

7 March 2024

Darktrace plc

Results for the Six Months Ended 31 December 2023

2nd quarter rebound following significant 1st quarter GTM changes delivers strong 1H financial performance

27.4% year-over-year revenue growth

24.4% year-over-year ARR growth

Confirming FY 2024 ARR expectations; increasing FY 2024 revenue and margin expectations

Darktrace plc (DARK.L) (together with its subsidiaries, "Darktrace" or "the Group") a global leader in cyber security AI, today provides its results for the six months ended 31 December 2023.

1H FY 2024 Highlights

Darktrace delivered continued high revenue and constant currency ARR growth in the period, supporting growth across all its earnings measures. This growth was achieved amidst a stabilised macro-economic environment, and reflects a second quarter rebound from the temporary impacts of significant changes made across Darktrace's Go-to-Market (GTM) organisation in the first quarter.

Darktrace's performance track in the first half of FY 2024 supports what it believes is a change in trajectory following a period of transformation and stabilisation, moving to Net constant currency ARR added growth in its second half. Further, with sales performance for the first two months of 2H FY 2024 being as expected, Darktrace is reiterating the FY 2024 guidance for ARR and Net ARR added provided in its 11 January 2024 1H FY 2024 trading update. Darktrace is also increasing its expectations for Revenue and Adjusted EBITDA margin, reflecting realised and expected improvements to its FY 2024 financial and operating profile.

Financial Highlights

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Revenue	330,303	259,259	27.4%
Gross margin (%)	89.3%	89.7%	n/a
Net profit	52,518	581	8,939.2%
Adjusted EBIT	70,977	32,430	118.9%
Adjusted EBITDA ¹	84,518	45,189	87.0%
Net cash inflow from operating activities	65,589	27,094	142.1%

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

¹ At the start of FY 2024, Darktrace changed its definition of Adjusted EBITDA to treat all amortisation of commissions as though they were cash costs. On this basis, Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets. Prior year comparatives have been recast under this definition; see below for further details on definition and reconciliation.

- Resilient business model, underpinned by multi-year contracts and a flexible cost structure, supported continued revenue growth and improvements in all earnings measures.
- Strong year-over-year revenue growth across all geographic markets and customer sizes.
- Gross margin broadly stable on prior period reflecting consistent contract economics.
- Adjusted EBIT margin improvement of 9.0 percentage points over the prior period to 21.5%, reflecting continued scale efficiencies, ongoing discretionary cost management and, year-over-year, a more favourable foreign exchange environment.

- Adjusted EBITDA margin improvement of 8.2 percentage points over the prior period to 25.6%, similarly reflecting scale efficiencies and ongoing cost management, but also a decline, as a percent of revenue, in the adjusted depreciation and amortisation added back.
- Period-over-period decreases in both S&M and G&A as a percentage of revenue, though underlying trends partially distorted by certain Customer Success Manager (CSM) and Channel Partner costs previously in G&A now being attributed to S&M, reflecting changes to roles and responsibilities at the start of FY 2024 (see *Financial Review – Income Statement Analysis* section for details).
- 15.3% period-over-period increase in R&D cash employment costs, largely offset by a decrease in share-based payments and related employer tax charges to more normalised levels.
- Net cash inflows from operating activities increased by \$38.5 million from the prior period to \$65.6 million. The movement in cash inflows was primarily driven by the \$51.9 million increase in period-over-period Net profit, partially offset by a \$16.8 million decline in net working capital, reflecting in part the move to monthly commission payments for FY 2024 onwards, from quarterly commission payments in prior periods.

Operating Performance

\$000	Six-months ended	Six-months ended	% Change
	31-Dec-23 Unaudited	31-Dec-22 Unaudited	
ARR* at 31 Dec (\$000) ¹	702,079	564,461	24.4%
Net ARR added* (\$000)	64,778	72,607	(10.8)%
One-year gross ARR churn* at 31 Dec	6.6%	6.5%	n/a
Net ARR retention rate* at 31 Dec	105.0%	105.1%	n/a
Number of customers at 31 Dec	9,232	8,178	12.9%
USD Remaining Performance Obligations (RPO) at 31 Dec (\$000)	1,253,693	1,117,390	12.2%

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

*At constant currency rates established at the start of each year. For FY 2024, constant currency rates are 1.26818 and 1.09082 for the British Pound and the Euro, respectively.

¹ At 31 December 2023, USD ARR (at exchange rates in effect at the reporting date) for 1H FY 2024 is \$705.8 million, representing year-over-year growth of 26.3%.

- 24.4% year-over-year growth in constant currency ARR, despite the large but temporary impact of changes made across Darktrace's GTM organisation in the first quarter.
- Net constant currency ARR added declined 10.8% year-over-year, reflecting notable improvement in performance in the second quarter, which declined 4.5% year-over-year.
- During the period, Darktrace drove an increased amount of new ARR added from its existing customer base:
 - Ending 1H FY 2024 with 9,232 customers, year-over-year growth in Darktrace's customer base was 12.9%, having grown by 433 since 30 June 2023.
 - A year-over-year increase in average contract ARR of 10.2% across Darktrace's customer base was largely driven by an increase in average ARR of existing customer contracts, which was up 12.4% year-over-year for contracts aged one year or more.
- With a continued focus on customer engagement, gross and net retention metrics have broadly returned to prior year levels, showing improvement since June 2023:
 - One-year gross constant currency ARR churn remains 0.1 percentage points higher than December 2022 but decreased 0.2 percentage points since June 2023.
 - Net constant currency ARR retention rate remains 0.1 percentage points lower than December 2022 but has increased 0.4 percentage points since June 2023, reflecting increased upsell performance in the period.
- Remaining performance obligations (RPO), representing contracted revenue backlog, expanded by 12.2%, or \$136.3 million, year-over-year to \$1.254 billion through acquiring new, and expanding existing, multi-year contracts. A substantial portion of Darktrace's revenue is contracted and in RPO prior to the beginning of each period, providing significant revenue visibility.

FY 2024 Outlook (Unaudited)

Darktrace raised certain expectations for the current financial year on 11 January 2024, in its 1H FY 2024 trading update. As results for January and February were largely in line with these expectations, it is reiterating the FY 2024 guidance and related commentary it provided for ARR and Net ARR added. Darktrace is, however, now increasing its expectation for FY 2024 Revenue and Adjusted EBITDA margin.

Darktrace now expects FY 2024 Revenue growth of between 23.5% and 25.0% (previously 23.0% and 24.5%), reflecting continued strong ARR to revenue conversion and a relatively stable exchange rate environment.

Further, as Darktrace continues to control its discretionary spending without sacrificing planned investment, it is increasing its expectations for its FY 2024 Adjusted EBITDA margin to at least 21.0%, above its previous range of between 18.0% and 20.0%. Darktrace also confirms its guidance for Free cash flow (FCF) in the range of 50% to 60% of a now increased Adjusted EBITDA expectation. This lower-than-typical conversion range reflects the temporary impact to FCF from transitioning to new commission payout schedules at the start of FY 2024, reflecting a period in which Darktrace pays out both all new commissions earned and second half commission schedules from FY 2023. This impact is expected to be largely confined to FY 2024 and early FY 2025. Beyond this transitional phase, Darktrace continues to expect its typical FCF conversion to fall in the range of 100% of Adjusted EBITDA, plus or minus 20 percentage points.

Poppy Gustafsson, CEO, said:

“Following the impact in the first quarter of our significant Go-to-Market changes, I was very pleased to see the team adapt quickly, delivering significantly improved second quarter sales, which enabled our strong financial performance in the first half of the year.

At the start of this financial year, we characterised our FY 2024 expectations as first half stabilisation and second half re-acceleration, and performance indeed stabilised in our second quarter. Now, it is the improvement in early cycle operating measures that underpins our confidence in a return to net new business growth in the second half. We see progress in longer cycle initiatives such as large strategic, channel and government pipeline development, and upsell momentum continues. In addition, ramped salesperson tenure has lengthened, increasing by 28%, including a 31% increase in our key North American markets. Our conversion rate also rose, again driven by noticeable improvements in North America, as more tenured salespeople followed a more disciplined process to pursue better targeted and qualified sales prospects.

We continue to see the cyber-crime landscape evolve rapidly in a challenging geopolitical environment and as the availability of generative AI tools lowers the barrier to entry for hostile actors. Against this backdrop and in the period ahead, we are preparing to roll out enhanced market and product positioning to better demonstrate how our unique AI can help organisations to address novel threats across their entire technology footprint.”

Cybersecurity Landscape

The widespread availability of generative AI tools continues to impact security operations across organisations. The immediate impact Darktrace has seen is on phishing, the most common form of attack. In April last year, [Darktrace released research showing a 135% increase](#) in ‘novel social engineering attacks’ in the first two months of 2023, corresponding with the widespread adoption of ChatGPT, suggesting generative AI was providing an avenue for threat actors to craft sophisticated and targeted attacks at speed and scale. Both the scale and the sophistication of these types of attacks continues to grow. Darktrace customers received around 2.9 million phishing emails in December 2023 alone, a 14% increase on September 2023¹. Between September and December 2023, phishing attacks that use novel social engineering techniques grew by 35%² on average across the Darktrace customer base.

