Relative TSR vs. FTSE 350 (excluding investment trusts)	80%	Median	Upper quartile and above
Constant currency Annualised Recurring Revenue	20%	16% CAGR	23% CAGR

Non-Executive Director remuneration

Non-Executive Director fees are unchanged for FY 2024.

Our Nomination Commitee report explains that the Board is looking further to expand through the appointment of US based independent Non-Executive Directors.

During the course of FY 2024 the Board will consider introducing a specific US based Non-Executive Director base fee for US based Non- Executive Director appointments. This would be to ensure that Darktrace is able to recruit Non-Executive Directors who are based in the US and have the appropriate skills and experience for the role, reflecting both the additional time travelling to meetings from another continent as well as the higher fee levels that are paid to US Non-Executive Directors. This new US base fee has not yet been determined and may form part of a wider review of Non-Executive Director fees. Any changes to Non-Executive Director fees made during the course of FY 2024 will be disclosed in our FY 2024 Remuneration Report.

Non-Executive Director	Annual Fee FY 2024	Annual Fee FY 2023
Chair of the Board	£215,000	£215,000
Non-Executive Director base fee	£60,000	£60,000
Member of any Board Committee	£7,500	£7,500
Audit Committee Chair's fee	£7,500	£7,500
Remuneration Committee Chair's fee	£7,500	£7,500
Nomination Committee Chair's fee	£3,750	£3,750
Non-Executive Director for employee engagement fee	£5,000	£5,000

Engagement with shareholders

The Remuneration Committee Chair wrote to Darktrace's largest shareholders who had voted against the Resolution to approve our Remuneration Report at the 2022 AGM, offering the opportunity for further engagement to understand their concerns on remuneration matters. Following this offer of engagement, one shareholder took the opportunity to provide feedback regarding the use of discretion in determining remuneration outcomes. As noted when our AGM results were anounced, over 70% of the 20.7% votes against the Resolution were from just three shareholders.

The Remuneration Committee Chair has also engaged with our largest shareholders regarding the remuneration for the Executive Directors for FY 2024. Noting that base salaries were significantly below market and that the increase in LTIP award level for the CFO increases her alignment to the longer term performance of the business and only results in increased remuneration if the stretching targets for the business are achieved. Further the resulting package for the CEO remains below market and for the CFO is aligned to market with significant weighting to variable pay. As at the date of writing this report, there have been no significant objections raised.

Statement of voting at General Meeting

At Darktrace's AGM held on 3 November 2022, the Directors' Remuneration Report was approved by shareholders as detailed below:

Resolution	Votes For	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of the Remuneration Report (2022)	409,704,318	79.3%	106,971,786	20.7%	516,676,104	56,918
Approval of the Remuneration Policy (2021)	318,389,408	99.88%	393,082	0.12%	318,782,490	77,583

Sir Peter Bonfield, CBE, FREng
Chair of the Remuneration Committee

5th September 2023

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and audited financial statements of Darktrace and the Group for the period ended 30 June, 2023.

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

Corporate Details

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

Strategic Report

The Strategic Report is a requirement of the Act and can be found on pages 4-77 Darktrace has chosen, in accordance with section 414C(11) of the Act, to include the following matters of strategic importance in its Strategic Report that would otherwise be disclosed in this Directors' Report. That information should be read in conjunction with this Directors' Report:

- information on our environmental strategy, greenhouse gas emissions, energy consumption and energy efficiency is set out on pages 57-59;
- employee involvement in share schemes is set out on pages 60-65;
- a summary of the Group's approach to business ethics, employee welfare and practice, environmental and community matters is set out in the ESG sections on pages 56-65;

The Corporate Governance Report including the Directors' Remuneration Report summarises Darktrace's Governance and remuneration arrangements.

Share Buyback and Ordinary Share Cancellation

On 1 February 2023 Darktrace announced a share buyback programme of up to 35 million shares to be completed by no later than 31 Ocober 2023. The maximum amount allocated under the share buyback programme was £75 million and Darktrace has made daily RNS announcements during the buyback period of the number of shares it has repurchased. The purpose of the share buyback programme is to reduce Darktrace's issued share capital.

In total since the commencement of the share buyback programme Darktrace has purchased a total number of 15,440,726 shares, being 2.2% of the total issued share capital, with a nominal value of £0.01 at an average purchase price of \$3.33 (£2.81). As of 30 June 2023, 13,280,100 ordinary shares repurchased had been cancelled.

Cancellation of Share Classes

On 30 May 2023 Darktrace redeemed the 50,000 £1 Redeemable Preference Shares and as a result, this class of shares was removed. On the same date, the whole class of 120,063 £0.01 Deferred Shares were cancelled. The only class of shares remaining is Ordinary Shares.

Future Development and Prospects

Darktrace is in a strong position to leverage the resources it has put in place and the investments it has made in the business during this uncertain economic period. The Executive team, with the support and oversight of the Board, is well placed to take advantage of the business's unique position in the cyber AI market during this pivotal moment for the sector and beyond. Darktrace has long been a global leader in AI and has pioneered a set of products which will protect organisations from the complex and increasingly AI powered threat landscape ahead.

Results and dividends

The audited financial statements of the Group and of Darktrace for the period under review are set out on pages 152-191 and pages 190-196 respectively. Darktrace intends to retain any earnings to expand the growth and development of its business and, therefore, does not anticipate paying dividends in the foreseeable future.

2023 Annual General Meeting ("AGM")

An explanation of the resolutions to be proposed at the AGM, and the recommendation of Directors in relation to these, will be included in the Notice of AGM to be sent to shareholders. Resolutions regarding the authority to issue shares are commented upon under "Share capital" later in this report.

Darktrace's AGM will be held at the offices of Latham & Watkins LLP, 99 Bishopsgate, London EC2M 3XF at 11.00 am on 7th December, 2023.

Research and Development

The Group has over 342 employees working in research and development. Research and development costs were $47.9 million for FY 2023. These are the costs associated with the Group's efforts to develop new products for its platform, expand the features of its platform, and ensure the platform's continuing reliability, availability and scalability. These costs are primarily made up of the labour and related costs remaining after capitalisation of allowable labour and related development costs, and the amortisation of such costs capitalised. Given the Group's rapid growth, for each of the periods presented, the value of costs being capitalised to the statements of financial position have been between two and three times the value of the amortisation of such costs capitalised in prior periods recorded as research and development costs in the statement of comprehensive income. Additionally, research and development does contain allocated overhead costs, primarily rents and other facilities costs that are allocated on a per employee basis.

Change of control

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

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

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

Financial instruments

The Group's financial risk management is controlled by a central treasury department ("Group treasury") under policies approved by the Board. Group treasury identifies and evaluates financial risks in close co-operation with the Group's CFO and other Executive Directors and Management. The Board authorises written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. See note 22 of the consolidated financial statements for further details.

In addition, the overall Enterprise Risk Management framework and strategy for the Group is included within the Strategic Report on pages 66-70.

Diversity and Inclusion

The Group's policies support the creation of a diverse and inclusive culture where everyone is welcome. These policies demonstrate our commitment to providing equal opportunities to all employees irrespective of age, disability, gender, race, religion, beliefs, sex or sexual orientation. The Group provides equal opportunities to all job applicants and provides full and fair consideration of applications from people with disabilities, having regard to their particular aptitudes and abilities. Each candidate will be assessed based on their individual skills and qualifications, while also considering the accommodations that can be reasonably provided to support their success in the role. For any current employee who becomes disabled, significant effort is made to provide the necessary training and support to enable them to continue their employment. Darktrace's, commitment to equal treatment extends to training, career development, and promotion opportunities, all of which are offered on an equal basis as far as possible to both disabled and non-disabled people.

Stakeholder and Employee Engagement

Details of Darktrace's stakeholder and employee engagement is described in the Stakeholder Engagement & Section 172 statement of the Strategic Report. In addition, Darktrace has established an Employee Forum as a critical part of its employee engagement and it is through this and a designated NED (Paul Harrison who chairs the Employee Forum) that employees' views can be put forward to the Board.

Going concern

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

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

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

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

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

Substantial Shareholdings

As at 30 June 2023, in accordance with the Disclosure and Transparency Rules of the UK Listing Authoriy, Darktrace had been notified, or was aware, of those shareholders holding, or beneficially interested in, 3% or more of Darktrace's shares at that date.

Please see the information provided at page 207

Directors

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

- Gordon Hurst (Chair) (appointed 1 April, 2021)
- Poppy Gustafsson OBE (CEO) (appointed 1 April, 2021)
- Catherine Graham (CFO) (appointed 12 March, 2021
- Lord Willetts (Senior Independent NED) (appointed 1 April, 2021)
- Sir Peter Bonfield CBE, FREng (appointed 1 April, 2021)
- Paul Harrison (appointed 1 April, 2021)
- Elaine Bucknor (appointed 1 June, 2023)
- Stephen Shanley (appointed 1 April, 2021)
- Han Sikkens (appointed 1 April, 2021)
- Patrick Jacob (appointed 7 December, 2022)
- Vanessa Colomar (stepped down on 7 December, 2022)

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

- the business of Darktrace is managed by its Directors who may exercise all powers of Darktrace subject to the provisions of the Articles of Association of Darktrace (the "Articles"), the Act, and such directions as may be given by Darktrace at a General Meeting by special resolution;
- unless otherwise determined by ordinary resolution, the number of Directors at any time must not be more than 15 and must not be less than two. Directors may be appointed by ordinary resolution of shareholders or by the Board either to fill a vacancy or as an additional Director provided that the Director is willing to act as a Director. A Director need not be a shareholder of Darktrace. No person other than a Director retiring at a General Meeting will, unless recommended by the Directors, be eligible for appointment to the office of Director at any general meeting unless a member has notified Darktrace in advance in accordance with the Articles of his or her intention to propose such person for appointment and that person has signed a notice in writing indicating his or her willingness to be appointed. Under the Articles, a Director is required to retire at each Annual General Meeting but will be eligible for re-election and a Director who is re-elected will be treated as continuing in office without a break. A Director who is not re-elected shall cease to be a Director at the close of the meeting at which he or she retires. If Darktrace, at any meeting at which a Director retires in accordance with the Articles, does not fill the office vacated by the retiring Director, the retiring Director, if willing to act, shall be deemed to be re-elected unless a resolution is passed at the meeting not to fill the vacancy or to elect another person in the retiring Director's place or unless the resolution to re-elect the resigning Director is put to the meeting and not passed. Darktrace may by special resolution, or by ordinary resolution of which special notice has been given in accordance with the Act, remove any Director before his or her period of office has expired. The Directors may remove a Director from office by giving him or her notice to that effect signed by or on behalf of not less than three-quarters of the other Directors or their alternates;
- Biographical details of the current Directors are set out on pages 82-88;
- Darktrace has made qualifying third party indemnity provisions for the benefit of its Directors (and directors of Darktrace's subsidiaries) in relation to certain losses and liabilities that they may incur in the course of acting as Directors of Darktrace, its subsidiaries or associates, which remain in force at the date of this report. In addition, Darktrace has in place appropriate directors' and officers' liability insurance. This cover also extends to employees of the Group who serve on the board of Darktrace's subsidiaries;

- No member of the Board had a material interest in any contract of significance with Darktrace or any of its subsidiaries at any time during the year, except for their interests in shares and in share awards and under their service agreements and letters of appointment disclosed in this Directors' Report and in the Report of the Remuneration Committee commencing on page 106;
- No member of the Board has waived or agreed to waive any emoluments from any Group company;
- The Directors' remuneration arrangements are summarised in the Directors' Remuneration Report; and
- If a requirement is not shown, it is not applicable to the Group.

Directors' Interests

The interests in the share capital of Darktrace plc of the Directors is disclosed on page 124 of Directors remuneration report.

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

Share capital

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

- Darktrace's shares as at 30 June 2023 comprised 706,755,492 ordinary shares of £0.01 each which rank equally in all respects. Details of the shares issued and repurchased by the Group during the period are set out in note 22 in the Notes to the Group Consilidated Financial Statements.
- Every holder of an ordinary share is entitled to receive notice of all general meetings of Darktrace and to attend, speak and vote on any resolution proposed at a general meeting of Darktrace. At a general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before, or immediately after the declaration of the result of, the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by: (i) the Chair of the meeting; (ii) at least five shareholders present in person or by proxy having the right to vote on the resolution; (iii) a shareholder or shareholders presents in person or by proxy representing in aggregate not less than 10% of the total voting rights of all the shareholders having the right to vote on the resolution (excluding any voting rights attached to any shares in Darktrace held in treasury); or (iv) a shareholder or shareholders present in person or by proxy holding shares conferring the right to vote on the resolution on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the shares conferring that right (excluding any voting rights attached to any shares in Darktrace held in treasury). On a show of hands, every holder of an ordinary share or authorised corporate representative present has one vote and every proxy present has one vote except if the proxy has been duly appointed by more than one member and has been instructed by (or exercises his discretion given by) one or more of those members to vote for the resolution and has been instructed by (or exercises his discretion given by) one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.
- Neither holders of redeemable preference shares nor holders of deferred shares are entitled to receive notice of, or attend and vote at, any general meeting of Darktrace and neither may be an eligible member for the purposes of any written resolution of Darktrace.
- The Board may, in its absolute discretion, refuse to register any instrument of transfer of a certificated share: (i) which is not fully paid up (provided that where shares of the same class have been admitted to official listing by the Financial Conduct Authority, such refusal does not prevent dealings in that class of shares from taking place on an open and proper basis); or (ii) on which Darktrace has a lien. The Board may also refuse to register any instrument of transfer of a certificated share unless it is (a) left, duly stamped (if stampable), at the office, or at such other place as the Board may decide, for registration; (b) accompanied by the certificate for the shares to be transferred and such other evidence as the Board may reasonably require to prove the title of the intending transferor of his or her right to transfer the shares; and (c) in respect of only one class of shares.
- The Group has an employee benefit trust (the "EBT") and operates employee share plans as set out in the Report of the Remuneration Committee commencing on page 106 and in note 10 of the financial statements. If the EBT holds less than 5% of Darktrace's ordinary share capital (after deducting any shares held as nominee for beneficiaries under the EBT), the trustees of the EBT shall abstain from voting the shares. However, if the EBT holds more than 5% of Darktrace's ordinary share capital (after deducting any shares held as nominee for beneficiaries under the EBT), the trustees will be required to vote the shares in excess of 5% by appointing the chairperson at a general meeting as a proxy to vote those shares pro rata to the other votes cast for and against the relevant resolutions at the meeting, to ensure that the voting power of the EBT does not disproportionately impact on shareholder voting. The EBT will not hold more than 10% of Darktrace's ordinary share capital, without prior shareholder approval.