¹ Average calculated across Darktrace customers from 31 August to 21 December 2023.

² Average calculated across Darktrace customers from 31 August to 21 December 2023. Novel social engineering attacks use linguistic techniques that are different to techniques used in the past, as measured by a combination of semantics, phrasing, text volume, punctuation, and sentence length.

³ The survey was undertaken by [AimPoint Group](#) & [Dynata](#) on behalf Darktrace between December 2023 & January 2024. The research polled 1,773 security professionals in positions across the security team from junior roles to CISOs, across 14 countries – Australia, Brazil, France, Germany, Italy, Japan, Mexico, Netherlands, Singapore, Spain, Sweden, UAE, UK, and USA.

Chief Information Security Officers (CISOs) believe these types of AI-augmented threats will continue to grow. New research commissioned by Darktrace³ shows that 89% of IT security teams polled globally believe AI-augmented cyber threats will have a significant impact on their organisation within the next two years, yet 60% believe they are currently unprepared to defend against these attacks. Their concerns are led by increased volume and sophistication of malware that targets known vulnerabilities (rated 3.84 by respondents on a 1-5 scale of risk) alongside increased exposure of sensitive or proprietary information from using generative AI tools (also rated 3.84).

To ensure their continued security, organisations must pivot from a reactionary posture – built on known attack data for threat detection and response – to proactive cyber readiness by taking a preventative and automated approach to visualising and correlating incidents across the entire IT footprint of the business. Against this backdrop, and since the start of the fiscal year, Darktrace has delivered on its promise of completing the industry's first Cyber AI Loop with the introduction of [Darktrace HEAL](#), which ensures readiness to recover from an active cyber-attack and to rapidly restore the business to an operational state. In addition, it has launched [Darktrace/Cloud](#), which provides comprehensive visibility of cloud architectures, real-time cloud-native threat detection and response, and prioritized recommendations and actions to help security teams manage misconfigurations and strengthen compliance.

Recent Developments

Darktrace has recently announced that its Federal business has received a High Impact Level “In Process” designation from the Federal Risk and Authorization Management Program (FedRAMP), a U.S. government-wide program that provides a standardised approach to security assessment, authorisation, and continuous monitoring for cloud products and services. [Darktrace Federal's Cyber AI Mission Defense™ and Cyber AI Email Protection™ products are now listed](#) in the FedRAMP Marketplace. This designation marks a critical milestone for Darktrace Federal as it seeks to deliver information technology (IT), operational technology (OT), Internet of Things (IoT), and email security to the U.S. federal government via cloud-native deployments, empowering agencies to combat threats ranging from stealthy insiders to zero-day attacks and supply chain compromises.

Analyst and Investor Webcast

Management will hold an analyst and investor webcast to review its 1H FY2024 results on 7 March 2024 at 13:00 GMT / 08:00 ET. Please register at:

<https://www.lsegissuerservices.com/spark/DARKTRACE/events/23b532ee-7e22-4b54-b834-4c4df0857102>

About Darktrace

Darktrace (DARK.L), a global leader in cyber security artificial intelligence, is on a mission to free the world of cyber disruption. Breakthrough innovations in the Darktrace Cyber AI Research Centre in Cambridge, UK have resulted in over 165 patent applications filed and research published to contribute to the cyber security community. Rather than study attacks, Darktrace's technology continuously learns and updates its knowledge of 'you' and applies that understanding to optimise your state of optimal cyber security. Darktrace is delivering the first ever Cyber AI Loop, fuelling a continuous end-to-end security capability that can autonomously spot and respond to novel in-progress threats within seconds. Darktrace employs over 2,300 people around the world and protects over 9,200 customers globally from advanced cyber threats. Darktrace was named one of TIME magazine's 'Most Influential Companies' in 2021.

Cautionary Statement

This announcement contains certain forward-looking statements, including with respect to the Group's current targets, expectations and projections about future performance, anticipated events or trends and other matters that are not historical facts. These forward-looking statements, which sometimes use words such as “aim”, “anticipate”, “believe”, “intend”, “plan”, “estimate”, “expect” and words of similar meaning, include all matters that are not historical facts and reflect the directors' beliefs and expectations, made in good faith and based on the information available to them at the time of the announcement. Such statements involve a number of risks, uncertainties and assumptions that could cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement and should be treated with caution. Any forward-looking statements made in this

announcement by or on behalf of Darktrace speak only as of the date they are made. Except as required by applicable law or regulation, Darktrace expressly disclaims any obligation or undertaking to publish any updates or revisions to any forward-looking statements contained in this announcement to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Important Information

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation (EU) No. 596/2014 (as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018). Upon publication of this announcement, this information is now considered in the public domain.

Enquiries

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Key performance indicators (KPIs)

KPIs are financial and non-financial measures used by Darktrace's Management, its Board of Directors and its investors and other stakeholders, to assess business performance, monitor principal risks and evaluate future expectations. KPIs include the following Alternative Performance Measures (APMs). APMs are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance. Darktrace includes them in its reporting as Management considers them to be important to investors' understanding of its business, and alongside the comparable IFRS financial measures, in assessing the performance and cash flows. APMs do not have standardised definitions and therefore may not be comparable to similar measures presented by other entities.

ARR, and related performance metrics are calculated on a constant currency basis established at the start of the financial year. All comparative periods have been recast using FY 2024 constant currency rates. The Group's primary currency exposures are the British Pound and the Euro converting to its US Dollar functional and reporting currency. For FY 2024, constant currency rates are 1.26818 and 1.09082 for the British Pound and the Euro, respectively.

Annualised Recurring Revenue (ARR)

\$000	31-Dec-23 Unaudited	31-Dec-22 Unaudited
ARR	702,079	564,461
Year-over-year growth	24.4%	36.6%

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 31 December 2023, Darktrace increased its ARR by 24.4% over the prior period, driven primarily by a combination of a 12.9% year-over-year increase in customers and a 10.2% increase in average contract ARR across Darktrace's total customer base, supported by a continued focus on upsells and renewals with a pricing uplift in the period. Darktrace has seen ARR growth across all regions in which it operates.

As at 31 December 2023, 56.6% of total ARR came from customers with ARR over \$100,000, compared to 52.2% in the prior year. This shift reflects Darktrace'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.

At 31 December 2023, USD ARR (at exchange rates in effect at the reporting date) for 1H FY 2024 is \$705.8 million, representing year-over-year growth of 26.3%. Refer to the RPO disclosure for a reconciliation between USD ARR and current RPO.

Net ARR added

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited
Net ARR added	64,778	72,607
Period-over-period change	(10.8)%	7.1%

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

Net ARR added declined 10.8% between the periods, though second quarter reflected a significant improvement over first quarter, declining 4.5% year-over-year, compared to a 21.6% year-over-year first quarter decline. This reflects a recovery from the temporary impacts of significant changes made across Darktrace's Go-to-Market (GTM) organisation in the first quarter against the backdrop of a stabilised macro-economic environment.

Darktrace drove an increased amount of net ARR additions from its existing customer base during the first half after directing more of its sales focus towards upsells in response to economic conditions that made it more difficult to convince new prospects to trial software. Ending 1H FY 2024 with 9,232 customers, year-over-year growth in Darktrace's customer base was 12.9%, with the customer base having grown by 433 since 30 June 2023. A year-over-year increase in average contract ARR of 10.2% across Darktrace's customer base was largely driven by an increase in average ARR of existing customer contracts, which was up 12.4% year-over-year for contracts aged one year or more, reflecting the continued focus on upsells and renewals with a pricing uplift in the period.

Darktrace's performance track in the first half of FY 2024 supports what it believes is a change in trajectory following a period of transformation and stabilisation, moving to Net ARR added growth in its second half.

One-year gross ARR churn rate

%	31-Dec-23 Unaudited	30-Jun-23 Unaudited	31-Dec-22 Unaudited
One-year gross ARR churn rate	6.6%	6.8%	6.5%

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

At 31 December 2023, Darktrace's one-year gross ARR churn rate was 6.6%, a 0.1 percentage point increase on the prior year, with this slight deterioration primarily due to the impact that the macro-economic environment had in increasing bankruptcies and defaults across Darktrace's customer base in the second half of FY 2023. Continued investments and focus on engagement have led to a stabilisation of these trends in the first half of FY 2024, with one-year gross ARR churn improving 0.2 percentage points from June 2023 levels.

Net ARR retention rate

%	31-Dec-23 Unaudited	30-Jun-23 Unaudited	31-Dec-22 Unaudited
Net ARR retention rate	105.0%	104.6%	105.1%

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

At 31 December 2023 Darktrace's Net ARR retention rate was 105.0%, a 0.1 percentage point decrease on the prior year. This slight reduction is consistent with the 0.1 percentage point year-over-year increase in one-year gross ARR churn rate. Darktrace's Net ARR retention rate increased 0.4 percentage points on June 2023, reflecting in part the improvement in churn trends since June, but also the impact of improving upsell momentum in the first half of FY 2024, as demonstrated by the 12.4% year-over-year increase in average ARR for contracts aged one year or more.

Adjusted EBITDA and margin

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Adjusted EBITDA	84,518	45,189	87.0%

Adjusted EBITDA margin (%)	25.6%	17.4%	n/a
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Definition and relevance

At the start of FY 2024 Darktrace changed its definition of Adjusted EBITDA to treat all amortisation of commissions as though they were cash costs. This definitional update was made to reflect changes to GTM compensation structures in July 2023, when Darktrace transitioned to paying 100% of all future commissions upfront. Previously, approximately 50% of sales commissions were paid at signing with the remaining 50% being paid upon the earlier of the full contract value being paid, or, most frequently, after one year. As a result of this change, Darktrace is now required, under IFRS 15, to capitalise substantially all new sales commissions from FY 2024 onwards, unlike in prior years where it largely capitalised the first 50% but expensed the second 50%, typically over the first year.

To support comparability, 1H FY 2023 Adjusted EBITDA has been recast under this definition and hence differs to the \$59.7 million reported in Darktrace's Results for the Six Months Ended 31 December 2022, with the difference relating to the deduction of \$14.5 million in amortisation of capitalised commissions for the period.

On this updated basis, Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to Cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets.

Due to the unpredictable nature of these non-cash charges, and that share-based payment (SBP) related employer tax charges (ETC) 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

Adjusted EBITDA increased by \$39.3 million, or 87.0%, over the prior period, to \$84.5 million, resulting in an 8.2 percentage point increase in Adjusted EBITDA margin to 25.6%. This margin expansion reflects continued scale efficiencies and ongoing discretionary cost management during the period, further information on which can be found in the *Financial Review – Income Statement Analysis* section.

A reconciliation of Operating profit (EBIT) to Adjusted EBITDA is shown in the table below. Note that for its calculation of Adjusted EBITDA, Darktrace does not add back to EBIT appliance depreciation included in Cost of Sales or amortisation of capitalised commissions, and instead considers these as cash costs to support comparability with peers in the sector.

For 1H FY 2024, there was a \$1.1 million, or 12.8%, period-over-period increase in depreciation of appliances in Cost of sales, to \$9.3 million. Appliance depreciation grew more slowly than might be expected considering Darktrace's revenue growth, as more customers chose to have products deployed virtually, and as Darktrace sells more products that are only deployed virtually.

For 1H FY 2024, there was a \$6.1 million, or 42.2%, period-over-period increase in amortisation of capitalised commission to \$20.6 million. This increase reflects the impact of underlying growth in sales commissions earned that were eligible for capitalisation, but also the impact from the shift, at the start of FY 2024, to capitalising substantially all new sales commissions, compared to the prior period where approximately 50% of sales commissions were capitalised and amortised over the life of the contract.

In calculating Adjusted EBITDA, Darktrace also adds back to EBIT uncapitalised share-based payment and related employer tax charges. For 1H FY 2024 it added back \$24.7 million in SBP and related ETC, a decrease of \$6.1 million, or 19.8%, on the prior period. This decrease was primarily due to 1H FY 2023 reflecting the impact of a one-time modification of IPO equity awards that fully vested in FY 2023 and hence did not recur in 1H FY 2024.

Darktrace also added back to EBIT a right-of-use asset impairment charge of \$0.3 million, reflecting its current assessment of the cost it will incur to exit a lease contract on a now unused office space.

Reconciliation of Net profit to Adjusted EBITDA

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Revenue	330,303	259,259	27.4%
Net profit	52,518	581	8,939.2%
Taxation	(2,062)	1,354	n/a
Finance income	(7,483)	(3,091)	142.1%
Finance cost	3,015	1,733	74.0%
Operating profit (EBIT)	45,988	577	7,870.2%
Operating profit margin (%)	13.9%	0.2%	n/a
Depreciation & amortisation	43,469	35,515	22.4%
EBITDA	89,457	36,092	147.9%
Appliance depreciation in Cost of sales	(9,312)	(8,254)	12.8%
Impairment of right-of-use asset	323	1,105	(70.8)%
Capitalised commission amortisation ¹	(20,616)	(14,502)	42.2%
SBP charges and related ETC	24,666	30,748	(19.8)%
Adjusted EBITDA	84,518	45,189	87.0%
Adjusted EBITDA margin (%)	25.6%	17.4%	n/a

¹ At the start of FY 2024, Darktrace changed its definition of Adjusted EBITDA to treat all amortisation of commissions as though they were cash costs. On this basis, Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to Cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets. Prior year comparatives have been recast under this definition; see above for further details on definition and reconciliation.

Adjusted EBITDA reconciliation by function

\$000	Six-months ended 31-Dec-23 Unaudited	Adjustment to EBITDA	Six-months ended 31-Dec-23 Unaudited Adjusted	Six-months ended 31-Dec-22 Unaudited	Adjustment to EBITDA	Six-months ended 31-Dec-22 Unaudited Adjusted
Revenue	330,303	-	330,303	259,259	-	259,259
Cost of sales (CoS)	(24,840)	-	(24,840)	(18,376)	-	(18,376)
CoS related SBP charge and related ETC	(1,270)	1,270	-	-	-	-
CoS related Depreciation and amortisation	(9,312)	-	(9,312)	(8,254)	-	(8,254)
Total Cost of sales	(35,422)	1,270	(34,152)	(26,630)	-	(26,630)
Gross Profit	294,881	1,270	296,151	232,629	-	232,629
Sales and marketing (S&M) costs	(135,022)	-	(135,022)	(108,311)	-	(108,311)
S&M related SBP charge and related ETC	(13,964)	13,964	-	(11,144)	11,144	-
Capitalised commission amortisation*	(20,616)	-	(20,616)	(14,502)	-	(14,502)
S&M related Depreciation and amortisation	(6,982)	6,982	-	(5,626)	5,626	-
Total S&M costs	(176,584)	20,946	(155,638)	(139,583)	16,770	(122,813)
Research and development (R&D) costs	(16,471)	-	(16,471)	(15,386)	-	(15,386)
R&D related SBP charge and related ETC	(3,556)	3,556	-	(5,629)	5,629	-
R&D related Depreciation and amortisation	(3,772)	3,772	-	(4,695)	4,695	-
Total R&D costs	(23,799)	7,328	(16,471)	(25,710)	10,324	(15,386)
General and administrative (G&A) costs	(41,319)	-	(41,319)	(46,349)	-	(46,349)

G&A related SBP charge and related ETC	(5,876)	5,876	-	(13,976)	13,976	-
G&A related Depreciation, amortisation and impairment	(3,110)	3,110	-	(3,542)	3,542	-
Total G&A costs	(50,305)	8,986	(41,319)	(63,867)	17,518	(46,349)
Foreign exchange differences	(12)	-	(12)	(3,618)	-	(3,618)
Other operating income	1,807	-	1,807	726	-	726
Operating profit (EBIT)	45,988	-	45,988	577	-	577
Operating profit margin (%)			13.9%			0.2%
Adjusted EBITDA			84,518			45,189
Adjusted EBITDA margin (%)			25.6%			17.4%

At the start of FY 2024, Darktrace changed its definition of Adjusted EBITDA to treat all amortisation of commissions as though they were cash costs. On this basis, Adjusted EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation, adjusted to include appliance depreciation attributed to Cost of sales and amortisation of capitalised commissions, and adjusted to remove uncapitalised share-based payment charges and related employer tax charges, as well as certain one-off charges including the impairment of right-of-use assets. Prior year comparatives have been recast under this definition; see above for further details on definition and reconciliation.

Adjusted EBIT and margin

\$000	Six-months ended	Six-months ended	% Change
	31-Dec-23 Unaudited	31-Dec-22 Unaudited	
Adjusted EBIT	70,977	32,430	118.9%
Adjusted EBIT margin (%)	21.5%	12.5%	n/a

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 the 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

Period-over-period, Adjusted EBIT increased by \$38.5 million to \$71.0 million, resulting in a 9.0 percentage point increase in Adjusted EBIT margin to 21.5%. As with Adjusted EBITDA, this margin expansion reflects continued scale efficiencies and ongoing discretionary cost management during the period, further information on which can be found in the Financial Review – Income Statement Analysis section. That Darktrace's Adjusted EBIT margin has expanded 0.8 percentage points more than its Adjusted EBITDA margin reflects the 0.8 percentage point reduction in adjusted depreciation and amortisation as a percentage of revenue in the period, which is added back to Adjusted EBITDA.

Reconciling Operating profit (EBIT) to Adjusted EBIT for 1H FY 2024, the Group added back \$24.7 million of SBP and related employer tax charges, a decrease of \$6.1 million in the period. This decrease was primarily driven by a decrease in SBP relating to the FY 2022 modification of awards made pre-IPO. This one-time modification led to a higher charge in the comparative period and is not included in the current period due to the awards having fully vested in FY 2023. Darktrace also added back a right-of-use asset impairment charge of \$0.3 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	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Operating profit (EBIT)	45,988	577	7,870.2%
Impairment of right-of-use asset	323	1,105	(70.8)%
SBP charges	22,697	27,670	(18.0)%
SBP related ETC	1,969	3,078	(36.0)%
Adjusted EBIT	70,977	32,430	118.9%
Adjusted EBIT margin (%)	21.5%	12.5%	n/a

Number of customers

	31-Dec-23 Unaudited	30-Jun-23 Unaudited	31-Dec-22 Unaudited
Number of customers	9,232	8,799	8,178

Definition and relevance

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

Performance

Darktrace added 1,054 net new customers since 31 December 2022, a year-over-year growth rate of 12.9%. New customer additions slowed across the period, as a challenging macro-economic environment through the second half of FY 2023, made prospects more reluctant to trial software they did not believe they would have budget for and extended sales cycles for purchases. In the first half of FY 2024, Darktrace added 433 net new customers, reflecting the stabilising macro-economic environment, and also the temporary impacts of significant changes made across Darktrace's GTM organisation in the first quarter. While trends with respect to new prospects appear to have stabilised in the second quarter of FY 2024, they have not yet materially improved, and the 11.5 percentage point reduction in year-over-year growth of net new customers was a key factor in the decline of Net ARR added to 10.8% below the amount added in the prior period.