- Save as described above, shares acquired through Darktrace's employee share plans rank pari passu with all other shares in issue and have no special rights.
- Darktrace is permitted, pursuant to the terms of the Articles, to allot shares in Darktrace or to grant rights to, subscribe for, or to convert any security into, shares of Darktrace on such terms and conditions as it may determine.
- Darktrace is permitted, subject to the Act, to purchase all or any of its shares of any class, including any redeemable shares.
- Save as described under the Shareholder Agreements described below, Darktrace is not aware of any agreements or control rights between shareholders that may result in restrictions on the transfer of securities or on voting rights.

Further information regarding Darktrace's share capital including the changes to this during the year is set out in note 9 to the consolidated financial statements.

Articles of association

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

Shareholder agreements / Lock-up arrangements

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

On 30 April 2021, Darktrace entered into separate shareholder agreements with KKR Dark Aggregator L.P. ("KKR"), Summit DT Equity Holdings 3 LP and Summit DT CLN Holdings 4 ("Summit") and Angela Bacares, Michael Lynch, Sushovan Hussain, Peter Menell, Vanessa Colomar, Andrew Kanter, Philip Pearson, James Loxam, Charlotte Golunski, Elizabeth Harris, Maha Kadirkamanathan, Ruth Angus, Ella Mamelok, Adam Guthrie and Graham Sills (the "Invoke Shareholders") (KKR, Summit and the Invoke Shareholders together, the "Significant Shareholders") (the "Shareholder Agreements"), pursuant to which, among other things, each of KKR, Summit and the Invoke Shareholders (acting jointly) has the right to nominate one Non-Executive Director to the Board for so long as they and their respective associates are entitled to exercise, or to control, directly or indirectly, 10% or more of the voting rights attaching to the issued share capital of Darktrace.

The shareholding of each of KKR and Summit in Darktrace has fallen below 10% respectively, since the IPO and consequently their Shareholder Agreements have automatically terminated in accordance with their terms. KKR's shareholding first fell below the threshold during the period 27 July 2022 and 3 August 2022, and Summit's shareholding fell below the threshold on 1 August 2023.

Each of the Invoke Shareholders has confirmed to Darktrace their compliance with the terms of the Invoke Shareholder Agreement in the period from 1 July 2022 to 30 June 2023.

Financial risk management

Details of financial risk management are disclosed earlier in this Directors Report on page 31 and in note 22 to the financial statements.

Corporate governance

Darktrace is committed to high standards of corporate governance. Its application of the principles of good governance in respect of the UK Corporate Governance Code for the period under review is described in the Corporate Governance Report on page 80.

The Statement of Directors' Responsibilities in respect of this Annual Report and the financial statements appears on page 135.

Political donations

Darktrace and its subsidiaries did not make any political donations or incur any political expenditure during the year ended 30 June 2023.

Greenhouse emissions

Information on the Group's greenhouse gas emissions, energy consumption and energy efficiency is set out in the ESG section on pages 57-59.

Related party transactions with Directors

Details of related party transactions with Directors are disclosed in the Financial Statements on page 191.

Overseas branches

Darktrace plc has no branches outside the UK but Darktrace Holdings Limited has a branch in Dubai which was established in 2019 and a branch in Italy which was established in May 2023.

Post balance sheet events

Details of important events affecting Darktrace since 30 June 2023 are disclosed in note 29 to the financial statements.

Directors' responsibility statement

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

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

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

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

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

Each of the Directors, whose names and functions are listed on pages 82-84 confirm that, to the best of each person's knowledge:

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

Disclosure of information to auditors

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

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

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

Auditors

Grant Thornton UK LLP, the Group's auditors, have indicated their willingness to continue in office and, on the recommendation of the Audit & Risk Committee and in accordance with Section 489 of the Act, a resolution to re-appoint them will be put to the 2023 AGM.

By order of the Board

James Sporle

James Sporle
General Counsel & Company Secretary
5th September 2023

PART 3

FINANCIAL STATEMENTS

PART 3 - FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARKTRACE PLC

Grant Thornton

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Darktrace plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 June 2023, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the notes to the consolidated financial statements, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2023 and of the Group's profit.
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and challenging the underlying assumptions in management's base case scenario for the period to 30 September 2024, including corroborating to supporting documentation where appropriate;
- obtaining management's downside scenarios, which reflect management's assessment of uncertainties such as cyber incidents, increased industry competition or ability to attract and retain employees, and evaluating the assumptions regarding reduced trading levels, increased costs base and decreased collection rates of trade receivables, under each of these scenarios;
- obtaining management's reverse stress test, which reflects management's assessment of an implausible scenario of how the base case scenario can be broken, which would result in a material uncertainty related to going concern, and assessing whether this represents an implausible scenario;
- assessing whether the key assumptions (such as revenue, working capital, headcount) are consistent with our understanding of the business obtained during the course of the audit and the changing external circumstances arising from the changing global economic environment;
- evaluating the accuracy of management's historical forecasting and the impact of this on management's assessment;
- checking post year end minutes of meetings of the board of directors and all of its committees to ensure any post year end events have been factored into management's forecasts; and
- evaluating the appropriateness of disclosures in respect of going concern made in the financial statements.

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

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.

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

Grant Thornton

Overview of our audit approach

Overall materiality:

Group: $4,900,000, which represents approximately 0.9% of the Group's revenue.

Parent company: $3,600,000, which represents approximately 1% of the parent company's total assets.

Key audit matters were identified as:

- Occurrence and accuracy of revenue recognition and completeness of deferred revenue (same as previous year);
- Accuracy of deferred tax assets (new in the current year); and
- Management override of controls - response to short-seller allegations (new in the current year).

Our auditor's report for the year ended 30 June 2022 included one key audit matter that has not been reported as a key audit matter in our current year's report. This relates to:

- Accuracy of goodwill and other acquired intangible assets.

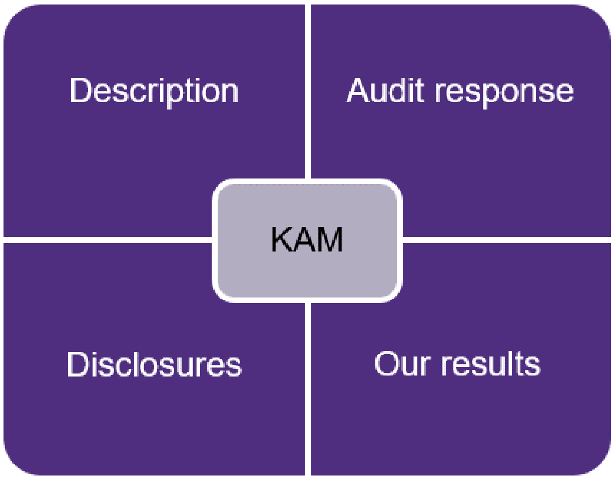
We do not consider this to be a key audit matter this year given it related to the fair value of assets on the acquisition of Cybersprint B.V. (Darktrace Netherlands) which took place in the previous year. The Group has made no further acquisitions and we therefore do not consider this to be a key audit matter in relation to the current year.

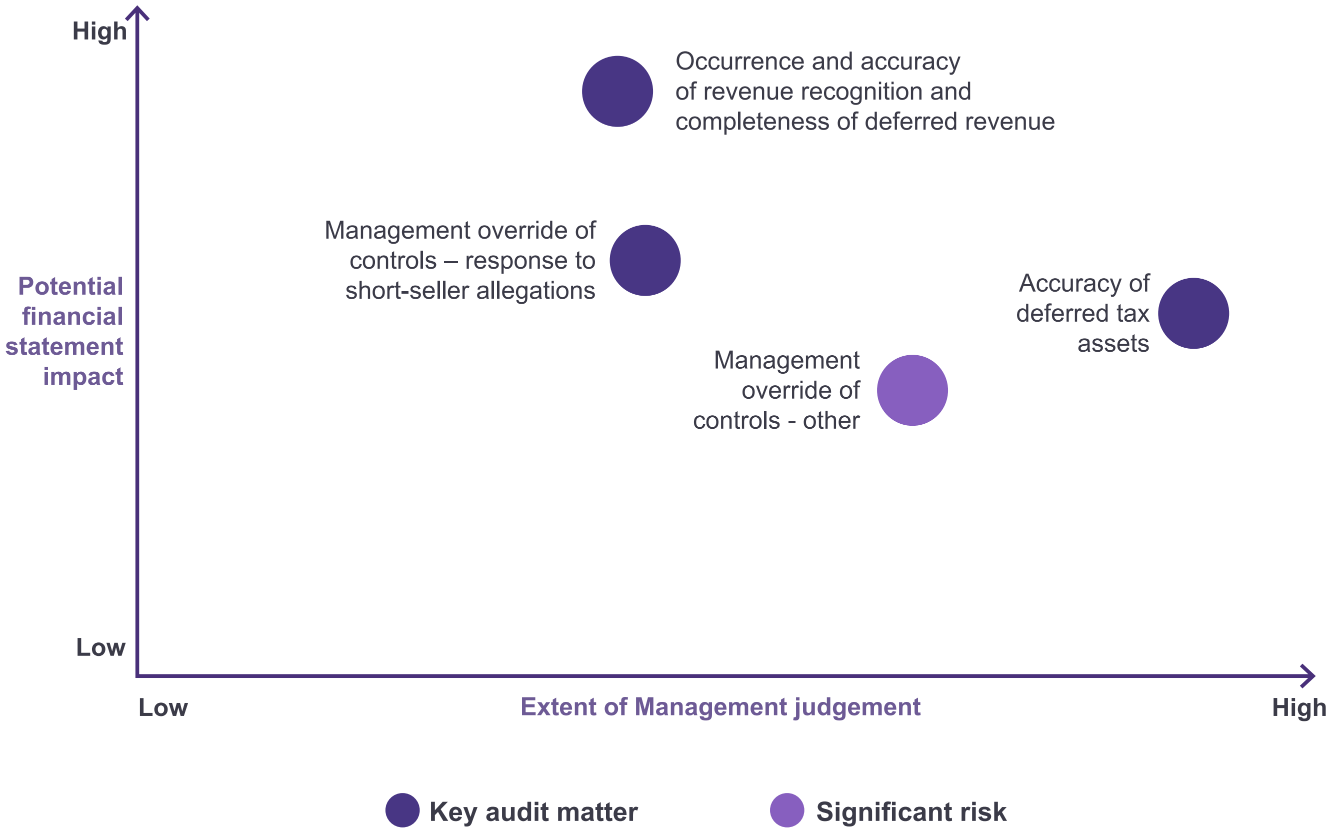
We performed a full-scope audit of the financial information of the parent company and the other significant component (Darktrace Holdings Limited) using component materiality, and an audit of one or more account balances, classes of transactions or disclosures (specific-scope audit procedures) of two further components (Darktrace Inc. and Darktrace Australia Pty Limited) to gain sufficient appropriate audit evidence at Group level. This gives a coverage of 92% of the Group's total assets, 84% of the Group's total expenses, and 100% of the Group's revenue. We performed analytical procedures to Group materiality on the financial information of the remaining 16 components in the Group during the year.

Key audit matters

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

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





Key Audit Matter – Group	How our scope addressed the matter – Group
Occurrence and accuracy of revenue recognition and completeness of deferred revenue We identified the occurrence and accuracy of revenue recognition as one of the most significant assessed risks of material misstatement due to fraud. Linked to this is a significant risk over the completeness of deferred revenue at the year end due to fraud. The Group has reported revenues of \$545.4 million (2022: \$415.5 million), and deferred revenue at the year-end of \$312.1 million (2022: \$251.9 million). The nature of the Group's revenue involves the processing of multi-year contracts which are recognised over time. The audit team's assessment is that the vast majority of revenue transactions are non-complex, with no judgement applied over the amount recorded as revenue recognised equates to the value of the service, spread evenly over the period of each contract. We have therefore focussed our significant fraud risk on revenue recognised on new contracts entered into within the year, including new contracts with partners (as contracts through distributor channels are also inherently high risk). We also include revenue recognised on contracts entered into before 30 June 2023 but modified during the year, as we consider the manual point of entry of the original contract or contract modification into the revenue system to be where the opportunity and incentive for revenue and deferred revenue misstatement could occur.	In responding to the key audit matter, we performed the following audit procedures: - Assessed the revenue accounting policy against the criteria of IFRS 15 to determine appropriate recognition and treatment of revenue. This included specific considerations around accounting for modifications to contracts and accounting for contracts with re-seller partners, in which Management deem the re-seller partner to be the customer of the Group, and therefore principal, rather than acting as an agent; - Used data analytics including visualisations, matching and transactional scoring to identify unusual revenue transactions for further substantive testing; - Performed analytical procedures on revenue trends to identify potentially unusual contracts and deferred revenue, including specific consideration over contracts through partner channels, which we used to inform our selection for direct customer confirmations; - Selected a sample of new contracts entered in the year and agreed to signed customer contract to corroborate key information used in determining recognition of revenue and deferred revenue balances. Agreed each item to appliance delivery information, or to previously existing contracts (where no additional appliances are required for the new contract) or third party hosting portal deployment dates for cloud deployments; - Selected a sample of new contracts and obtained direct confirmations from the end-customer in order to corroborate key terms of the contract; - Selected a sample of contracts modified in the year and agreed to signed customer contract pre-modification, and amendment letters, to corroborate key information used in determining recognition of revenue and deferred revenue balances; - Inspected a sample of credit notes raised post-period end which relate to the 30 June 2023 year, assessing the size and qualitative nature of these and determining whether they were raised appropriately; - Performed an extended walkthrough of the processes and controls implemented in the partner process on a sample of partner deals to ensure consistently applied in the current period; - In respect of deferred revenue, for services where revenue is earned over a contractual term, selected a sample of transactions to determine whether the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract; - Performed a substantive analytical review of the closing deferred revenue balance; and - Selected a sample of partner deals from the contract register and receivables listing, and obtained direct confirmations from a end-users to confirm the existence of that end-user as well as key contract information such as the commencement date, the term and the existence of the partner relationship.