Average contract ARR

\$	31-Dec-23 Unaudited	31-Dec-22 Unaudited	% Change
Average contract ARR	76,048	69,022	10.2%

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 31 December 2023 increased by 10.2% year-over-year to \$76,048. This primarily reflects upsells across Darktrace's existing customer base, as demonstrated by the increase in average ARR of existing customer contracts, which is up 12.4% year-over-year for contracts aged one year or more.

In parallel to the year-over-year increase in average contract ARR, and the underlying increase in existing contract ARR values, the distribution of customer contracts above and below \$100,000 in ARR also shifted towards larger contract sizes. This shift reflects Darktrace's increased focus in its Go-to-Market strategy 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.

ARR distribution by customer size:

	31-Dec-23 Unaudited	31-Dec-22 Unaudited
ARR from customers with ARR greater than \$100,000	56.6%	52.2%
ARR from customers with ARR less than \$100,000	43.4%	47.8%

The number of customers with ARR greater than \$100,000 represent 19.5% of total customers, a 2.8 percentage point increase from 16.7% at 31 December 2022.

Remaining Performance Obligation (RPO)

\$000	31-Dec-23 Unaudited	30-Jun-23 Unaudited	31-Dec-22 Unaudited
RPO	1,253,693	1,258,350	1,117,390

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

Darktrace’s multi-year contract strategy, and the resulting RPO, creates significant revenue visibility. At 31 December 2023, RPO was 12.2% higher than it was at 31 December 2022, driven primarily by the acquisition of new customers, and the renewal of contracts with existing customers, for multi-year terms. Note that year-over-year RPO growth in the current period is less than would typically be expected. This is primarily because a large cohort of contracts signed in the late-pandemic period are starting to come up for renewal. As a result, the average contract life in RPO will be temporarily shorter than typical, and the average value is lower, until this renewal cycle is complete.

The difference between USD ARR of \$705.8 million at 31 December 2023 (\$637.3 million at 30 June 2023) and RPO within 12 months is that not all of the ARR at 31 December 2023 will contribute to revenue for a full 12 months.

While USD ARR has increased 10.7% since 30 June 2023, RPO has reduced 0.4% over the same period. This demonstrates that the average contract duration of ARR at 31 December 2023 has decreased over the 1H FY 2024 period, reflecting the impact of sales trends in the current period, but to a greater extent, the impact of the large cohort of late pandemic contracts in current ARR. As these are now coming up for renewal, they may not reflect a full year of future revenue at 31 December 2023.

For the current period, movements in RPO since 30 June 2023 also reflect the 10.8% period-over-period decline in Net ARR additions signed in 1H FY 2024. Further, Darktrace saw a reduction in average contract duration for contracts signed in the period due in part to the higher-than-typical proportion of net ARR additions in the period that came from upsell ARR, as upsell contracts are typically of shorter duration than new contracts (generally because customers seek to have upsell contracts be coterminous with their existing contracts).

\$000	31-Dec-23 Unaudited	30-Jun-23 Unaudited	31-Dec-22 Unaudited
Within 12 months	619,590	574,184	500,328
Between 1 – 2 years	389,188	397,063	355,665
Between 2 – 3 years	201,782	214,018	193,085
Between 3 – 4 years	41,929	69,894	63,005
Over 4 years	1,204	3,191	5,307
Total	1,253,693	1,258,350	1,117,390

Financial Review – Income Statement Analysis

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Revenue	330,303	259,259	27.4%
Gross profit	294,881	232,629	26.8%
Gross margin (%)	89.3%	89.7%	n/a
Operating profit (EBIT)	45,988	577	7,870.2%
Net profit	52,518	581	8,939.2%

Revenue

Revenue in the first half of FY 2024 increased by \$71.0 million, or 27.4%, to \$330.3 million. This increase was primarily attributable to the 12.9% increase in Darktrace customers since 31 December 2022 and a 10.2% year-over-year increase in average contract ARR.

Over 99.2% of all revenue came from recurring subscription contracts with customers, with customer contracts typically averaging approximately 36 months. These multi-year contracts result in significant contracted revenue expected to convert to revenue in future years (see Note 4). 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	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Employment and other related costs	(11,626)	(8,459)	37.4%
Hosting costs	(11,511)	(8,165)	41.0%
Appliance depreciation	(9,312)	(8,254)	12.8%
Shipping & other direct costs	(1,703)	(1,752)	(2.8)%
SBP and related ETC	(1,270)	-	n/a
Total CoS	(35,422)	(26,630)	33.0%

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

Cost of sales increased by \$8.8 million, or 33.0%, to \$35.4 million in the period. This increase was due to a \$3.3 million increase in hosting fees in the period to \$11.5 million, driven by additional virtual deployments for new and existing customers, which reflected a decrease in per unit hosting costs from continued volume-based discount plans with providers. Correspondingly, appliance depreciation attributed to Cost of sales grew \$1.1 million to \$9.3 million for the period; 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.

Employment and other related costs are primarily labour costs associated with deploying Darktrace's software to customers and providing ongoing services such as customer support and supplementary monitoring and response capabilities. In 1H FY 2024 Darktrace concluded that the share-based payment expense together with the employer related tax charges should be proportionately attributed to Cost of sales for those functions where an attribution to Cost of sales is made for labour related costs. Darktrace believes this change better represents the true cost of a sale to the business, however it has not applied this change retrospectively due to the impact of this reclassification being immaterial on the prior period (\$1.8 million). Please refer to note 8 for further details on the prior period quantum.

On a percentage of revenue basis, the first-time inclusion of SBP and related employer tax charges has resulted in a 0.4 percentage point decline in gross margin to 89.3% for the period. Without this change, Darktrace's 1H FY 2024 gross margin would have remained flat on the prior period.

Sales and marketing (S&M) costs

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Employment costs and other related costs	(100,968)	(72,839)	38.6%
Other operating costs	(23,087)	(23,521)	(1.8)%
Facilities costs	(6,778)	(8,103)	(16.4)%
Travel and entertainment	(4,188)	(3,525)	18.8%
Depreciation and amortisation	(27,598)	(20,451)	34.9%
SBP and related ETC	(13,964)	(11,144)	25.3%
Total S&M costs	(176,583)	(139,583)	26.5%

Sales and marketing (S&M) costs increased by \$37.0 million, or 26.5%, to \$176.6 million for the period.

The period-over-period increase is the result of an underlying increase in Sales and marketing costs, an increase in the apportionment of Customer Success Manager (CSM) costs to S&M in the period, and the attribution of Channel Partner costs to S&M for the first time. Prior to 1H FY 2024, CSM headcount had been proportionately split between S&M and General and administrative (G&A) on a full time equivalent (FTE) or pro rata basis, reflecting the separate sales and operating roles and responsibilities of the team at the time. Channel Partner costs had previously been attributed entirely to G&A, as their roles were to provide operating support to sales teams. This change in functional attribution of costs to S&M reflects changes to Darktrace's Go-to-Market strategy at the start of FY 2024, with both the CSM and Channel Partner teams now sitting entirely within the GTM function, led by Darktrace's CRO and with newly-defined commercial roles, responsibilities and related compensation structures that became effective in July 2023.

Had these changes to the CSM and Channel Partner teams taken place at the start of FY 2023, total 1H FY 2023 S&M costs (excluding SBP and related ETC) would have been higher by 15.0%, moving from \$141.5 million to \$162.6 million. This clarifies that 38.1% of reported S&M cost growth (excluding SBP and related ETC) came from role and responsibility changes that drove changes to cost attribution, rather than from growth in underlying operating costs.

Within S&M, employment and related costs increased 38.6% over the prior period to \$101.0 million. Had 1H FY 2024 role and related attribution changes been in place in 1H 2023, employment and other related costs would have increased 19.6%, from \$84.5 million to \$101.0 million. This underlying growth reflects continued investments in our GTM teams to support Darktrace's growth and retention strategy, and the impact of changes made to GTM compensation structures, aligning these with industry practices, thereby better supporting Darktrace's ability to hire and retain key experienced talent.

The largest component of other operating costs is direct marketing costs, which increased by \$0.9 million period-over-period to \$18.7 million. As a percentage of revenue, direct marketing costs declined 1.2 percentage points on the prior period to 5.7% of revenue, as a result of efforts to increase the efficiency and effectiveness of Darktrace's direct marketing approach under its new CMO.

Depreciation and amortisation charges increased by \$7.1 million to \$27.6 million for the period, mostly driven by a \$6.1 million increase in the amortisation of capitalised commission.