Key Audit Matter – Group	How our scope addressed the matter – Group
Relevant disclosures in the Annual Report and Accounts 2023 • Financial statements: note 4 – Revenue from contracts with customers • Report of the Audit & Risk Committee: page 96	**Our results** We did not identify any material misstatements in relation to the occurrence and accuracy of revenue recognition or the completeness of deferred revenue.
Accuracy of deferred tax assets We identified the accuracy of deferred tax assets on unused UK tax losses as one of the most significant assessed risks of material misstatement due to error. At 30 June 2023, a deferred tax asset of $10.9 million (2022: $nil) has been recognised in respect of unused UK tax losses on the basis of probable future taxable profits. The ability of the Group to recognise such losses is assessed in accordance with IAS 12 'Income Taxes'. In estimating the recognised deferred tax asset, Management's assessment is based on the forecast taxable profits of Darktrace Holdings Limited, which are derived from the board-approved Group budget and forecasts. Necessary adjustments are made to these forecasts in order to estimate the future taxable profits of this company. The quantum of the asset recognised is subject to significant Management judgement in relation to the forecast period considered as well as to high estimation uncertainty inherent in forecast data.	In responding to the key audit matter, we performed the following audit procedures: • Obtained an understanding of the processes and controls for the recognition and measurement of deferred tax assets; • Challenged Management's assumptions and estimates to support the recognition of the deferred tax asset with reference to forecast taxable profits. This included an assessment of whether the forecast operating profit each year had been appropriately adjusted for tax purposes to estimate the quantum of future taxable profits; • With the assistance of our tax specialists, assessed the appropriateness of the methodology adopted by Management against the requirements of IAS 12 Income Taxes; • Engaged our internal modelling experts to verify the mathematical and logical accuracy of the Group forecast model; • Tested the accuracy of the underlying data within the Group forecast model by comparison to the board approved forecast and ensured these forecasts are consistent to those used for going concern and viability assessments; • Evaluated the range of sensitised outcomes determined by Management against the latest trading results and Management's historical forecasting accuracy; • Challenged the forecast period of two years used by management, including consideration of other factors, including the viability assessment period; and • Assessed the adequacy of disclosures made in the financial statements in relation to deferred tax assets against the requirements of IAS 12 Income Taxes, and the significant judgement and estimate related to this balance against the requirements of IAS 1 Presentation of Financial Statements.
Relevant disclosures in the Annual Report and Accounts 2023 • Financial statements: note 25 – Income Tax • Report of the Audit & Risk Committee: page 96	**Our results** We did not identify any material misstatements in relation to the accuracy of deferred tax assets recognised.

Key Audit Matter – Group

Management override of controls - response to short-seller allegations

During FY23, the Group became the subject of well-publicised external allegations made by a US-based hedge fund (the 'short-seller'). These allegations focussed on former links to Autonomy Plc and specific allegations of irregular revenue contracts, appliance sales and marketing and accounting practices, with particular reference made to partner distribution channels.

Whilst acknowledging the continuous improvement programme of the Group in its pre and post IPO period, the Group strongly refuted these allegations and the Board instigated a formal review using an external expert.

The findings of this review reported on a number of areas where systems, processes or controls could be improved. Neither Management nor the Board consider these to be material to the financial statements and the Board noted in its response that control enhancements in these areas were already underway. The final conclusions of the Board were summarised in an announcement to the market on 18 July 2023.

These allegations and Management's response to these allegations required significant auditor attention in performing the audit for the year ended 30 June 2023.

How our scope addressed the matter – Group

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

- Planned and designed our audit approach in conjunction with our in-house forensic specialists after reading the short-seller allegations, Management's responses and the report from Management's expert;
- Assessed the overall control environment and 'tone at the top', including gaining an understanding of the Group's internal response to the allegations, the presence of controls related to the partner distribution channel, and the financial treatment of the related appliances, revenue and debtor balances;
- Our forensic specialists were given access to Management's expert as they performed their work and held regular discussions with them and the Group's General Counsel; and
- Together with our forensic specialists we:
  - assessed, challenged and concluded on the methodology used and findings set out by Management's expert to inform and target our audit response to the areas identified as control or process deficiencies;
  - assessed Management and the Board's internal responses and conclusions drawn from their expert's report. This included attendance at the Audit and Risk Committee meeting where the results from the review were presented by Management's experts; and
  - following Management's assessment, we performed our own targeted testing where we considered it necessary.
- We checked disclosures in the Annual Report and financial statements.

Relevant disclosures in the Annual Report and Accounts 2023

- Report of the Audit & Risk Committee: page 96
- Chair Statement: page 10
- Section 172 – Stakeholder Engagement: page 50

Our results

We were satisfied with the results of our audit procedures and the disclosures made in the Annual Report and financial statements.

We have not identified any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

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

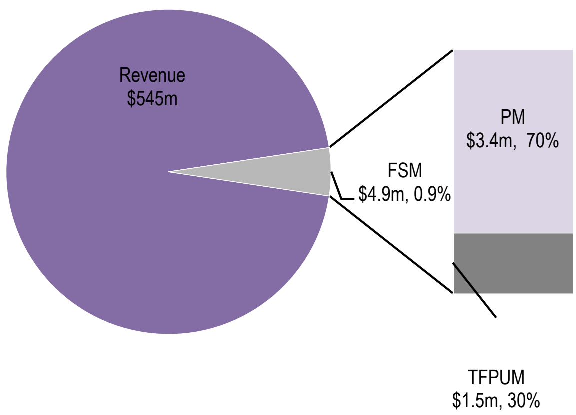
Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$4,900,000 which is approximately 0.9% of the Group's revenue	$3,600,000 which is approximately 1% of the parent company's total assets.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: • Revenue is considered the most appropriate benchmark for the Group because this is a key measure used by the directors to report to investors on financial performance. Profit before tax or adjusted profit before tax have not been used due to the volatility of these metrics in recent years. • The benchmark percentage has been reduced to 0.9% from 1% in the previous year based on auditor judgement given the continued growth of the Group and the narrowing gap between revenue-related and profit-related materiality benchmarks. • A market-based measurement percentage was chosen which reflected our knowledge of the business from prior year audits and aligns with our firm methodology. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2022 to reflect the increase in the Group's revenue.	In determining materiality, we made the following significant judgements: • Total assets is considered the most appropriate benchmark for the parent company because its principal activity is that of a holding company (with the largest financial statement line items being investments and cash and cash equivalents balances). • A market-based measurement percentage was chosen which reflected our knowledge of the business from prior year audits and aligns with our firm methodology. Materiality for the current year is higher than the level that we determined for the year ended 30 June 2023 to reflect the increase in the parent company's total assets.

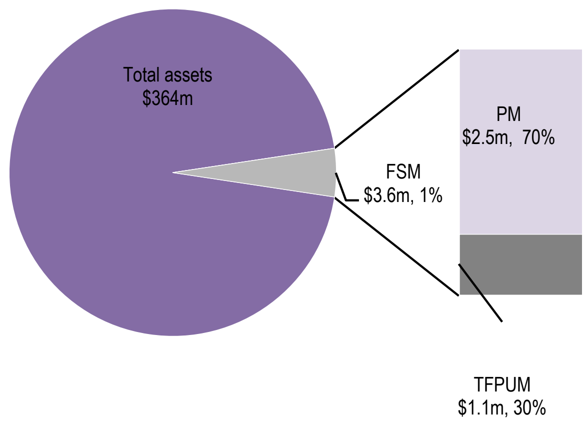
<table>
<tr><th>Materiality measure</th><th>Group</th><th>Parent company</th></tr>
<tr><td>Performance materiality used to drive the extent of our testing</td><td colspan="2">We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.</td></tr>
<tr><td>Performance materiality threshold</td><td>$3,430,000, which is 70% of financial statement materiality.</td><td>$2,520,000, which is 70% of financial statement materiality.</td></tr>
<tr><td>Significant judgements made by auditor in determining performance materiality</td><td>In determining performance materiality, we made the following significant judgements:
○ Whether there were any significant adjustments made to the Group financial statements in prior years;
○ Whether there were any significant control deficiencies identified in prior years;
○ Whether there were any changes in senior management of the Group during the year; and
○ Whether there were any significant changes in business objectives and/or strategy.
After considering the above factors we have used auditor judgement to set performance materiality at 70% of materiality, the same threshold as used in the previous year.</td><td>In determining performance materiality, we made the following significant judgements:
○ Whether there were any significant adjustments made to the parent company financial statements in prior years;
○ Whether there were any significant control deficiencies identified in prior years;
○ Whether there were any changes in senior management of the parent company during the year; and
○ Whether there were any significant changes in business objectives and/or strategy.
After considering the above factors we have used auditor judgement to set performance materiality at 70% of materiality, the same threshold as used in the previous year.</td></tr>
<tr><td>Specific materiality</td><td colspan="2">We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.</td></tr>
<tr><td>Specific materiality</td><td>We determined a lower level of specific materiality for the following areas:
○ Related party transactions, including directors' remuneration, and related disclosures</td><td>We determined a lower level of specific materiality for the following areas:
○ Related party transactions, including directors' remuneration, and related disclosures</td></tr>
<tr><td>Communication of misstatements to the audit committee</td><td colspan="2">We determine a threshold for reporting unadjusted differences to the audit committee.</td></tr>
<tr><td>Threshold for communication</td><td>$245,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.</td><td>$180,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.</td></tr>
</table>

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

Overall materiality – Group



Overall materiality – Parent company



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

An overview of the scope of our audit

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

Understanding the Group, its components, and their environments, including group-wide controls

- The engagement team obtained an understanding of the Group and its environment, group-wide processes and controls, including IT general controls, and assessed the risks of material misstatement at the Group level;
- The engagement team obtained an understanding of the effect of the Group organisational structure on the scope of the audit, identifying that the Group financial reporting team and systems are centralised in the UK;
- The engagement team performed walkthroughs of processes related to key audit matters and evaluated the design effectiveness of relevant controls; and
- The engagement team obtained an understanding of where the use of Management experts was required.

Identifying significant components

- Significant components were identified through assessing their relative share of key financial metrics including total revenue, total expenses, and total assets. These metrics were used to identify components classified as 'individually financially significant to the Group' and an audit of the financial information of the component using component materiality (full-scope audit) was performed.
- Other components were selected where we determined there to be a specific risk profile in those components and were included in the scope of our group audit in order to provide sufficient coverage over the Group's results. For these components, an audit of one or more account balances or class of transactions (specific scope procedures) was performed. We have changed one of the components within this scope from the prior year for an element of unpredictability.
- All other components of the Group were selected as 'neither significant nor material' and analytical procedures performed.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- Performance of full-scope audits of the financial information of Darktrace plc and Darktrace Holdings Limited. These full-scope audits included all of our audit work on the identified key audit matters as described above.
- Specific-scope audit procedures were performed on the financial information of Darktrace, Inc. and Darktrace Australia Pty Ltd, using component materiality.
- Analytical procedures were performed on the financial information of all other components using Group materiality.

Performance of our audit

- All audit procedures were performed by the Group engagement team and took place in the UK.
- Our full scope and specified audit procedures gave coverage of 92% of the Group's total assets, 84% of the Group's total expenses, and 100% of the Group's revenue. We performed analytical procedures on the financial information of the remaining 16 components in the Group during the year.

Audit approach	No. of components	% coverage revenue	% coverage total expenses	% coverage total assets
Full-scope audit	2	100%	62%	86%
Specified audit procedures	2	0%	22%	6%
Analytical procedures	16	0%	16%	8%
Total	20	100%	100%	100%

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 themselves. 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.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

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

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 131;
- the directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 131;
- the director's statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as set out on page 74;
- the directors' statement on fair, balanced and understandable set out on page 102;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 66;
- the section of the annual report that describes the review of the effectiveness of risk management and internal control systems set out on page 97; and
- the section describing the work of the audit committee set out on page 96.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 135, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and parent company through discussions with Management. We determined that the most significant frameworks that are directly relevant to specific assertions in the financial statements are those related to the financial reporting framework, being UK-adopted international accounting standards (for the Group), Financial Reporting Standard 101 'Reduced Disclosure Framework' (for the parent company) and the Companies Act 2006, together with the Listing Rules, the UK Corporate Governance Code, and tax legislation in the jurisdictions in which the Group operates, including the application of local sales and use taxes and overseas permanent establishments;
- We enquired of Management, the finance team, legal counsel and the board of directors about the Group's and parent company's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We 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 alleged fraud;
- We assessed matters reported through the group's whistleblowing programme and the results of management's investigations in so far as they related to the financial statements;
- We assessed the susceptibility of the Group's and parent company's financial statements to material misstatement due to fraud, consulting with our forensic specialists to inform this assessment, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
  - Enquiring of Management, the finance team, legal counsel and the Board about the risks of fraud at the Group and parent company level, 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;
  - Undertaking specific keyword searches (including related parties and previously connected entities and individuals) over the journal entry population to identify descriptions that could indicate fraudulent activity or Management override of controls. Journal entries by user were evaluated to identify types of entries posted that were not in line with expectations of their role. Additionally, significant journal entries posted in the year impacting certain KPIs of the Group were extracted

for testing. All entries noted from these searches were agreed to supporting documentation to corroborate the appropriateness of the posting;

- Performing specific procedures responding to the risk of fraudulent recognition of revenue as detailed within the key audit matters section, above;
- Challenging assumptions and judgements made by Management in its significant accounting estimates (as referenced in the key audit matters section above);
- Identifying and testing related party transactions; and
- Utilising forensic specialists in our audit testing where we considered it necessary.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's 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;
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Other matters which we are required to address

Following the recommendation of the Audit & Risk Committee, we were appointed on 3rd November 2022 to audit the financial statements for the year ending 30 June 2023. Our total uninterrupted period of engagement is 10 years (including a period of 7 years prior to listing), covering the years ended 30 June 2014 to 30 June 2023.

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

Our audit opinion is consistent with the additional report to the Audit & Risk Committee.

Use of our report

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

Paul Naylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
6 September 2023

Consolidated statement of comprehensive income

	Notes	FY 2023 $'000	FY 2022 $'000
Revenue	4	545,430	415,482
Cost of sales		(55,642)	(44,848)
Gross profit		**489,788**	**370,634**
Sales and marketing costs		(289,703)	(232,772)
Research and development costs		(47,894)	(44,262)
General and administrative costs		(116,218)	(81,167)
Foreign exchange differences		(2,127)	(6,502)
Other operating income	24	2,666	1,671
Operating profit		**36,512**	**7,602**
Finance costs	8	(3,493)	(2,807)
Finance income	8	8,016	518
Profit for the year before taxation		**41,035**	**5,313**
Taxation	25	17,923	(3,856)
Net profit for the year attributable to shareholders of Darktrace plc		**58,958**	**1,457**
Items that are, or may be, subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations		-	(3,728)
Total comprehensive income/(loss) for the financial year		**58,958**	**(2,271)**

Earnings per share			
Basic earnings per share	7	$0.09	$0.00
Diluted earnings per share	7	$0.09	$0.00

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

Catherine Graham

Catherine Graham
Chief Financial Officer

Company No. 13264637

Consolidated statement of financial position

	Notes	30 June 2023 $'000	30 June 2022 $'000
Non-current assets			
Goodwill	16	38,164	38,164
Intangible assets	17	12,571	15,649
Property, plant and equipment	18	65,789	61,001
Right-of-use assets	19	44,439	58,160
Capitalised commission	12	42,182	32,519
Deferred tax assets		19,849	1,041
Deposits	13	8,234	9,260
		231,228	**215,794**
Current assets			
Inventory	18	100	-
Trade and other receivables	13	123,595	95,481
Capitalised commission	12	34,471	24,635
Tax receivable	25	5,485	2,828
Cash and cash equivalents	20	356,986	390,623
		520,637	**513,567**
Total assets		**751,865**	**729,361**
Current liabilities			
Trade and other payables	14	(109,959)	(81,690)
Deferred revenue	4	(283,678)	(222,419)
Lease liabilities	19	(4,873)	(3,710)
Provisions	15	(6,927)	(15,954)
		(405,437)	**(323,773)**
Non-current liabilities			
Deferred revenue	4	(28,439)	(29,432)
Lease liabilities	19	(52,735)	(60,130)
Provisions	15	(1,741)	(1,338)
		(82,915)	**(90,900)**
Total liabilities		**(488,352)**	**(414,673)**
Net assets		**263,513**	**314,688**
Equity			
Share capital	9	9,779	9,812
Share premium	9	16,308	16,117
Share capital redemption reserve	9	255	-
Merger reserve	9	305,789	305,789
Foreign currency translation reserve	9	(8,126)	(8,126)
Stock compensation reserve	9,10	50,333	74,883
Treasury reserve	9	(104,946)	(11,683)
Retained earnings		(5,879)	(72,104)
Total equity attributable to equity shareholders of Darktrace plc		**263,513**	**314,688**

The notes on pages 156 - 189 are an integral part of these financial statements.

Consolidated statement of changes in equity

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

The notes on pages 156 - 189 are an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	FY 2023 $'000	FY 2022 $'000
Cash generated from operations			
Profit for the period after tax		58,958	1,457
Depreciation of Property, Plant and Equipment (PPE) and Right-of-use Assets	18,19	35,310	28,295
Amortisation of intangible assets	17	5,597	6,073
Amortisation of capitalised commission	12	32,471	21,817
Impairment of capitalised commission and Right-of-use Assets		3,336	996
Loss on disposal of PPE		1,406	2,121
Unrealised foreign exchange differences		(3,001)	9,467
Credit loss charge		2,049	145
Share-based payment charge	10	39,989	43,740
Net settled share-based payment	10	(9,696)	-
Finance costs	8	3,493	2,807
Finance income	8	(8,016)	(518)
Other operating income	24	(2,666)	(1,671)
Taxation	25	(17,923)	3,856
Operating cash flows before movements in working capital		**141,307**	**118,585**
Increase in trade and other receivables		(30,577)	(19,601)
Increase in capitalised commission		(53,525)	(40,952)
Increase in trade and other payables		26,177	27,129
Decrease in provisions		(8,625)	(5,653)
Increase in deferred revenue	4	60,266	65,575
Increase in inventory		(100)	-
Net cash flow from operating activities before tax		**134,923**	**145,083**
Tax paid		(876)	(4,839)
Net cash inflow from operating activities		**134,047**	**140,244**
Investing activities			
Cybersprint acquisition		-	(35,728)
Development costs capitalised		(1,813)	(1,292)
Purchase of PPE		(24,306)	(31,863)
Finance income		8,016	518
Cash outflow from investing activities		**(18,103)**	**(68,365)**
Financing activities			
Proceeds from share issues and exercises		8,014	7,020
Shares buyback		(145,498)	(13,614)
Repayment of borrowings		-	(1,347)
Repayment of lease liabilities		(10,682)	(4,837)
Payment of interest on lease liabilities		(3,493)	(2,735)
Cash outflow from financing activities		**(151,658)**	**(15,513)**
Net changes in cash and cash equivalents		(35,714)	56,365
Cash and cash equivalents, beginning of year		390,623	342,358
Unrealised exchange difference on cash and cash equivalents		2,077	(8,100)
Cash and cash equivalents, end of year		**356,986**	**390,623**

The notes on pages 156 - 189 are an integral part of these financial statements.

Notes to the consolidated financial statements

Company Information

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

1. Basis for preparation

The Company and Group Information

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

Basis of Preparation

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

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

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

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

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

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

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

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 June 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Going Concern

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

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

- Annualised Recurring Revenue (ARR)/revenue scenarios: The impact of material reputational damage on new customer acquisition and existing customer churn arising as a result of a data breach or cyber incident, combined with significant operational disruption and declines in salesforce productivity, as a result of a service provision downtime or a lack of future product innovation. Each of the scenarios would materially reduce the Company's ARR and revenue, and it was assumed, for example that there would be zero new logo ARR across the entire period along with a material deterioration in net ARR retention trends. No active cost saving measures were implemented during the period.
- Cost scenarios: Either as a result of increased industry competition and/or reputational damage, the impact of a material and prolonged failure in the Company's ability to attract and retain employees was considered, leading to significant increases in employee churn and hiring and compensation related costs. For example, expected employee churn rates for the entire salesforce and the remaining wider workforce were increased by 25% and 20% respectively. Meanwhile hiring and compensation costs were materially increased, particularly for technical and sales-related personnel, and extended general cost inflation was considered, with material increases to key unit costs (such as appliance and hosting costs). No active cost saving measures were implemented during the period.
- Balance sheet scenarios: Either as a result of a significant macro-economic event with recessionary impact and/or inadequate channel partner management and support, the impact of changes to direct and indirect customer payment terms and increased customer insolvencies was considered. For example, forecast collection rates were

modelled to drop lower than at any point during the worst of the COVID-19 uncertainty and corresponding payment delays. Meanwhile estimated bad debt expense for the period was increased fivefold vs. the base case forecast, and the Group's base case forecast invoicing profile was amended to include a material shift towards quarterly and monthly invoicing.

- Combined, 'worst case' scenario: This scenario sought to present an extreme and unreasonable 'worst case' outcome by combining the three aforementioned scenarios. No active cost saving measures were enacted during the period and the Group remained viable and in compliance with its covenants within the period.

In each variation and combination of the adverse scenarios, 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, active cost saving actions were not instigated as part of the analysis. In the event that any of these adverse scenarios were to occur, controllable mitigating actions are available to the 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 and customer payment terms 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 active cost saving actions to be enacted at any point. As such, the Directors consider their likelihood as highly remote given the resilient nature of the business model, as demonstrated by the growth in revenues, customer numbers and employees in recent reporting periods. The robust consolidated statement of financial position, with $357.0 million of cash available and continued strong receivables collection rate of the Group demonstrated during the COVID-19 pandemic and the macro-economic uncertainties through FY 2023 gives further support to the resilience of 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 UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006.

Foreign Currency Translation

Functional and Presentation Currency

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

Group Companies

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

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

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

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

Transactions and Balances

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

Basis of Consolidation

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

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

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

Impairment of Non-Financial Assets

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

Key judgements and estimates

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

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

2. Previous year acquisition

On 1 March 2022 Darktrace acquired the entire issued share capital of Cybersprint B.V. ("Cybersprint"), an attack surface management company that provides continuous, real-time insights from an outside-in perspective to eliminate blind spots and detect risks. The acquisition of Cybersprint is aligned with Darktrace's vision of delivering a 'Continuous Cyber AI Loop' and complements its Self-Learning technology and inside-out view. On 16 January 2023 Cybersprint B.V. changed its name to Darktrace Netherlands B.V.

Darktrace acquired Cybersprint for €47.5 million ($53.7 million), paid 75% in cash and 25% in equity. Following adjustments for cash balances, third party debt and working capital the consideration has been adjusted to $36.1 million cash consideration and $8.2 million equity consideration. In particular certain shares issued were treated as a remuneration under IFRS 2- Share-based payment (note 10).

In the four months to 30 June 2022 the subsidiary contributed revenue of $1.4 million, with a net loss of $0.3 million to the consolidated statement of comprehensive income. If the acquisition had occurred on 1 July 2021, Group revenue would have been an estimated $2.3 million higher and consolidated net profit would have been $4.8 million lower. In determining these amounts, Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2021.

Effect of acquisition

The software acquired was valued using an income approach model by estimating future cash flows generated by the technology and discounting them to present value using rates in line with a market participant expectation. As part of the acquisition, goodwill of $40.9 million has been recognised which is not deductible for tax purposes. Since the acquisition date, up to 30 June 2022, the goodwill balance has decreased by $2.7 million as a result of foreign exchange effects. On 1 July 2022 Darktrace Netherlands B.V. changed its functional currency to USD, in line with other Darktrace subsidiaries and therefore no further foreign exchange effects are accounted for in the current year.

The acquisition had the following effect on the Group's assets and liabilities.

Acquiree's net assets at the acquisition date	Fair values on acquisition $'000
Intangible assets: (note 17)	
- Customer Relationship	930
- Software	9,647
Property, plant and equipment (note 18)	108
Right-of-use assets (note 19)	239
Trade and other receivables	892
Cash and cash equivalents	411
Interest-bearing loans and borrowings	(1,347)
Trade and other payables	(4,267)
Deferred revenue	(2,172)
Lease liabilities	(248)
Deferred tax assets (note 25)	1,950
Deferred tax liabilities (note 25)	(2,655)
(A) Net identifiable assets and liabilities	**3,487**
Cash consideration relating to business combination	36,140
Equity instruments issued	8,224
(B)Total consideration	**44,364**
Goodwill (B-A)	**40,877**

Goodwill

The acquisition of Cybersprint accelerated Darktrace's entry into the fast-moving attack surface management market, whilst complementing existing offerings in Darktrace's product line. The Cybersprint technology has been integrated into Darktrace's Prevent product line. Darktrace considered building a competing product but ultimately concluded that the time taken, plus the opportunity cost against competitors, warranted acquiring the technology.

The residual economic goodwill reflects the significant opportunity for future growth in integrating Cybersprint's development team and selling the technology to new customers and cross-selling to Darktrace's existing customers, as well as further exploiting and developing the current technology over time to improve its functionality and wider synergies deriving from the integration of the two business and development teams. Given the relatively insignificant customer relationships acquired and the fact that the technology acquired has significant obsolescence over time (the UEL has been determined to be five years), a lot of the value of the acquisition derives from future potential of the ongoing technology development and the generation of new customer income streams which are not attributable to any intangible assets at acquisition.

Refer to note 16 for details on goodwill.

Equity instruments issued

2,573,648 shares in Darktrace plc were issued as consideration to the sellers (Cybersprint shareholders before acquisition).

The fair value of the acquirer's equity interests issued has been determined as consideration for the acquired business. Fair value was the quoted share price, on the acquisition date (£4.59/ $6.15), multiplied by the number of shares issued for publicly traded shares.

The rights to 1,235,741 shares issued to certain employees of Cybersprint is contingent on continued employment. In the event that within 3 years from completion certain Cybersprint employees (and Sellers) are no longer employed by Darktrace, they will be required to pay a cash penalty to Darktrace in an amount which varies from 89% to 33% of the fair value of the instruments, depending on the employee leaving before completion of the first, second or third anniversary from the completion date. These shares have therefore been treated as remuneration and have been accounted for as equity-settled share-based payments under IFRS 2. The related share-based payment charge has and will be expensed over the 3 year period from acquisition subject to service conditions. The charge related to the year was $3.7 million (from acquisition to 30 June 2022 was $1.4 million) and the remaining value to be taken in future years of $2.5 million has been included in prepayments at 30 June 2023 ($6.2 million at 30 June 2022).

Acquisition related costs

The Group incurred acquisition related cost of $0.9 million related to legal and professional fees. These costs have been included in administrative expenses in the Group's consolidated statement of comprehensive income in FY 2022.

Performance of the Group

3. Operating Segment

Segment Reporting policy

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

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

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

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

Non-current assets by geographical market	**30 June 2023 $'000**	**30 June 2022 $'000**
USA	62,827	63,408
United Kingdom	76,743	83,223
Europe	36,355	34,357
Rest of world	27,220	24,505
	203,145	**205,493**

4. Revenue from contracts with customers

Revenue Recognition policy

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

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

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

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

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

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

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

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

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

Principal vs agent assessment

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

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

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

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

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

Significant Judgement in Revenue Recognition in Determining one Performance Obligation Exists

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

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

Disaggregation of revenue

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

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

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

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

Contract Assets and Liabilities Related to Contracts with Customers

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

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

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

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

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

Revenue Recognised in Relation to Deferred Revenues (Contract Liabilities)

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

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

Future contracted revenue (formerly revenue expected to be recognised)

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

Prior year adjustment to the disclosure

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

	30 June 2022 Reported	Restatement	30 June 2022 Restated
	$'000	**$'000**	**$'000**
Due within 12 months	477,025	(25,595)	451,430
Due within 1-2 years	330,045	(4,335)	325,710
Due within 2-3 years	196,546	(1,833)	194,713
Due within 3-4 years	60,793	(433)	60,360
Due over 4 years	4,621	(41)	4,580
	1,069,030	**(32,237)**	**1,036,793**

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

5. Material Profit or Loss Items

Cost of Sales

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

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

Operating Cost Apportionment

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

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

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

Share-based payment cost and related share-option related employer tax charges are apportioned on a direct basis depending on the department the employee reports into.