Share-based payment and related tax charges increased by \$2.8 million to \$14.0 million for the period. This was driven by new AIP awards being granted to employees, partly offset by costs associated with the one-time modification of awards made at the time of IPO, which impacted 1H FY 2023 costs, but which are no longer being incurred.

Research and development (R&D) costs

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Employment and other related costs	(14,741)	(12,973)	13.6%
Facilities costs	(1,439)	(1,901)	(24.3)%
Travel and entertainment	(291)	(513)	(43.3)%
Depreciation and amortisation	(3,772)	(4,695)	(19.7)%
SBP and related ETC	(3,556)	(5,628)	(36.8)%
Total R&D costs	(23,799)	(25,710)	(7.4)%

Research and development (R&D) costs decreased by \$1.9 million, or 7.4%, to \$23.8 million in the period. This decrease in R&D costs was primarily the result of a \$2.1 million period-over-period reduction in share-based payment and related employer tax charges to \$3.6 million, as 1H FY 2023 reflected the impact of a one-time modification of IPO equity awards that fully vested in FY 2023 and hence did not recur in 1H FY 2024.

Excluding SBP and related ETC, R&D costs increased only 0.8%, or \$0.2 million, in the period. This limited increase includes the timing impact of accounting policies on capitalisable development costs, where in 1H FY 2024, more costs were capitalised and less previously capitalised costs were amortised, than in the 1H FY 2023 period. On a cash basis, R&D employment costs increased 15.3% versus the prior period, driven by continued investment in additional R&D headcount and an increase in average salaries for both newly hired and existing senior roles to attract and retain employees in a competitive job market.

The \$0.9 million decrease in R&D depreciation and amortisation related primarily to having previous development projects now fully amortised, with new, as of yet unreleased products not yet eligible to amortisation.

General and administrative (G&A) costs

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Employment and other related costs	(21,426)	(30,546)	(29.9)%
Other operating costs	(17,302)	(12,560)	37.8%
Facilities costs	(1,397)	(2,445)	(42.9)%
Travel and entertainment	(1,518)	(2,225)	(31.8)%

Depreciation and amortisation	(2,786)	(2,115)	31.7%
SBP and related ETC	(5,876)	(13,976)	(58.0)%
Total G&A costs	(50,305)	(63,867)	(21.2)%

General and administrative (G&A) costs decreased by \$13.6 million, or 21.2%, to \$50.3 million for the period. This overall decrease was entirely due to the impact of Customer Success Managers (CSMs) and Channel Partner related costs being fully attributed to S&M in 1H FY 2024, whereas in the prior period an apportionment of CSM, and all Channel Partner costs, were allocated to G&A.

Had the changes to the roles and responsibilities, and the related cost attributions, for the CSM and Channel Partner teams been in place at the start of FY 2023, total G&A costs (excluding SBP and related ETC) would have been higher by 20.5%, moving from \$36.9 million to \$44.4 million. Including the impact of SBP and related ETC, G&A costs on this underlying basis would have increased 1.8%, or \$0.9 million, on the prior period. This reflects the impact of a \$6.7 million period-over-period reduction in share-based payment and related employer tax charges to \$5.9 million, with 1H FY 2023 reflecting the impact of a one-time modification of IPO equity awards that fully vested in FY 2023 and hence did not recur in 1H FY 2024.

Within G&A, reported employment and related costs decreased 29.9% over the prior period to \$21.4 million. Had 1H FY 2024 attributions been in place in 1H 2023, employment and other related costs would have increased 13.2%, from \$18.9 million to \$21.4 million.

On an underlying cost basis, the largest contributor to an increase in G&A costs (excluding SBP and related ETC) was other operating costs, which increased 37.8%, or \$4.7 million to \$17.3 million. \$2.2 million of this increase was from increased bad debt expense in the period, driven by macro-related increases in customer bankruptcies and non-payment. A further \$1.5 million was due to the 15.7% period-over-period growth in professional and consulting fees, totalling \$11.3 million, reflecting spend on system integration and implementation advisory services for the roll outs of Workday and Salesforce, as well as pricing and other advisory projects recently completed or currently in progress.

Foreign exchange differences

\$000	Six-months ended	Six-months ended	% Change
	31-Dec-23 Unaudited	31-Dec-22 Unaudited	
Exchange differences	(12)	(3,618)	(99.7)%

For 1H FY 2024, there was a \$3.6 million period-over-period decrease in the foreign exchange charge relating to 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. This reflects stability in Darktrace's foreign exchange rates relative to the prior period.

Financial Review – Financial Position Analysis

\$000	31-Dec-23 Unaudited	30-Jun-23 Audited	% Change	31-Dec-22 Unaudited
Total assets				
Goodwill	38,164	38,164	0.0%	38,164
Intangible assets	11,654	12,571	(7.3)%	13,455
Property, plant and equipment	60,136	65,789	(8.6)%	63,743
Right-of-use assets	40,961	44,439	(7.8)%	53,738
Capitalised commission	84,992	76,653	10.9%	63,572
Deferred tax asset	23,978	19,849	20.8%	1,799
Deposits	6,317	8,234	(23.3)%	5,728
Inventory	93	100	(7.0)%	-
Trade and other receivables	121,102	123,595	(2.0)%	98,373

Tax receivable	5,743	5,485	4.7%	1,757
Cash and cash equivalents	383,150	356,986	7.3%	374,915
Total liabilities				
Trade and other payables	(88,781)	(109,342)	(18.8)%	(78,449)
Deferred revenue	(317,299)	(312,117)	1.7%	(259,434)
Lease liabilities	(60,151)	(57,608)	4.4%	(64,364)
Provisions	(7,576)	(8,668)	(12.6)%	(8,805)
Equity				
Share capital	9,736	9,779	(0.4)%	10,030
Share premium	16,308	16,308	0.0%	16,117
Share capital redemption reserve	298	255	16.9%	-
Merger reserve	305,789	305,789	0.0%	305,789
Foreign currency translation reserve	(8,126)	(8,126)	0.0%	(8,126)
Stock compensation reserve	60,570	50,333	20.3%	43,829
Treasury shares	(121,285)	(104,946)	15.6%	(40,139)
Retained earnings	39,193	(5,879)	n/a	(23,308)

Intangible assets

In the period, the Group capitalised \$1.2 million of development costs, an increase of \$0.1 million compared to the previous period.

Capitalised development costs are amortised on a straight-line basis over a three-year period and acquired third party software is amortised over a period of five years, resulting in an amortisation charge in the period of \$2.1 million, in line with the previous period. At 31 December 2023, the Group had \$11.7 million of intangible assets, a decrease of \$0.9 million from \$12.6 million at 30 June 2023.

Deferred tax asset

At 31 December 2023, the Group has significant tax losses in the UK available for offset against future taxable profits. The latest management forecasts have shown an uplift from those used to determine deferred tax recognition as at the 30 June 2023 year-end and as such there has been a net increase to the total deferred tax asset recognised at 31 December 2023 of \$4.1 million to \$24.0 million. For further details, please refer to Note 17.

The Group has not recognised a deferred tax asset related to losses and share-based payments for approximately \$79.9 million (30 June 2023: \$78.3 million) as there remains sufficient uncertainty beyond the 2-year forecast period as to whether the losses will be utilised in the foreseeable future.

Capitalised commission

Up to 30 June 2023 the majority of sales commissions were paid in two instalments, the first payment being at the point of contract signing and the second upon the earlier of either the payment for the entire contract value or one year from the date of sale. For the first instalment, the Group capitalised sales commissions and the associated payroll taxes, as required under IFRS 15, and amortised them over the related contract term. As there were continued employment and customer service obligations required for the employee to receive the second instalment, these commissions were not eligible for capitalisation under IFRS 15 and were expensed over the one-year term up until payment.

Of the changes made to Darktrace's commissions structures as part of the changes to its GTM strategy at the start of FY 2024, the most financially impactful was the decision to pay 100% of sales commissions up front. This change was made to better align with market practice, better supporting Darktrace's ability to hire and retain key experienced talent. From a cost recognition perspective, Darktrace, under IFRS15, is required as result of this change to capitalise substantially all sales commissions and recognise them over the lives of the related contracts.

Capitalised commissions on the Group's Statement of Financial Position increased by 10.9% to \$85.0 million at 31 December 2023, from \$76.7 million at 30 June 2023, as a result of continuing sales growth and implementation of the new commission plan. This increase in capitalised commissions was driven by

additions of \$30.6 million (\$21.8 million in 1H FY 2023) offset by amortisation and impairment of \$22.3 million (\$15.4 million in 1H FY 2023).

Cash and cash equivalents

The Group had cash and cash equivalents at 31 December 2023 of \$383.2 million, an increase of \$26.2 million from 30 June 2023. For more details on the cash flow see *Financial review – Cash Flow Analysis* below.

The balance includes deposits at call of \$283.4 million (\$224.6 million at 30 June 2023) presented as cash equivalents.

Deferred revenue

Total deferred revenue increased by 1.7% to \$317.3 million at 31 December 2023 from \$312.1 million at 30 June 2023, and increased by 22.3% from \$259.4 million at 31 December 2022. This year-over-year growth was a result of the increases in invoicing driven by growth in contracted revenues. In recent years Darktrace has typically raised between 41 to 45% of its total invoicing in the first half of the financial year, with a higher proportion of invoices raised in the second half while new business continues to grow. The impact on deferred revenue is that significantly more of the growth in deferred revenue occurs in the second half of the financial year, and it is therefore more representative to look at year-over-year growth to interpret underlying trends in deferred revenue.