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

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

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

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

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

Auditors' remuneration

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

Audit related assurance services includes the fees in relation to the review of the Group interim consolidated financial statements as at 31 December 2022. Other non-audit services are in relation to the review of the FRC corporate reporting letter to the company.

6. Employee Costs

Employees Benefits

Short-Term Obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

Post-Employment Obligations - Defined Contribution Plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Company operates a stakeholder pension scheme and contributes to several personal pension schemes on behalf of its employees. The Group also contributes to State-sponsored pension schemes in multiple countries as legislated.

Bonus Plans

The Group recognises a liability and an expense for bonuses based on Management's best estimate of the expected payment for discretionary bonuses and then will make the appropriate adjustments if necessary, at the time these bonuses are paid. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Employee Benefits Expense

Expenses recognised for the Group's employee compensation and benefits are presented below:

	FY 2023	FY 2022*
	$'000	$'000
Wages and salaries	268,766	194,744
Social security	26,247	20,166
Pension	4,489	3,319
Employee cost	**299,502**	**218,229**
Share-based payment charge (note 10)	39,989	44,018
Total cost	**339,491**	**262,247**

*Prior year wages and salaries figure was incorrectly disclosed net of $19.1 million, being the capitalised commission cost net of the related amortisation.

Employee costs include a total of $53.5 million (FY 2022: $41.0 million) of capitalised commission costs which are amortised over the expected contract life.

Total cost is split as follows:

	FY 2023 $'000	FY 2022* $'000
Cost of sales	18,577	13,320
Sales and marketing	204,748	160,506
Research and development	45,058	28,418
Other administrative	71,108	60,003
Total cost	**339,491**	**262,247**

*Prior year wages and salaries figure was incorrectly disclosed net of $19.1 million, being the capitalised commission cost net of the related amortisation.

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

	FY 2023 Number	FY 2022 Number
Sales	1,501	1,202
Research and development	345	269
Administration and operations	423	371
	2,269	**1,842**

Directors' emoluments and benefits were as follows:

	FY 2023 $'000	FY 2022 $'000
Emoluments	3,579	3,479
Gains on exercise of share options	20,567	1,760
	24,146	**5,239**

Total amounts payable to the highest paid Director were $2,043,564 (2022: $1,585,972) in respect of emoluments. Three Directors were members of the Group's defined contribution pension scheme in 2023 (2022: Three). The highest paid Director's pension was $24,017 (2022: $25,430).

Information on Directors' remuneration for the year ended 30 June 2023 is set out on page 121.

7. Earnings Per Share ("EPS")

Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

	FY 2023 $'000	FY 2022 $'000
Profit attributable to ordinary shareholders	58,958	1,457
Weighted average ordinary shares	714,928,452	698,145,263
Effect of treasury shares	(54,608,143)	(54,866,296)
Weighted-average number of ordinary shares at period end	**660,320,309**	**643,278,967**
Add dilutive effect of share-based payment plans	17,590,707	52,302,067
Weighted-average number of shares for calculating diluted earnings per share at period end	**677,911,016**	**695,581,034**
Basic earnings per share	$0.09	$0.00
Diluted earnings per share	**$0.09**	**$0.00**

Debt and Equity

8. Finance costs and finance Income

Finance costs and finance

The Group earns interest on its cash balances through its deposits with banks.

Interest income on financial assets at amortised cost is calculated using the effective interest method and is recognised in the consolidated statement of comprehensive income as part of finance income. All finance costs are recognised in the consolidated statement of comprehensive income as part of finance costs in the period in which they are incurred. Interest income has increased by $7.5 million due to increases in interest rates.

	FY 2023 $'000	FY 2022 $'000
Finance costs		
Interest on lease liabilities	3,493	2,735
Interest expense	-	72
	3,493	**2,807**
Finance income		
Interest income from cash and cash equivalents	8,016	518
	8,016	**518**

Share capital and share premium

9. Share capital and share premium

Contributed Equity

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

Equity comprises the following:

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

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

FY 2022 Share premium cancellation

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

FY 2022 Shares issued

During FY 2022 certain employees have exercised their options (see note 10 for details on share-based payment transactions). These have been satisfied through the issuance of new shares before the shares buy back happened or if Darktrace Employee Benefit Trust (see below) could not satisfy the request for legal reasons.

FY 2022 Shares issued for acquisition

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

FY 2023 Preference and deferred shares cancellation

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

Treasury Reserve

FY 2022 Company Shares buyback

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

FY 2023 Share Buyback Programme and Cancellation

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

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

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

FY 2023 EBT Market Purchase Programme

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

At 30 June 2023 the EBT holds 63,121,031 shares (30 June 2022: 43,900,170).

10. Share-based payments

Share-based payments

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

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

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

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

Modification of share-based payments

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

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

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

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

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

Option Schemes in Place Before IPO

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

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

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

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

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

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

AIP Awards

Performance Based Conditional Award (the 'Performance Awards')

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

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

Executive Director Conditional Awards ('Executive Awards')

The Executive Awards carry the same market-based vesting criteria as Tranche 2 of the Performance Awards. Additionally, they have a holding period which determines that vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

Top-Up Awards and modification

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

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

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

Time-based Awards

These awards vest according to time only. There is no market-based vesting criteria and awards do not incorporate an exercise price. The value of the time-based awards will simply be the value of the underlying equity.

Movements in the number of share awards outstanding are as follows:

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

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

Valuation

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

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

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

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

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

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

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

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

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

	Performance awards	Time based Awards	Top Up Awards Modification
Grant date (Range)	23/08/21 - 28/06/22	05/11/21 - 26/05/22	14/04/22 - 17/06/22
Share price at grant date (Range)	£3.29 ($4.04) - £5.78 ($7.87)	£3.63 ($4.55) - £5.78 ($7.84)	£3.24 ($3.97) - £4.11 ($5.35)
Exercise price	-	-	-
Fair value per award (Range)	£2.04 ($2.57) - £5.19 ($7.07)	£3.63 ($4.56) - £5.78 ($7.84)	£1.04 ($1.26) - £1.48 ($1.94)
Expected life in years (Range)	1.01 - 3.00	n/a	0.03 - 0.04
Expected volatility (Range)	40% - 50%	n/a	70%
Risk free interest rate (Range)	0.34% -2.19%	n/a	0.26% - 0.42%
Cancellation rate	10%	n/a	10%
Dividend yield	0%	n/a	0%
Correlation (Range)	15% - 20%	n/a	0%
Number of awards	**840,013**	**2,471,734**	**18,586,362**

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

	Time based awards	Performance awards
Grant dates (Range)	21/09/22 - 22/05/23	21/09/22 – 17/05/23
Share price at grant date (Range)	£2.62 ($3.23) - £3.69 ($4.25)	£2.62 ($3.23) - £3.69 ($4.25)
Exercise price	-	-
Fair value per award (Range)	£2.62 ($3.23) - £3.69 ($4.25)	£0.95 ($1.17) - £3.69 ($4.25)
Expected life in years (Range)	n/a	1.78 - 3.00
Expected volatility	n/a	50%
Risk free interest rate (Range)	n/a	3.07% - 3.94%
Cancellation rate	n/a	10%
Dividend yield	n/a	0%
Correlation (Range)	n/a	20 - 25%
Number of awards	**7,179,220**	**6,994,611**

11. Capital Management Policies and Procedures

The Group's objectives when managing capital are to:

- safeguard the ability to continue as a going concern, to provide adequate returns for shareholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group monitors capital based on the carrying amount of the equity less cash and cash equivalents as presented on the face of the consolidated statement of financial position.

	FY 2023 $'000	FY 2022 $'000
Capital		
Total equity	263,513	314,688
Less cash and cash equivalents	(356,986)	(390,623)
Total capital	**(93,473)**	**(75,935)**
Overall financing		
Total equity	263,513	314,688
Deduction of leasing liabilities, borrowings and other financing liabilities	(57,608)	(63,840)
Total financing	**205,905**	**250,848**

Working Capital

12. Capitalised Commission

Commission Cost Recognition

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

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

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

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

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

13. 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 expected credit loss provision.

The Group has adopted the simplified model of recognising lifetime expected credit losses for all trade receivables on a collective basis as there are shared credit risk characteristics, grouped on basis of geography and days past due. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. See note 1 for a description of the Group's impairment policies.

The Group writes off trade receivables when in its view there is no reasonable expectation of recovery.

Short term deposits represent the short-term portion of deposits mostly related to lease deposits for the Group's offices or future marketing events.

Deposits

Deposits are financial assets measured at amortised cost, primarily related to cash deposits in connection to leases for the Group's offices. Where the agreement is for a term longer than one year, the related deposit is classified as long term. Refer to note 20 for accounting treatment of short-term deposits classified as cash and cash equivalent instead.

	FY 2023 $'000	FY 2022 $'000
Trade receivables	93,744	63,907
Prepayments	22,961	25,955
Accrued income	3,445	4,152
Deposits	1,961	1,082
Other receivables	1,484	385
As at 30 June	**123,595**	**95,481**

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

Prepayment includes $2.5 million related to shares issued at acquisition of Cybersprint (30 June 2022: $6.2 million), treated as remuneration (see note 2).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables in a 36 month period before 30 June 2023 and 30 June 2022, and the corresponding historical credit losses experienced within these periods. Historic loss rates are adjusted to reflect current and forward-looking information on macro-economic and other factors affecting the ability of customers to settle the receivables.

The Group has recorded an expected credit loss provision for trade receivables as determined under the requirements of IFRS 9, at 30 June 2023 of $5.2 million (30 June 2022: $3.1 million).

The movement in the expected credit loss provision is as follows:

	FY 2023 $'000	FY 2022 $'000
At the beginning of the period	**3,119**	**5,461**
Charge for the period	3,954	453
Reversal on collected amounts	(1,905)	(2,795)
Expected credit loss provision at year end	**5,168**	**3,119**
Receivables written off during the year	1,024	2,608

The expected credit loss for trade receivables was determined as follows:

	up to 30 days $'000	up to 60 days $'000	up to 90 days $'000	more than 90 days $'000	Total $'000
30 June 2023					
Expected credit loss rate	0.9%	3.2%	20.6%	73.3%	5.0%
Gross carrying amount for trade receivables and accrued income	88,092	6,810	2,471	4,985	102,358
Lifetime expected credit loss	(789)	(219)	(508)	(3,652)	(5,168)
30 June 2022					
Expected credit loss rate	0.2%	2.6%	23.2%	76.3%	4.4%
Gross carrying amount for trade receivables and accrued income	63,464	3,608	1,230	3,399	71,701
Lifetime expected credit loss	(149)	(92)	(285)	(2,593)	(3,119)

The net movement in the expected credit loss provision has been included in administrative expenses in the consolidated statement of comprehensive income.

14. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year or any other period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Commission accruals

For certain sales staff, the second 50% of sales commission is paid at the earlier of full payment of the contract or most frequently, after one year. As payment requires additional service and performance requirements, this cost is not eligible to be capitalised. This cost is accrued over the expected period between the sale and the payment to the sales staff, with the accrual released when the commission is paid or earlier if commission is recouped due to customer defaulting on payments. Estimation of the effect of leavers has been incorporated into the commission accrual calculation in-line with IAS 19 'Employee Benefits'.

Amounts falling due within one year:

	30 June 2023	30 June 2022
	$'000	$'000
Trade payables	14,965	11,206
Social security and other taxes	13,249	15,499
Accruals	81,745	54,985
Total	**109,959**	**81,690**

Accruals includes:

- $53.6 million accrued commission and bonuses (30 June 2022: $34.1 million)
- $13.1 million accrued salaries and partner fees (30 June 2022: $8.2 million)
- $9.5 million accrued hosting fees and professional fees including audit and accountancy (30 June 2022: $5.2 million)
- $4.0 million accrued marketing and recruitment costs (30 June 2022: $4.8 million)
- $1.5 million accrued legal fees (30 June 2022: $1.4 million)

15. Provisions

Dilapidation provision

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

Provision for share-based payment tax

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

Significant estimate in the share price used to calculate the provision for share-option related employer tax charges

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

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

			FY 2023			FY 2022
	Provision for share-based payment tax	Other provision	Total provision	Provision for share-based payment tax	Other provision	Total provision
	$'000	$'000	$'000	$'000	$'000	$'000
Opening provision	15,192	2,100	17,292	22,945	-	22,945
Accruals/(release)	4,315	(316)	3,999	(1,526)	2,100	574
Reclassification from lease liability (note 19)	-	1,528	1,528	-	-	-
Utilisation	(13,351)	(800)	(14,151)	(6,227)	-	(6,227)
Closing provision	**6,156**	**2,512**	**8,668**	**15,192**	**2,100**	**17,292**
Current	5,943	984	6,927	14,654	1,300	15,954
Non-current	213	1,528	1,741	538	800	1,338
Total provision	**6,156**	**2,512**	**8,668**	**15,192**	**2,100**	**17,292**

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

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

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

Other provision includes an estimate of tax charges related to new permanent establishments in countries where Darktrace plc does not currently have a subsidiary and provision for dilapidation previously classified within lease liabilities.

Long Term Assets

16. Goodwill

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date).

Goodwill is measured as the excess of:

- the sum of the consideration transferred,
- the amount of any non-controlling interest in the acquiree and
- the fair value of the acquirer's previously-held equity interest (if any) in the entity

over the net fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of comprehensive income and is not subsequently reversed.

Impairment testing is applied in the order set out by IAS 36.98: assets within a CGU first, where there is indication of impairment, then the CGU, then the group of CGUs to which goodwill has been allocated.

	30 June 2023 $'000	30 June 2022 $'000
Goodwill		
As at 1 July	38,164	-
Business combination (note 2)	-	40,877
Foreign exchange difference	-	(2,713)
Total	**38,164**	**38,164**

Goodwill arose upon the acquisition of Darktrace Netherlands B.V. (formerly Cybersprint B.V.) during FY 2022. The asset is allocated to both Cybersprint and Darktrace CGUs combined (corresponding to the single operating segment) and is monitored, therefore at the consolidated group level. IAS 36 requires Management to perform impairment tests annually for goodwill and indefinite life assets. Since 1 July 2022 Darktrace Netherlands functional currency has been determined to be the same currency as the Group i.e. USD and therefore there will be no foreign exchange differences going forward on goodwill.

Management performed an impairment test at 30 June 2022 where the recoverable amount of the group of CGUs has been calculated based on its value in use, estimated as the present value of projected future cash flows for the next 5 years covered by the most recent approved budget and forecasts. Cash flow projections beyond the period covered by the most recent budgets/forecasts, had been estimated by extrapolating the projections based on the budgets/forecasts using the long-term growth rate.

The key assumptions used in the estimation of the recoverable amount as at 30 June 2022 are set out below. The value assigned to the key assumptions represented Management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

- Discount rate: 12.0%. This rate was calculated as pre-tax rate and reflects both the market assessment of the time value and the risk of the specific assets.
- Long-term growth rate: 3% This rate was in line with the growth-rate for the primary countries in which the business operates.
- Budget EBITDA growth rate (average for the next 5 years up to FY 2027): 49.8%. The VIU scenario was broadly based on Managment's forecasts which assumed a gradual realisation of the Group's publicly disclosed long-term economic model but adjusted to exclude the expected income that might be derived from future products that have not yet been developed and released for sale.

For FY 2023 Management has decided to perform the impairment test by using the fair value less cost to disposal (FVLCD):

- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date – as at 30 June 2023 this is estimated to be the market capitalisation for the company at reporting date i.e. $2.2 billion.
- Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

Cost for disposal has been estimated at $138 million and giving a significant headroom ($2.0 billion) between the FVLCD at reporting date and the carrying value of the GCU assets subject to impairment, no impairment identified and no further analysis necessary.

17. Intangible assets

Intangible assets

Software

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

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

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

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

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

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

Customer relationship

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

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

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

	FY 2023				FY 2022			
	Customer Relationship	Software	Software under development	Total	Customer Relationship	Software	Software under development	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
As at 1 July	869	25,535	1,517	27,921	-	13,286	-	13,286
Additions	-	-	2,519	2,519	-	2,391	2,368	4,759
Business combination	-	-	-	-	930	9,647	-	10,577
Reclassification	-	1,082	(1,082)	-	-	851	(851)	-
Foreign exchange difference	-	-	-	-	(61)	(640)	-	(701)
As at 30 June	869	26,617	2,954	30,440	869	25,535	1,517	27,921
Amortisation								
As at 1 July	(26)	(12,246)	-	(12,272)	-	(6,199)	-	(6,199)
Charge for the year	(72)	(5,525)	-	(5,597)	(26)	(6,047)	-	(6,073)
As at 30 June	(98)	(17,771)	-	(17,869)	(26)	(12,246)	-	(12,272)
Net book value as at 30 June	**771**	**8,846**	**2,954**	**12,571**	**843**	**13,289**	**1,517**	**15,649**

18. Property, Plant and Equipment

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

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

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

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

Other assets

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

Appliances

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

Significant Judgement in Assessment of Control of Appliances

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

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

	FY 2023				FY 2022			
	Leasehold improvements $'000	Equipment $'000	Appliances $'000	Total $'000	Leasehold improvements $'000	Equipment $'000	Appliances $'000	Total $'000
Cost								
As at 1 July	**2,327**	**16,583**	**112,301**	**131,211**	-	**12,161**	**92,606**	**104,767**
Additions	11,622	1,199	18,409	31,230	2,327	4,951	24,585	31,863
Business combination (note 2)	-	-	-	-	-	108	-	108
Foreign exchange difference	-	-	-	-	-	(7)	-	(7)
Disposals	-	(685)	(5,141)	(5,826)	-	(630)	(4,890)	(5,520)
As at 30 June	**13,949**	**17,097**	**125,569**	**156,615**	**2,327**	**16,583**	**112,301**	**131,211**
Depreciation								
As at 1 July	-	**9,621**	**60,589**	**70,210**	-	**6,634**	**45,237**	**51,871**
Charge for the year	935	4,185	19,864	24,984	-	3,391	18,355	21,746
Impairment loss	-	-	52	52	-	-	-	-
Disposals	-	(510)	(3,910)	(4,420)	-	(404)	(3,003)	(3,407)
As at 30 June	**935**	**13,296**	**76,595**	**90,826**	**-**	**9,621**	**60,589**	**70,210**
Net book value as at 30 June	**13,014**	**3,801**	**48,974**	**65,789**	**2,327**	**6,962**	**51,712**	**61,001**

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

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

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

Inventory – appliances for Federal use

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

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

	FY 2023 $'000	FY 2022 $'000
Inventory	**100**	**-**

19. Leases

The Group leases various offices and equipment. Rental contracts are typically made for fixed periods of 6 months to 8 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. Under IFRS 16 'Leases' the Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group's exercising of that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by subsidiaries, which do not have recent third-party financing;
- makes adjustments specific to the lease, e.g. term, country, currency and security; and
- if a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as the basis to determine the incremental borrowing rate.

Right-of-use Assets

Right-of-use assets are measured at cost considering the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life (typically first expected break clause to be executed if this is expected) and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

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

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

	FY 2023 $'000	FY 2022 $'000
Cost		
As at 1 July	83,942	49,121
Additions	2,840	35,068
Business combination (note 2)	-	239
Foreign exchange difference	-	(11)
Impairment	(1,781)	-
Disposals and lease incentives	(6,948)	(475)
As at 30 June	78,053	83,942
Depreciation		
As at 1 July	25,782	19,700
Charge for the year	10,326	6,549
Disposals	(2,494)	(467)
As at 30 June	33,614	25,782
Net book value at 30 June	**44,439**	**58,160**

Disposals and lease incentives include $4.5 million receivable from the landlord for the restructuring work completed at the New York office. Restructuring works were completed in March 2023 and confirmation of the amount receivable was received in June 2023. This incentive was not recognised as at the lease inception date, as the lease incentive was not recievable until 2023.

The depreciation charges for right-of-use assets have been made in the consolidated statement of comprehensive income within the following functional areas:

	FY 2023 $'000	FY 2022 $'000
Depreciation		
Cost of sales	-	-
Sales and marketing	6,931	3,970
Research and development	1,589	890
Other administrative	1,806	1,689
	10,326	**6,549**

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

	FY 2023 $'000	FY 2022 $'000
Current	4,873	3,710
Non-Current	52,735	60,130
Total	**57,608**	**63,840**

The Group has leases for office space around the world. With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability.

The Group must keep the offices it leases in a good state of repair and return the offices in a condition as good as their original condition at the end of the lease. Further, the Group must insure any leasehold improvements made to the offices and incur servicing fees in accordance with the lease contracts. $1.5m of restructuring cost provision has been reclassified to provisions (note 15) in the year.

The following table describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the consolidated statement of financial position:

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

Lease maturity analysis	FY 2023 $'000	FY 2022 $'000
Lease liabilities, short term	7,951	7,078
1 – 2 years	13,852	11,179
2 – 5 years	33,019	36,614
Over 5 years	15,004	22,793
Total liabilities	**69,826**	**77,664**

Amounts recognised in the consolidated statement of comprehensive income

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed as incurred. The expense relating to payments not included in the measurement of the lease liability is disclosed below.

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

	FY 2023 $'000	FY 2022 $'000
Short term leases	3,445	2,376
Low value lease rentals	93	2,738
Total	**3,538**	**5,114**

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

Amounts Recognised in the Consolidated Statement of Cash Flows

	FY 2023 $'000	FY 2022 $'000
Cash outflows for leases	10,682	4,837
Cash outflows for interest on leases	3,493	2,735
Total cash outflow	**14,175**	**7,572**

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
FY 2023	Office space	24	1-10 years	5 years	8	5
FY 2022	Office space and Cars	30	1-11 years	5 years	8	5

Financial Risk Management

20. Cash and Cash Equivalents

Cash and Cash Equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

	FY 2023	FY 2022
	$'000	$'000
Cash at bank and in hand	132,396	156,912
Deposits at call	224,590	233,711
Cash and cash equivalents	**356,986**	**390,623**

21. Changes in Liabilities Arising From Financing Activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Lease liabilities	Loans	Total
	$'000	$'000	$'000
As at 1 July 2021	**(35,248)**	**-**	**(35,248)**
Changes from financing cash flows			
Repayment of loans	-	1,347	1,347
Repayment of lease liabilities	4,837	-	4,837
Interest payment	2,735	-	2,735
Other changes			
Business combination	(248)	(1,347)	(1,595)
Interest expense (note 19)	(2,735)	-	(2,735)
New leases	(35,068)	-	(35,068)
Foreign exchange movements	1,887	-	1,887
As at 30 June 2022	**(63,840)**	**-**	**(63,840)**
Changes from financing cash flows			
Repayment of lease liabilities	10,682	-	10,682
Interest payment	3,493	-	3,493
Other changes			
Interest expense	(3,493)	-	(3,493)
New leases	(2,840)	-	(2,840)
Foreign exchange movements	(1,610)	-	(1,610)
As at 30 June 2023	**(57,608)**	-	**(57,608)**

Soon after the acquisition, the pre-existing loan with Rabo Bank ($1.3 million) acquired through the Cybersprint acquisition has been repaid in full for an amount of $1.3 million.

The Group entered a multi-currency $25.0 million Revolving Credit Facility (RCF) agreement with Silicon Valley Bank on 15 January 2021 with a maturity date of 15 January 2023. Further extensions were granted in the financial year, initially to 30 June 2023 and again, post year end, to 31 August 2023 and subsequently to 30 November 2023. Borrowings under the Facility are secured pursuant to various security agreements, mortgages and other collateral granted to the Lender. Interest is charged subject to an all-in floor of 3.75% and the facility contains a letter of credit sublimit of $10.0 million equivalent. Following the failure of SVB in March 2023, and the subsequent separation of Silicon Valley Bank UK (now HSBC Innovation Bank) from Silicon Valley Bank US, the credit facility remained with SVB UK, now HSBC Innovation Bank, whilst Letters of Credit remained on the SVB US Balance sheet (to the value of $5.0m), counter backed by HSBC UK, to allow HSBC Innovation Bank to set up new Trade Finance Platforms. Therefore, as no drawdowns have been made on the facility as of 30 June 2023, the total available RCF remaining was $25 million.

Under the terms of the facility the Group must report certain financial covenants. The Group must meet at least one of the following three covenants:

- An Asset Quick Ratio (AQR = current assets to adjusted total liabilities) minimum 1.20 : 1.00
- Minimum trailing-6-month EBITDA of $7.5 million
- Unrestricted cash held with Lender of more than $40.0 million

The Group met two of the three financial covenants as at 30 June 2023.

22 Risk Management Objectives and Policies

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

Market Risk

Foreign Exchange Risk

The table below details the Group's exposure to foreign currency risk, in currencies different from the Company functional currency:

	AUD	CAD	EUR	GBP	JPY	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2023							
Trade receivable	1,659	1,992	22,576	15,663	339	1,735	**43,964**
Deposits	244	161	325	5,146	57	692	**6,625**
Cash and cash equivalents	3,696	7,244	12,657	42,323	879	3,854	**70,653**
Trade payables	(26)	(99)	(665)	(7,530)	(7)	(451)	**(8,778)**
Total	**5,573**	**9,298**	**34,893**	**55,602**	**1,268**	**5,830**	**112,464**
As at 30 June 2022							
Trade receivable	980	2,206	16,783	12,746	294	1,233	**34,242**
Deposits	258	106	214	1,709	74	660	**3,021**
Cash and cash equivalents	4,211	3,616	10,207	48,244	287	3,092	**69,657**
Trade payables	(127)	(59)	(1,504)	(2,462)	(114)	(228)	**(4,494)**
Total	**5,322**	**5,869**	**25,700**	**60,237**	**541**	**4,757**	**102,426**

The aggregate net foreign exchange loss recognised in other administrative expenses are:

	FY 2023	FY 2022
	$'000	$'000
Net foreign exchange loss	(2,127)	(6,502)

As shown in the table above, the Group is primarily exposed to changes in USD/GBP and USD/EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from EUR or GBP denominated financial assets and liabilities.

	FY 2023	FY 2022
	$'000	$'000
USD/EUR exchange rate +/- 10%	(3,172) / 3,877	(2,336)/2,856
USD/GBP exchange rate +/- 10%	(5,055) / 6,178	(5,476)/6,693

The Group operates a natural hedging strategy where possible to mitigate its foreign exchange risk.

Price Risk

The Group has no significant exposure to equity securities price risk.

Credit Risk

Credit risk arises from cash and cash equivalents, contractual cash flows of deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Credit risk is managed on a Group basis. Significant partners are independently rated through credit agencies, if there is no independent rating an internal review is carried out. The Credit manager assesses the credit quality of the partner, taking into account its financial position, as well as experience for customers and partners in the same region. There are no significant concentrations of credit risk, whether through exposure to individual customers or partners, specific industry sectors or regions.

The Group's main financial assets that are subject to the expected credit loss model are trade receivables. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. Refer to note 13 for a trade receivable impairment analysis.

The Board approved Treasury policy governs the credit limits for deposits with banks and financial institutions. Credit ratings and limits are reviewed on monthly basis by Group Treasury. The credit ratings for the deposits classified as cash and cash equivalents ranges from A to A+.

Trade receivables are fully provided where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 6 months past due. The general credit loss provision will begin to be provided from thirty days past due based on the historic default rates adjusted for regional performance. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Liquidity Risk

Prudent liquidity risk management involves maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities, to meet obligations when due and to close out market positions. Due to the dynamic nature of the underlying businesses, Group treasury maintains flexibility in funding by maintaining both liquid cash and availability under committed credit lines.