As the Group rarely invoices its multi-year contracts more than a year in advance, growth in deferred revenue is typically driven by movements in current deferred revenue, 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 the Group's total invoicing, growth in non-current deferred revenue balances will lag those of current deferred revenue. At \$24.5 million at 31 December 2023, growth in non-current deferred revenue was therefore less pronounced than current deferred revenue, decreasing by 13.7% from June 2023 and 19.4% from December 2022. Meanwhile, current deferred revenue was \$292.8 million at 31 December 2023, an increase of 3.2% from 30 June 2023, and 27.8% from \$229.0 million at 31 December 2022. We can see this growth reflected in the 27.4% growth in revenue for the period.

Equity

As a result of transactions with shareholders, the Group had a decrease in equity of \$13.6 million during 1H FY 2024 driven primarily by the cancellation of shares performed as part of the share buyback programme completed on 31 October 2023. 18,349,541 shares were bought back on the open market and 16,367,676 have been subsequently cancelled. The remaining 1,981,865 shares have been added to the shares held in treasury to cover future employee equity grants.

For more details on the equity movements please refer to Note 7 of the consolidated interim financial information below.

Financial review – Cash Flows Analysis

\$000	Six-months ended 31-Dec-23 Unaudited	Six-months ended 31-Dec-22 Unaudited	% Change
Operating cash flows before movements in working capital	113,030	57,536	96.5%
Net cash inflow from operating activities	65,589	27,094	142.1%
Cash outflow from investing activities	(540)	(11,152)	(95.2)%
Cash outflow from financing activities	(39,279)	(31,179)	26.0%
Net changes in cash and cash equivalents	25,770	(15,237)	n/a
Cash and cash equivalents, beginning of period	356,986	390,623	(8.6)%

Unrealised exchange difference on cash and cash equivalents	394	(471)	n/a
Cash and cash equivalents, end of period	383,150	374,915	2.2%

Cash inflow from operating activities before working capital

Cash generated from operating activities before working capital movements increased by \$55.5 million, or 96.5%, compared to the prior period. This was primarily due to the \$51.9 million increase in profit before tax, resulting from 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 \$65.6 million in the period, a 142.1% increase from \$27.1 million in 1H FY 2023. The \$38.5 million increase in the net cash inflows from operating activities was primarily due to the \$51.9 million increase in profit before tax and reduced by \$16.8 million from working capital movements, primarily due to \$17.8 million increase in the cash outflows relating to trade and other payables.

Cash outflow from investing activities

The Group had cash outflows from investing activities of \$0.5 million, a decrease of \$10.6 million on the prior period. This decrease in cash outflows was primarily a result of a \$4.4 million increase in finance income owing to increased interest receivable on the Group's cash deposits, and a \$6.5 million reduction in additions to property, plant and equipment (PPE) cash outflows. The reduction in PPE was primarily due to lower capex on appliances, as more customers chose to have products deployed virtually, and as Darktrace offers more products that are only deployed virtually. Darktrace also incurred office-related PPE in the period, having completed office fit outs for its new offices in London, New York and Los Angeles in prior periods.

Cash outflow from financing activities

Cash outflows from financing activities increased \$8.1 million on the prior period owing to a \$10.5 million increase in share buyback costs.

For more details please see consolidated interim statement of cash flows below.

Going Concern

The Directors are of the view that the preparation of the consolidated interim financial statements on a going concern basis continues to be appropriate. Refer to the consolidated interim financial information reported below for more details.

Principal and Emerging Risks

The principal risks and uncertainties faced by Darktrace and its approach to internal control and risk management are set out on pages 66 to 73 of the 2023 Annual Report which is available on the Group's website at www.darktrace.com. The principal risks and uncertainties, have been reassessed and the Directors expect them to remain as those reported in the 2023 Annual Report during the remaining six months of the financial year.

Risk Title	Risk Description
Inability to innovate Darktrace products	If the Group is unable to innovate, develop and enhance the AI Cyber Loop, to adapt to the increasingly sophisticated and changing nature of cyber-attacks, or fails to innovate against the market's current requirements, it could negatively impact the Group's business, results of operations, financial condition and prospects.
Customer service delivery failure	The Group may fail to anticipate and understand customer needs appropriately and in a timely manner, therefore risking failure to deliver value to the customers.

Inadequate channel sales and support	The Group relies on channel partners, including resellers and referral partners, to generate a significant portion of its revenue. If the Group fails to maintain successful relationships with its channel partners, or if its channel partners fail to perform, its ability to market, sell and distribute its solution will be limited, and its business, financial position and results of operations will be harmed.
Cloud service providers downtime	The Group relies on Cloud Service Providers, such as Amazon Web Services (“AWS”), and its own data servers to host and operate an increasing number of deployments for the Darktrace product line, and any disruption of or interference with its use of these facilities may negatively affect its ability to maintain the performance and reliability of its Cyber AI Platform which could cause its business to suffer.
Failure to retain and attract employees	The Group relies on the performance of highly skilled personnel including the senior management team. The Group’s future success depends, in part, on its ability to continue to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of the organisation, particularly technical professionals.
Darktrace cyber incident	Failure of its systems and the compromise of its data, through cyber-attack, or failure to responsibly collect, process and store data, together with ensuring an appropriate standard of cybersecurity, could have a negative reputational, operational, and financial impact on the business.
Intellectual property theft, loss or exposure	The Group may be unable to adequately protect its intellectual property proprietary rights and prevent others from making unauthorised use of its platform and technologies, which could harm the Group’s financial results.
Autonomy related matters	The Autonomy related litigation represents a potential risk for Darktrace from both a reputational and a legal perspective.

Statement of Directors’ Responsibility

The Directors confirm that these unaudited interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, ‘Interim Financial Reporting’ and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- related-party transactions in the first six months and that have materially affected the financial position or the performance of the Group during that period and any changes in the related-party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

The maintenance and integrity of the Darktrace plc website is the responsibility of the Directors; the work carried out by the authors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that might have occurred to the interim financial statements since they were initially presented on the website.

The Directors of Darktrace plc are listed in the Darktrace plc annual report for 30 June 2023. From 7 December 2023, Mr Jacob is no longer on the Board. A list of current Directors is maintained on the Darktrace plc website: www.darktrace.com/en/board-of-directors.

On behalf of the Board

Catherine Graham
Chief Financial Officer
6 March 2024

Independent auditor's review report on Interim Financial Information to Darktrace plc

Conclusion

We have reviewed the condensed set of financial statements in the half-yearly financial report of Darktrace plc (the 'Group') for the six months ended 31 December 2023 which comprises the consolidated interim statement of comprehensive income, consolidated interim statement of financial position, consolidated interim statement of changes in equity, consolidated interim statement of cash flows, and related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2023 is not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) (ISRE (UK)) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK-adopted IFRSs. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with UK-adopted International Accounting Standard 34, "Interim Financial Reporting".

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE UK, however future events or conditions may cause the entity to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's business model including effects arising from current macro-economic uncertainties, 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 financial resources or ability to continue operations over the going concern period.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

Our responsibility is to express a conclusion to the group on the condensed set of financial statements in the half-yearly financial report based on our review.

Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the group, as a body, in accordance with ISRE (UK) 2410. Our review work has been undertaken so that we might state to the group those matters we are required to state to it in an independent review 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 group as a body, for our review work, for this report, or for the conclusion we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
6 March 2024

Consolidated Unaudited Interim Statement of Comprehensive Income

	Notes	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Revenue	4	330,303	259,259
Cost of sales		(35,422)	(26,630)
Gross profit		294,881	232,629
Sales and marketing costs		(176,584)	(139,583)
Research and development costs		(23,799)	(25,710)
General and administrative costs		(50,305)	(63,867)
Foreign exchange differences		(12)	(3,618)
Other operating income		1,807	726
Operating profit		45,988	577
Finance costs		(3,015)	(1,733)
Finance income		7,483	3,091
Profit before taxation		50,456	1,935
Taxation		2,062	(1,354)
Net profit attributable to shareholders of Darktrace plc		52,518	581
<i>Items that are, or may be, subsequently reclassified to profit or loss:</i>			
Other comprehensive (loss)/income		-	-
Total comprehensive profit for the period		52,518	581
Earnings per share			
Basic earnings per share	6	\$0.08	\$0.00
Diluted earnings per share	6	\$0.08	\$0.00

Consolidated Unaudited Interim Statement of Financial Position

	31-Dec-23 Unaudited	30-Jun-23 Audited	31-Dec-22 Unaudited
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	Notes	\$000	\$000	\$000
Non-current assets				
Goodwill		38,164	38,164	38,164
Intangible Assets	13	11,654	12,571	13,455
Property, plant and equipment		60,136	65,789	63,743
Right-of-use assets		40,961	44,439	53,738
Capitalised commission		41,827	42,182	35,601
Deferred tax	17	23,978	19,849	1,799
Deposits		6,317	8,234	5,728
		223,037	231,228	212,228
Current assets				
Inventory		93	100	-
Trade and other receivables	11	121,102	123,595	98,373
Capitalised commission		43,165	34,471	27,971
Tax receivable		5,743	5,485	1,757
Cash and cash equivalents	14	383,150	356,986	374,915
		553,253	520,637	503,016
Total assets		776,290	751,865	715,244
Current liabilities				
Trade and other payables		(88,781)	(109,959)	(78,449)
Deferred revenue		(292,770)	(283,678)	(229,005)
Lease liabilities		(1,621)	(4,873)	(6,063)
Provisions	12	(6,410)	(6,927)	(7,604)
		(389,582)	(405,437)	(321,121)
Non-current liabilities				
Deferred revenue		(24,529)	(28,439)	(30,429)
Lease liabilities		(58,530)	(52,735)	(58,301)
Provisions	12	(1,166)	(1,741)	(1,201)
		(84,225)	(82,915)	(89,931)
Total liabilities		(473,807)	(488,352)	(411,052)
Net Assets		302,483	263,513	304,192
Equity				
Share capital	7	9,736	9,779	10,030
Share premium	7	16,308	16,308	16,117
Share Capital redemption reserve		298	255	-
Merger reserve		305,789	305,789	305,789
Foreign currency translation reserve		(8,126)	(8,126)	(8,126)
Stock compensation reserve		60,570	50,333	43,829
Treasury shares		(121,285)	(104,946)	(40,139)
Retained earnings		39,193	(5,879)	(23,308)
Total equity attributable to equity shareholders of Darktrace plc		302,483	263,513	304,192

These financial statements were approved by the Board of Directors and authorised for issue on 6 March

2024. They were signed on its behalf by:

Catherine Graham
Chief Financial Officer
Company No. 13264637

Consolidated Unaudited Interim Statement of Changes in Equity

	Note	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-Jul-22 Audited		9,812	16,117	-	305,789	(8,126)	74,883	(11,683)	(72,104)	314,688
Profit for the period		-	-	-	-	-	-	-	581	581
Other comprehensive (loss)/income		-	-	-	-	-	-	-	-	-
Total comprehensive profit		-	-	-	-	-	-	-	581	581
Options exercised	7	218	-	-	-	-	(57,019)	5,487	48,215	(3,099)
Shares buyback		-	-	-	-	-	-	(33,943)	-	(33,943)
SBP* charge		-	-	-	-	-	25,965	-	-	25,965
Transactions with shareholders		218	-	-	-	-	(31,054)	(28,456)	48,215	(11,077)
31-Dec-22 Unaudited		10,030	16,117	-	305,789	(8,126)	43,829	(40,139)	(23,308)	304,192
Profit for the period		-	-	-	-	-	-	-	58,377	58,377
Other comprehensive (loss)/income		-	-	-	-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	-	-	58,377	58,377
Share cancellation	7	(255)	-	255	-	-	-	43,665	(43,665)	-
Shares buyback		-	-	-	-	-	-	(111,271)	(284)	(111,555)
Options exercised/awards vested	7	4	191	-	-	-	(4,572)	2,799	3,001	1,423
SBP* charge		-	-	-	-	-	11,076	-	-	11,076
Transactions with shareholders		(251)	191	255	-	-	6,504	(64,807)	(40,948)	(99,056)
30-Jun-23 Audited		9,779	16,308	255	305,789	(8,126)	50,333	(104,946)	(5,879)	263,513
Profit for the period		-	-	-	-	-	-	-	52,518	52,518
Other comprehensive (loss)/income		-	-	-	-	-	-	-	-	-
Total comprehensive profit		-	-	-	-	-	-	-	52,518	52,518
Share buyback		(43)	-	43	-	-	-	(42,113)	(2,308)	(44,421)
Share cancellation		-	-	-	-	-	-	12,066	(12,066)	-

Options exercised/awards vested	-	-	-	-	-	(11,484)	13,708	6,928	9,152
SBP* charge	-	-	-	-	-	21,721	-	-	21,721
Transactions with shareholders	(43)	-	43	-	-	10,237	(16,339)	(7,446)	(13,548)
31-Dec-23 Unaudited	9,736	16,308	298	305,789	(8,126)	60,570	(121,285)	39,193	302,483

*SBP: share-based payment.

Consolidated Unaudited Interim Statement of Cash Flows

	Note	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Cash generated from operations			
Profit for the period after tax		52,518	581
Depreciation of PPE* and Right of Use Assets	5	20,721	17,676
Amortisation of intangible assets	13	2,134	3,336
Amortisation of capitalised commission		20,616	14,502
Impairment of capitalised commission and Right of Use Assets		1,989	1,983
Loss on disposal of PPE*		432	616
Unrealised foreign exchange differences		(3,328)	197
Credit loss charge		3,588	1,401
Share-based payment charge	8	22,697	27,670
Net settled share-based payments		-	(9,696)
Finance costs		3,015	1,733
Finance income		(7,483)	(3,091)
Other operating income		(1,807)	(726)
Taxation		(2,062)	1,354
Operating cash flows before movements in working capital		113,030	57,536
Decrease/(increase) in trade and other receivables		2,422	(2,406)
Increase in capitalised commission		(30,620)	(21,798)
Decrease in trade and other payables		(22,822)	(5,019)
Decrease in provisions from payments		(1,092)	(8,487)
Increase in deferred revenue		5,182	7,583
Decrease in inventory		7	-
Net cash flow from operating activities before tax		66,107	27,409
Tax paid		(518)	(315)
Net cash inflow from operating activities		65,589	27,094
Investing activities			
Development costs capitalised		(1,020)	(691)
Purchase of property, plant and equipment		(7,003)	(13,552)
Finance income		7,483	3,091
Cash outflow from investing activities		(540)	(11,152)
Financing activities			
Proceeds from share issues and exercises		9,152	6,596
Shares buyback		(44,421)	(33,943)
Repayment of lease liabilities		(2,527)	(2,099)
Payment of interest on lease liabilities		(1,483)	(1,733)
Cash outflow from financing activities		(39,279)	(31,179)

Net changes in cash and cash equivalents	25,770	(15,237)
Cash and cash equivalents, beginning of period	356,986	390,623
Unrealised exchange difference on cash and cash equivalents	394	(471)
Cash and cash equivalents, end of period	383,150	374,915

*Property, plant and equipment.

Notes to the Consolidated Unaudited Interim Financial Statements

1 General information

These unaudited interim financial statements were approved for issue on 6 March 2024. These interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2023 were approved by the Board of Directors on 5 September 2023 and delivered to the Registrar of Companies. The independent audit report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The interim results for the six months ended 31 December 2023 and the comparatives are unaudited, yet have been reviewed by the independent auditor.

Company information

Darktrace plc (the Company) is a company incorporated in England and Wales under company number 13264637. The principal place of business is Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge, CB4 0DS. Its shares are listed on the London Stock Exchange.

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

This consolidated interim financial report for the half-year reporting period ended 31 December 2023 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2023, which has been prepared in accordance with both UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006, and any public announcements made by Darktrace plc during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New standards, amendments, IFRIC interpretations and new relevant disclosure requirements adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 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 on foreseeable future transactions.

Going concern assessment

At the end of the reporting period the Group had \$383.2 million of cash and cash equivalents. After considering the first half FY 2024 performance, the Group's principal risks and uncertainties in the current

operating environment, and the continued relevance of the scenario analyses designed, as part of the FY 2023 year-end audit, to evaluate the capacity of the Group to withstand a prolonged period of adverse financial conditions, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the interim financial statements. Accordingly, the Directors are of the view that the preparation of the consolidated interim financial statements on a going concern basis continues to be appropriate.

2 Key judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2023.

Performance of the Group

3 Operating segment

The Group has concluded that it operates only one operating segment as defined by IFRS 8 Operating Segments being the development and sale of cyber-threat defence technology. The information used by the Group's Chief Operating Decision Makers (CODMs) to make decisions about the allocation of resources and to assess performance is presented on a consolidated Group basis. Accordingly, no segment analysis is presented. Refer to note 4 for disaggregated analysis on revenue from contracts with customers. The non-current assets presented below exclude any deferred tax assets and deposits.

	31-Dec-23 Unaudited	30-Jun-23 Audited	31-Dec-22 Unaudited
	\$000	\$000	\$000
Non-current assets by geographical market			
USA	63,598	62,827	63,855
United Kingdom	69,157	76,743	79,670
Europe	34,068	36,355	34,097
Rest of World	25,920	27,220	27,079
	192,743	203,145	204,701

4 Revenue from contracts with customers

Disaggregation of revenue

Revenue recognised at a point in time is not significant to the reported results in any period. This includes revenue generated by separate contracts for training and sale of appliances. For the period this revenue amounted to \$0.4 million (1H FY 2023 \$0.2 million).

	Six-months ended 31-Dec-23 Unaudited		Six-months ended 31-Dec-22 Unaudited	
	\$000	% of revenue	\$000	% of revenue
USA	115,157	34.9%	89,354	34.5%
United Kingdom	46,193	14.0%	40,874	15.8%
Europe	86,885	26.3%	63,845	24.6%
Rest of World	82,068	24.8%	65,186	25.1%

	330,303	100.0%	259,259	100.0%
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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 the periods presented.