Maturity of Financial Liabilities

The table below presents the Group's financial liabilities by relevant maturity grouping, based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 12 months $'000	Between 1 - 2 years $'000	Between 2 - 5 years $'000	Over 5 years $'000	Carrying amount liabilities $'000
30 June 2023					
Trade payables	14,965	-	-	-	14,965
Accruals	21,203	-	-	-	21,203
Lease liabilities	7,951	13,852	33,019	15,004	69,826
	44,119	**13,852**	**33,019**	**15,004**	**105,994**
30 June 2022					
Trade payables	11,206	-	-	-	11,206
Accruals	15,100	-	-	-	15,100
Lease liabilities	7,078	11,179	36,614	22,793	77,664
	33,384	**11,179**	**36,614**	**22,793**	**103,970**

23. Summary of Financial Assets and Liabilities by Category

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

	FY 2023 $'000	FY 2022 $'000
Financial assets at amortised cost		
Deposits	10,195	10,342
Trade and other receivables	97,189	68,059
Cash and cash equivalents	356,986	390,623
Total financial assets at amortised cost	**464,370**	**469,024**

	FY 2023 $'000	FY 2022 $'000
Financial liabilities at amortised cost		
Trade payables	(14,953)	(11,206)
Accruals	(21,203)	(15,100)
Lease liabilities	(57,608)	(63,840)
Total financial liabilities at amortised cost	**(93,764)**	**(90,146)**

Accruals include all the financial liabilities at amortised cost, hence exclude payroll accruals in note 14.

Other notes

24. Other Operating Income

R&D Tax Credit / Government grants

The Group has made claims for tax credits under the HMRC RDEC scheme since 2019 which is reflected as other operating income on the consolidated statement of comprehensive income. This accounting treatment is in accordance with IAS 20 Government grants.

	FY 2023 $'000	FY 2022 $'000
R&D tax credit under HMRC RDEC scheme	2,666	1,671

25. Income tax

Income Tax

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

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

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

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

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

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

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

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

<u>Significant judgement</u>

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

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

<u>Significant estimate</u>

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

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

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

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

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

The tax charge in the current and prior years primarily relates to overseas tax. With reference to the unrecognised tax asset on losses carried forward please refer to note below.

Deferred Tax Assets and Liabilities

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

The unrecognised deferred tax asset is comprised of:

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

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

Recognised deferred tax asset and deferred tax liabilities	30 June 2023 $'000	30 June 2022 $'000
Fixed Asset timing differences	(2,272)	(76)
Short term temporary differences	4,859	1,573
Losses carried forward	19,271	2,032
Intangible asset arising on business combinations	(2,009)	(2,488)
Total	**19,849**	**1,041**

Recognised deferred tax asset	30 June 2023 $'000	30 June 2022 $'000
Opening	**1,041**	**544**
(Charged)/Credited through the income statement:		
Deferred tax asset recognised on acquisition	-	1,950
Deferred tax liability recognised on acquisition	-	(2,655)
Deferred tax asset movement	19,276	1,034
Deferred tax liability movement	(468)	168
Closing	**19,849**	**1,041**

26. Related Party Transactions

The Company and the Group has no ultimate controlling party. There were no related party transactions with Directors to disclose in any of the years presented. Refer to note 6 for directors' remuneration.

Key Management Remuneration

The Group considers to be part of the key management personnel the members of the Board (including the Executive Directors) and three Senior Managers who exert control over the strategy and direction of the Group.

Their costs in the period were as follows:

	FY 2023 $'000	FY 2022 $'000
Wages and salaries*	2,353	2,744
Bonus*	1,291	2,235
Social security costs*	693	453
Pension costs	60	62
Benefits*	879	39
Share-based payment charge	8,810	7,376
Share-option related employer tax charges	266	2,516
	14,353	**15,425**

*short-term benefits

Short term employee benefits of the Group's key management personnel include salaries and non-cash benefits. Long term benefits include payments to defined contribution pension scheme only.

Other related party disclosures

Other related parties include transactions with companies under common directorship.

	Transaction value		Balances outstanding	
	FY 2023 $'000	FY 2022 $'000	30 June 2023 $'000	30 June 2022 $'000
Fees for management support services	-	-	43	-
Recharge of staff expenditure	-	1	-	-
Income from recharge of office space	-	(270)	-	-
Revenue received	(734)	(712)	(235)	(249)
Hosting fees	-	7	1	1
	(734)	**(974)**	**(191)**	**(248)**

27. Capital Commitments

The Group had no capital commitments at 30 June 2023 or 30 June 2022.

28. Subsidiaries

As at the 30 June 2023 the subsidiaries of the Group were as follows:

Subsidiary	Country of registration	Registered office	Year of incorporation	Class of share capital	Proportion held
Darktrace Holdings Limited	UK	Maurice Wilkes Building St John's Innovation Park, Cowley Road, Cambridge, United Kingdom, CB4 0DS	2013	Common shares	100%
Darktrace, Inc	USA	C/O Paracoprt Incorporated, 2140 S DuPont Highway, Camden, Delaware 19934, USA	2013	Common shares	100%*
Darktrace Singapore Pte Ltd	Singapore	4 Shenton Way, #28-03 SGX Centre 2, Singapore 068807	2015	Common shares	100%*
Darktrace Australia Pty Ltd	Australia	C/O BP Woodward & Associates, Level 5 Suite 501, 83 York Street, Sydney NSW 2000, Australia	2015	Common shares	100%*
Darktrace Japan KK	Japan	12-1-605 Okahigashi-cho Hirakata City, Osaka, Japan	2017	Common shares	100%*
Darktrace South Africa Pty Ltd	South Africa	BDO Building, Wanderers Office Park, 52 Corlett Drive, Illovo, Gauteng, 2196	2016	Common shares	100%*
Darktrace Ireland Limited	Ireland	38 Upper Mount Street, Dublin 2, Ireland	2019	Common shares	100%*
Darktrace SaS	France	38 avenue des Champs-Élysées. 75008 Paris, France	2019	Common shares	100%*
Darktrace Hong Kong Ltd	Hong Kong	31/F Tower Two Time Square, Matheson Street, Causeway Bay, Hong Kong	2019	Common shares	100%*
Darktrace Colombia SaS	Colombia	Cra 16 # 97-46 Torre 1 piso 6, Bogota, Colombia	2019	Common shares	100%*
Darktrace Canada, Inc	Canada	585 16th Street, Suite 201, West Vancouver, British Columbia, V7V 3R8, Canada	2020	Common shares	100%*
Darktrace Mexico, SA De CV	Mexico	Boulevard Manuel Avila, Camacho No 76 PB Colonia: Lomas de Chapultepec Alcaldia: Miguel Hidalgo Ciudad de Mexico C.P. 11000	2020	Common shares	100%*
Darktrace GmbH	Germany	Nonnenbrücke 12, 96047 Bamberg, Germany	2020	Common shares	100%*
Darktrace Employee Benefit Trust	Jersey	26 New Street, St Helier, Jersey, JE2 3RA	2021	n/a	0%
Darktrace Netherlands B.V.	Netherlands	Wilhelmina van Pruisenweg 35, (2595 AN) The Hague, the Netherlands	2015	Common shares	100%*
Darktrace Federal Inc.	USA	C/O The Corporation Trust Company, Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware, United States, 19801	2022	Common shares	100%
Darktrace Korea Limited	South Korea	4th Floor, LS YongSan Tower, 92, Hangang-daero, Yongsan-gu, Seoul, Republic of Korea, 04386	2022	Common shares	100%*
Darktrace Sweden AB	Sweden	c/o TMF Sweden AB, Sergels Torg 12, 111 57 Stockholm, Sweden	2022	Common shares	100%*

*Indirectly owned through Darktrace Holdings Limited.

Darktrace Holdings Limited is the main trading company, responsible for research and development activities and global delivery of Darktrace operations.

All other subsidiaries provide sales and marketing services, with the exception of Darktrace Netherlands B.V. Darktrace Holdings Limited has also a branch office in Dubai and in Italy. The Dubai branch was registered in 2019 with registered office address at Level 42, Emirates Towers, Sheikh Zayed Road Dubai, UAE. The Italian branch was registered in 2023 with registered office address: Via Tiziano 32 , Milano, Cap 20145 Italy.

Darktrace Federal Inc, a directly controlled subsidiary of Darktrace plc, was incorporated in April 2022 with the purpose of serving the U.S. Department of Defense (DoD), the Intelligence Community, Federal Civilian Agencies, and the National critical infrastructure sector, allowing them to strengthen their cybersecurity defences with Self-Learning AI. At 30 June 2023 Darktrace Federal Inc had inventory of appliances purchased for the purpose of being sold to potential and future customers as POV or for future contracts to be sold to future customers. Darktrace Federal Inc did not have any trading activity during the year.

29. Post Balance Sheet Events

Assignment of previous London office lease

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

RCF extension

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

COMPANY FINANCIAL STATEMENTS

Company statement of financial position

	Notes	30 June 2023 $'000	30 June 2022 $'000
Non-current assets			
Investments	4	222,275	129,214
		222,275	**129,214**
Current assets			
Trade and other receivables	5	45,690	4,064
Cash and cash equivalents	6	104,902	224,068
		150,592	**228,132**
Total assets		**372,867**	**357,346**
Current liabilities			
Trade and other payables	7	(48,570)	(20,402)
		(48,570)	**(20,402)**
Total Liabilities		**(48,570)**	**(20,402)**
Net Assets		**324,297**	**336,944**
Equity			
Share capital	8	9,779	9,812
Share premium	8	16,308	16,117
Share capital redemption reserve	9	255	-
Merger reserve	8	55,160	55,160
Stock compensation reserve	9	25,542	50,389
Treasury Shares	8	(15,281)	(11,105)
Retained earnings		232,534	216,571
Total equity		**324,297**	**336,944**

As permitted by section 408 of Companies Act 2006, a separate Statement of comprehensive income for Darktrace plc has not been included in these financial statements. Darktrace plc total comprehensive profit for the year amounted to $1.9 million (FY 2022: loss of $2.1 million).

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

Catherine Graham

Catherine Graham
Chief Financial Officer

Company No. 13264637

The notes on pages 192 to 197 are an integral part of these financial statements.

Company statement of changes in equity

	Notes	Share capital $'000	Share premium $'000	Share capital redemption reserve $'000	Merger reserve $'000	Stock compensation reserve $'000	Treasury shares $'000	Retained earnings $'000	Total equity $'000
30 June 2021		**9,756**	**224,782**	**-**	**55,160**	**5,660**	**-**	**(10,036)**	**285,322**
Loss for the year		-	-	-	-	-		(2,146)	(2,146)
Other comprehensive income/ (loss) for the year		-	-	-	-	-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(2,146)**	**(2,146)**
Share premium cancellation		-	(224,782)	-	-	-	-	224,782	-
Shares buyback		-	-	-	-	-	(13,525)	(89)	(13,614)
Options exercised		22	335	-	-	(1,040)	2,420	4,060	5,797
Shares issued for acquisition		34	15,782	-	-	-	-	-	15,816
Share-based compensation charge		-	-	-	-	45,769	-	-	45,769
Transactions with owners		**56**	**(208,665)**	**-**	**-**	**44,729**	**(11,105)**	**228,753**	**53,768**
30 June 2022		**9,812**	**16,117**	**-**	**55,160**	**50,389**	**(11,105)**	**216,571**	**336,944**
Profit for the year		-	-	-	-	-	-	1,857	1,857
Other comprehensive income/ (loss) for the year		-	-	-	-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,857**	**1,857**
Shares buyback		-	-	-	-	-	(50,885)	(284)	(51,169)
Share cancellation		(255)	-	255	-	-	43,665	(43,665)	-
Options exercised		222	191	-	-	(61,888)	3,044	58,055	(376)
Share-based payment charge		-	-	-	-	37,041	-	-	37,041
Transactions with owners		**(33)**	**191**	**255**	**-**	**(24,847)**	**(4,176)**	**14,106**	**(14,504)**
30 June 2023		**9,779**	**16,308**	**255**	**55,160**	**25,542**	**(15,281)**	**232,534**	**324,297**

The notes on pages 192 to 197 are an integral part of these financial statements.

Notes to the company financial statements

1. Company Information

These financial statements are the separate financial statements for Darktrace plc (the Company). The Company was incorporated on 12 March 2021. The financial statements are presented in US Dollars. Darktrace plc is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. Its registered office and principal place of business is: Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, CB4 0DS.

2. Basis for preparation

The financial statements of Darktrace plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the presentation and disclosure requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (statement of cash flows information); and
  - 134-136 (capital management disclosures).
  - IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

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

Going Concern Assumption

The Company meets its day-to-day working capital requirements through its cash reserves. The Company's forecasts and projections, show that the Company should be able to operate within the level of its current cash reserves. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore adopts the going concern basis in preparing its financial statements.

New standards, amendments, IFRIC /interpretations and new relevant disclosure requirements adopted by the Group

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

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 June 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Foreign Currency Translation

Transactions and Balances

Foreign currency transactions are translated into the functional currency of the Company, that is U.S. Dollars ("USD"), using the exchange rate as at the beginning of the month of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at month end exchange rates, are generally recognised in the statement of comprehensive income. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other gains or losses. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

3. Key Judgements and Estimates

The preparation of financial statements in accordance with IFRS requires Management to make judgements, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the period end and the reported amount of revenues and expenses during the reported period. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and for any future periods affected.

Critical judgement in the determination of functional currency

Darktrace plc is the ultimate parent company and pure holding entity. The Company has no employees of its own and there is a master service agreement in place for which the Company charges a service fee to Darktrace Holdings Limited (on a cost plus basis) for the following:

- Strategic management support service
- Business planning and development support service

The Company has two Executive Directors (Group CEO and Group CFO). The Company provides financial support to the group as and if required through an intercompany agreement to Darktrace Holdings Limited the main trading entity in the Group. There is an unsecured US Dollar and Pound Sterling multi-currency term loan facility of a total principal amount not exceeding $225.0 million.

Management considers the Company as an extension of the overall subgroup and therefore considers the functional currency to be that of Darktrace Holdings Limited and its subsidiaries, USD.

4. Investments in Subsidiary Undertakings

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

The Directors have determined that Darktrace plc controls a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited is the trustee of the Darktrace plc Employee Benefit Trust. It is a controlled entity of Darktrace plc, because Darktrace plc is exposed to, and has right to, variable returns from this entity and is able to use its power over the entity to affect those returns. The value of the investment in Equiniti Trust (Jersey) Limited is nil.

Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Investments that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans, under which subsidiaries receive services from employees as consideration for equity instruments (options) of the Company. The cost related to the subsidiaries' employees service is treated as an investment value in subsidiaries. The awards represent capital contribution to the subsidiaries as no payment is expected for the equity-settled share-based payment awarded to their employees.

The total amount to be accounted for as an increase in investment value is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets, and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total investment is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the investment value, with a corresponding adjustment to equity. When the options are exercised, the options' original fair value as of the grant date is accounted for as a deduction from equity.

	30 June 2023 $'000	30 June 2022 $'000
1st July	**129,214**	**68,704**
Capital contribution to Darktrace Holdings Limited for Cybersprint BV acquisition	-	15,782
Capital contribution to EBT	64,676	-
Share-based payments in subsidiaries' employees	28,385	44,728
30 June	**222,275**	**129,214**

Capital contribution to Darktrace Holdings Limited for Cybersprint BV acquisition

On 22 February 2022 Darktrace Holdings Limited (subsidiary of Darktrace plc) entered into a definitive agreement to acquire the entire issued share capital of Cybersprint B.V. ("Cybersprint"), an attack surface management company that provides continuous, real-time insights from an outside-in perspective to eliminate blind spots and detect risks. The acquisition of Cybersprint was aligned with Darktrace's vision of delivering a 'Continuous Cyber AI Loop' and complemented its Self-Learning technology and inside-out view. 2,573,648 shares in Darktrace plc were issued as consideration to the Sellers (Cybersprint shareholders before acquisition). The fair value of the acquirer's equity interests issued is determined as consideration for the acquired business. Fair value is the quoted share price, on the acquisition date (£4.59/$6.15), multiplied by the number of shares issued for publicly traded shares.

Capital contribution to EBT

During the year the Company provided a capital contribution of $61.0 million (£50.0 million) to Equiniti Trust (Jersey) Limited, as Trustee of the Darktrace Employee Benefit Trust ('EBT'), in order to complete the market purchases of ordinary shares of £0.01 each in the Company. As the Company renounces to the exercise price due by the Group employees in favour of EBT for the repayment of the loan made in December 2023, these amounts are classified are treated as capital contribution to the subsidiary. During the year $3.7 million were contributed to EBT as a result of legacy options exercised by Group employees.

Share-based payments

The capital contribution relating to share-based payments of $28.4 million relates to share-based payments issued to employees of subsidiary undertakings in the Group.

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

For full details of the Group's share-based payments, refer to note 10 to the consolidated financial statements.

5. Other receivables

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.

	30 June 2023 $'000	30 June 2022 $'000
Amounts owed from subsidiary undertakings	42,825	601
Other receivables	1,430	1,526
Prepayments and accrued income	1,435	1,937
Total	**45,690**	**4,064**

Amounts owed from subsidiary undertaking includes a loan of $33.9 million (£30.0 million) to Equiniti Trust (Jersey) Limited as Trustee of the Darktrace Employee Benefit Trust ('EBT'), in order to complete the purchases of 8,308,451 ordinary shares of £0.01 each in the Company. The loan is receivable within one year.

The carrying value of the receivables owed from subsidiary undertakings is considered a reasonable approximation of fair value due to the short-term nature of the balance. The total amount outstanding at 30 June 2023 relates to other debtors and amount owed from Equiniti Trust (Jersey) Limited, the trustee of the Darktrace plc Employee Benefit Trust. The balance is current and receivable within one year, hence no provision for credit losses deemed necessary.

Prepayments include amounts paid in advance for directors and officers insurance cover.

6. Cash and cash equivalents

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.

	30 June 2023	30 June 2022
	$'000	$'000
Cash at bank and in hand	34,508	55,830
Deposits at call	70,394	168,238
Cash and cash equivalents	**104,902**	**224,068**

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

7. Trade and other payables

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.

	30 June 2023	30 June 2022
	$'000	$'000
Amounts owed to subsidiary undertakings	44,235	19,663
Social security and other taxes	29	32
Other payables and accruals	4,306	707
Total	**48,570**	**20,402**

Amounts owed to subsidiary undertakings relate to amounts due to Darktrace Holdings Limited in relation to options exercised during the year. The amount payable is offset by a receivable balance of $5.7 million from Darktrace Holdings Limited in relation to income accounted in relation to the Management Services Agreement entered on 5 May 2021.

8. Share capital and share premium

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. Where shares are redeemed or purchased wholly out of profits available for distribution, a sum equal to the amount by which the company's share capital is diminished on cancellation of the shares (the nominal value of the shares) is transferred to the capital redemption reserve in line with section 733 of Companies Act.
- Share premium: represents the excess over nominal value of the consideration received for equity shares, net of any transaction costs associated with the issue of shares.
- Merger reserve: As the Company issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued. Instead, a merger reserve is recorded. The difference between the value of investment in Darktrace Holdings Limited and the nominal value of share capital has been recorded in the merger reserve in the equity of the Company as required by section 612 of the Companies Act 2006.
- Treasury shares includes shares bought back by Darktrace plc during the year. Shares issued to employees are recognised on a first in, first out basis.
- Stock compensation reserve: this reserve is used to recognise the grant date fair value of options and awards issued to subsidiaries' employees but not exercised.
- Retained earnings: represents retained profits and losses.

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

9. Other notes

Share-based payments

Certain group employees have been granted options over the shares in the Company. Refer to the accounting of the investment for details on the awards granted and the related accounting (note 10).

Share options outstanding at the end of the year are the same as per the consolidated financial statements as the Company does not have employees of its own. Therefore, we refer to the disclosure in the consolidated financial statements (note 10).

Capital Commitments

The Company had no capital commitments at 30 June 2023 or 30 June 2022.

Information Included in the Notes to the Consolidated Financial Statements

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the Company as follows:

Note 5 – Auditors' remuneration

Note 9 – Share capital

Note 10 – Share-based Payments

Note 26 – Key management personnel

Note 26 – Related parties

Note 28 – Subsidiaries

Note 29 – Post balance sheet events

PART 4

DARKTRACE PLC INFORMATION

General Counsel & Company Secretary	James Sporle
Company number	13264637
Registered office	Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, CB4 0DS, United Kingdom
Website	www.darktrace.com

Corporate Advisers

Bankers	HSBC Bank Plc HSBC Innovation Bank
Solicitors	Latham & Watkins LLP
Auditor	Grant Thornton UK LLP
Joint brokers	Jefferies International Limited Joh.Berenberg, Gossler & Co. KG, London Branch
Financial advisor	Jefferies International Limited
Registrar	Equiniti Limited

Directors

Mr G Hurst (Chair) (appointed 1 April 2021)
Poppy Gustafsson OBE (CEO) (appointed 1 April, 2021)
Catherine Graham (CFO) (appointed 12 March, 2021
Lord Willetts (appointed 1 April, 2021)
Sir Peter Bonfield CBE FREng (appointed 1 April, 2021)
Paul Harrison (appointed 1 April, 2021)
Elaine Bucknor (appointed 1 June 2023)
Stephen Shanley (appointed 1 April, 2021)
Han Sikkens (appointed 1 April, 2021)
Patrick Jacob (appointed 7 December, 2022)

PART 5
FINANCIAL HISTORY

Financial performance

$000	FY 2023	FY 2022	FY 2021
Revenue ($'000)	545,430	415,482	285,101
Gross margin (%)	89.8%	89.2%	90.0%
Net profit ($'000)	58,958	1,457	(145,828)
Adjusted EBIT ($’000)	82,506	49,816	3,818
Adjusted EBITDA ($'000)	139,163	91,412	33,484
Free cash flow ($'000)	93,753	99,517	25,501
Net cash inflow from operating activities ($'000)	134,047	140,244	59,892

Operating performance

$000	FY 2023	FY 2022	FY 2021
Constant currency ARR at 30 June ($'000)	628,444	484,880	340,702
Net ARR Added ($'000)	143,564	144,178	105,909
One-year ARR gross churn at 30 June (%)	6.8%	6.6%	7.4%
Net ARR retention rate at 30 June (%)	104.7%	105.3%	103.0%
Number of customers at 30 June (#)	8,799	7,437	5,629
Remaining Performance Obligations (RPO) at 30 June ($'000)	1,258,350	1,003,932	763,219

See: KPIs’ section for the meanings of non-IFRS measures and other key performance indicators. ARR Growth, Net ARR added, One year ARR Gross churn, Net ARR Retention rate are all prepared using the FY 2023 constant currency rates.

/ For FY 2023, constant currency rates were 1.2146 and 1.0450 for the British Pound and Euro, respectively.

/ For FY 2022, constant currency rates were 1.3835 and 1.1878 for the British Pound and Euro, respectively.

/ For FY 2021, constant currency rates were 1.2368 and 1.1235 for the British Pound and Euro, respectively.

All numbers for FY 2022 and FY 2021 have been restated to include Cybersprint B.V. as if it had always been part of the Group for comparability.

PART 6
SHAREHOLDERS

Fully diluted shareholding of any party with a 3% or greater shareholding in Darktrace as at 30 June 2023 and 23 August 2023:

Shareholder	Number of shares	% voting rights at 30 June 2023	Number of shares direct	Number of shares indirect
Summit DT Equity Holdings 3 LP	86,579,924	12.3%	86,579,924	-
KKR Dark Aggregator LP	70,633,213	10.0%	70,633,213	-
Wealth Nominees Limited	63,270,974	9.0%	63,270,974	-
A. Bacares	37,532,653	5.3%	37,532,653	-
Go Etf Solutions	30,441,486	4.3%	30,441,486	-
Brighton Park Capital Management	30,438,766	4.3%	30,438,766	-
Dr. M. Lynch	29,711,750	4.2%	29,711,750	-
BlackRock	27,091,595	3.9%	27,091,595	-
TenEleven Ventures	23,390,655	3.3%	23,390,655	-

Shareholder	Number of shares	% voting rights at 23 August 2023	Number of shares direct	Number of shares indirect
KKR Dark Aggregator LP	70,633,213	10.1%	70.633.213	-
Summit DT Equity Holdings 3 LP	65,812,068	9.4%	65,812,068	-
Wealth Nominees Limited	60,839,499	8.7%	60,839,499	-
A. Bacares	34,828,367	5.0%	34,828,367	-
Brighton Park Capital Management	30,438,766	4.3%	30,438,766	-
Dr. M. Lynch	29,711,750	4.2%	29,711,750	-
BlackRock	27,784,311	4.0%	27,784,311	-
Go Etf Solutions	26,382,509	3.8%	26,382,509	-
TenEleven Ventures	23,390,655	3.3%	23,390,655	-

GLOSSARY

A

AGM
Annual General Meeting

Adjusted EBIT
Adjusted EBIT is the Group's EBIT adjusted to remove uncapitalised share-based payment (SBP) charges and share option-related employer tax charges

Adjusted EBITDA
Adjusted EBITDA is the Group's EBITDA, but including appliance depreciation attributed to cost of sales, adjusted to remove uncapitalised share-based payment charges and related employer tax charges

AI
Artificial Intelligence

AIP
Award Incentive Plan

APAC
Asia-Pacific

APMs
Alternative Performance Measures

ARR
Annualised Recurring Revenue

AWS
Amazon Web Services

B

Board
The Board of Directors of the Company

Brexit
The exit of the United Kingdom from the European Union, officially on 31 December 2020

C

CAGR
Compound Annual Growth Rate

CEO
Chief Executive Officer

CFO
Chief Financial Officer

CGU
Cash Generating Unit

Cybersprint
Darktrace Netherlands B.V. formerly Cybersprint B.V.

Company
Darktrace plc

D

Darktrace (or Group)
Darktrace plc and each of its consolidated subsidiaries and subsidiary undertakings and thereafter.

DCF
Discounted Cash Flow

Directors
The Executive Directors, the major shareholders nominated Directors and the Independent Directors

DTA
Deferred Tax Asset

E

EBIT
The Group's operating profit or loss

EBITDA
The Group's EBIT plus depreciation and amortisation

EBT
Darktrace Employee Benefit Trust

EMEA
Europe, Middle East and Africa

ERM
Enterprise Risk Management

ESG
Environmental, Social and Governance

EU
European Union

Executive Directors
The Executive Directors of the Company

F

FCA
The UK Financial Conduct Authority

FCF
Free Cash Flow

FTE
Full Time Equivalent

FY 2021
Financial year ended 30 June 2021

FY 2022
Financial year ended 30 June 2022

FY 2023
Financial year ended 30 June 2023

FYE
Financial Year End

G

G&A
General and Administrative

GHG
Green House Gas

Group (or Darktrace)
Darktrace plc and each of its consolidated subsidiaries and subsidiary undertakings and thereafter.

I

IFRS
International Financial Reporting Standards: UK-adopted International Accounting Standards

Independent Directors
The independent Directors appointed to the Board

IoT
Internet of Things

K

KPI
Key Performance Indicator

L

LATAM
Latin America

N

NED
Non-Executive Director

O

OT
Operating Technology

P

POV
Proof Of Value

PPA
Purchase Price Allocation

R

R&D
Research & Development

RPO
Remaining Performance Obligations

RAID
Risk, Assumptions, Issues and Dependencies

S

SaaS
Software as a Service

S&M
Sales and Marketing

SBP
Share-Based Payments

SECR
Streamlined Energy and Carbon Reporting

T

TAM
Total Addressable Market

TCFD
Task Force on Climate-Related Financial Disclosures

TSR
Total Shareholder Return

U

UK
United Kingdom of Great Britain and Northern Ireland

USA
United States of America

V

VIU
Value In Use

EVOLVING THREATS CALL FOR EVOLVED THINKING

About Darktrace

Darktrace (DARK.L), a global leader in cybersecurity artificial intelligence, delivers complete AI-powered solutions in its mission to free the world of cyber disruption. Its technology continuously learns and updates its knowledge of 'you' for an organisation and applies that understanding to achieve an optimal state of cyber security. Breakthrough innovations from its R&D Centers have resulted in over 145 patent applications filed. Darktrace employs over 2,200 people around the world and protects c.8,800 organisations globally from advanced cyber-threats.

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DARKTRACE

Evolving threats call for evolved thinking™

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