Contract assets and liabilities related to contracts with customers

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

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited \$000
Accrued income	4,362	3,445	4,692
Total accrued income	4,362	3,445	4,692
Current deferred revenue	292,770	283,678	229,005
Non-current deferred revenue	24,529	28,439	30,429
Total deferred revenue	317,299	312,117	259,434

Deferred revenue has continued to increase as the number of customers has grown, resulting in additional revenue combined with an ongoing shift towards annual invoicing.

Contracts are invoiced between one month and more than three years in advance, with the majority of contracts being invoiced annually in advance. Deferred revenue reflects the difference between invoicing and associated payment terms, and fulfilment of the performance obligation.

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:

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited Restated \$000
Revenue recognised that was included in the contract liability balance at the beginning of the period	211,304	161,662
% of revenue	64.0%	62.4%

The prior period revenue recognised that was included in the contract liability balance at the beginning of the period was incorrectly disclosed as the full amount of current deferred revenue balance at 30 June 2022 equal to \$222.4 million. The prior period disclosure has been updated to reflect only the deferred revenue recognised in the first six months ended 31 December 2022.

Future contracted revenue (formerly revenue expected to be recognised)

Prior period adjustment to the disclosure

As described in the annual report for the year ended 30 June 2023, 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 \$20.3 million mistakenly disclosed in the expected future revenue to be recognised as at 31 December 2022. Darktrace has corrected the error in its disclosure of the FY 2023 Annual Report and in the comparative period ended 31 December 2022 to these financial statements. This did not affect any reported numbers in the primary financial statements and the error was limited to this disclosure only.

	31-Dec-22 Unaudited Reported \$000	Restatement \$000	31-Dec-22 Unaudited Restated \$000

Due within 12 months	518,009	(17,567)	500,442
Due within 1-2 years	359,063	(1,646)	357,417
Due within 2-3 years	195,872	(737)	195,135
Due within 3-4 years	65,014	(330)	64,684
Due over 4 years	5,626	(54)	5,572
	1,143,584	(20,334)	1,123,250

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited Restated \$000
Due within 12 months	620,967	576,326	500,442
Due within 1-2 years	389,682	397,783	357,417
Due within 2-3 years	204,147	216,513	195,135
Due within 3-4 years	43,768	72,263	64,684
Due over 4 years	1,395	3,552	5,572
	1,259,959	1,266,437	1,123,250

5 Material profit and loss items

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

The profit for the period for the Group is stated after charging/(crediting):

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Hosting fees	13,834	10,581
Legal and professional fees	8,216	6,966
Software implementation costs	1,302	1,471
Accounting advice costs	1,776	1,322

Hosting fees related to customer contracts are classified within Cost of sales for an amount of \$11.5 million (1H FY 2023 \$8.2 million) and those related to POV (Proof of Value) are classified to sales and marketing costs for an amount of \$2.3 million (1H FY 2023 \$2.4 million). Professional and legal fees increased as a result of costs spent on new commission and pricing projects as well as continued spending related to corporate activities and some legal litigation cost.

Commission plans impact to the income statement:

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Commission expense	49,208	36,837
Commission amortisation and impairment	22,281	15,380
Capitalised commission	(30,588)	(21,799)

With effective date 1 July 2023, Darktrace introduced updated commission plans for all members of the GTM team. The new commission plans vary depending on the individual and commission can be calculated on several metrics, however sales commissions are now paid fully upfront once the target is met. This change in commission plans has resulted in an increase in commission that can be capitalised and therefore an increase in related amortisation.

The depreciation and amortisation charges for Right-of use assets and Property, plant and equipment, have been made in the consolidated unaudited interim statement of comprehensive income within the following functional areas:

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Property, plant and equipment		
Cost of sales	9,312	8,254
Sales and marketing	2,296	2,490
Research and development	682	659
General and administrative	1,787	1,072
	14,077	12,475
Right-of-use assets		
Sales and marketing	4,687	3,135
Research and development	993	793
General and administrative	964	1,273
	6,644	5,201

6 Earnings per share (“EPS”)

Basic earnings per share

The calculation of basic EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary and preference shares outstanding. Preference shares have been included in EPS as they rank pari-passu with ordinary shares in respect of dividend and voting rights.

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Profit attributable to ordinary shareholders	52,518	581
Weighted-average number of ordinary shares	704,359,305	715,550,399
Effect of treasury shares	(63,305,900)	(46,885,424)
Weighted-average number of shares for calculating basic earnings per share at period end	641,053,405	668,664,975
Add dilutive effect of share-based payment plans	11,004,585	24,613,273
Weighted-average number of shares for calculating diluted earnings per share at period end	652,057,990	693,278,248
Basic earnings per share	\$0.08	\$0.00
Diluted earnings per share	\$0.08	\$0.00

Debt and equity

7 Share capital and share premium

	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
At 1-Jul-22 - Audited	701,785,353	50,000	120,063	701,955,416	9,812	16,117	-
Shares issued in the period	17,920,294	-	-	17,920,294	218	-	-
At 31-Dec-22 - Unaudited	719,705,647	50,000	120,063	719,875,710	10,030	16,117	-
Share issued in the year	329,945	-	-	329,945	4	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
At 30-Jun-23 - Audited	706,755,492	-	-	706,755,492	9,779	16,308	255
Ordinary shares cancellation	(3,087,576)	-	-	(3,087,576)	(43)	-	43
At 31-Dec-23 - Unaudited	703,667,916	-	-	703,667,916	9,736	16,308	298

Shares issued

During the periods certain employees have exercised their options (see Note 8 for details on share-based payment transactions). These have been satisfied through either the issuance of new shares or following the share buyback programme from newly held Treasury shares. This is only where the Darktrace Employee Benefit Trust (see below) could not satisfy the request for legal reasons.

Treasury shares

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 was £75.0 million.

The purpose of the Programme was to reduce Darktrace's issued share capital and the majority of purchased shares have subsequently been cancelled. As at 31 December 2023 18,349,541 shares have been bought back and 16,367,676 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 £3.27 (\$4.12) per share, with prices ranging from £2.84 (\$3.61) to £3.50 (\$4.27). The total cost of \$2.3 million, including transaction costs, was deducted from equity. The shares not cancelled were held in treasury to satisfy future employee equity grants.

At 31 December 2023 the company holds 3,405,136 shares in treasury (30 June 2023: 3,621,634; 31 December 2022: 1,490,066).

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. Darktrace Employee Benefit Trust holds shares of Darktrace plc for the purpose of fulfilling the grants made under stock option plans in place prior to the IPO. Those shares are treated as treasury shares in the consolidated financial statements.

EBT Market Purchase Programme

During the period 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 November 2023 EBT Market Purchase Programme completed on 20 December 2023 with the purchase of 6,977,239 shares for a total aggregate consideration of £25.0 million. Shares purchased under the November 2023 EBT Market 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. The shares were acquired at an average price of £3.56 (\$4.32) per share, with prices ranging from £3.42 (\$4.15) to £3.73 (\$4.72).

At 31 December 2023 the EBT holds 60,979,791 shares (30 June 2023: 63,121,031; 31 December 2022: 45,694,709).

8 Share-based payments

Share-based payment (SBP) charges have been made in the consolidated unaudited interim statement of comprehensive income within the following functional areas.

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Cost of sales	1,363	-
Sales and marketing	12,943	10,404
Research and development	3,084	4,650
General and administrative	5,307	12,616
Total share-based payment expense	22,697	27,670

In 1H FY 2024 Darktrace concluded that the share-based payment expense together with the employer related tax charges should be proportionately attributed to Cost of sales for those functions where an attributed to Cost of sales is made for labour related costs. Darktrace believes this change better represents the true cost of a sale to the business, however it has not applied this change retrospectively due to the impact of this reclassification being immaterial on the prior period (\$1.8 million).

G&A SBP expense includes \$1.2 million (31 December 22: \$3.2 million) related to shares granted in connection with the acquisition of Cybersprint, treated as remuneration under IFRS 2 – Share-based payments. During the period \$0.2 million (31 December 22: \$0.4 million) of the SBP expense has been capitalised as intangible assets.

SBP are calculated in accordance with IFRS 2 – Share-based payments. The Company has used a Black-Scholes valuation model to value the options granted up to the IPO and a Monte Carlo Model for the awards granted at and after IPO. Where an option scheme has no market-based performance conditions attached to the award, a Black-Scholes model is typically appropriate.

Option schemes in place before IPO

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

	WAEP \$	Six-months ended 31-Dec-23 Options Number	WAEP \$	Six-months ended 31-Dec-22 Options Number
Outstanding at 1 July – Audited	2.23	28,641,281	1.94	38,886,044
Lapsed	0.01	(1,000)	4.95	(104,948)
Exercised	1.27	(7,043,952)	0.95	(7,916,311)
Outstanding at 31 Dec – Unaudited	2.54	21,596,329	2.16	30,864,785
Exercisable at 31 Dec – Unaudited	3.20	20,660,913	2.15	27,543,951

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

Range of exercise prices	WACL	31-Dec-23 Unaudited Options number	WACL	30-Jun-23 Audited Options number	WACL	31-Dec-22 Unaudited Options number
\$0.00 - \$0.23 (£0.00 - £0.18)	1.13	4,909,103	1.40	7,577,970	1.90	8,503,556
\$0.41 - \$0.67 (£0.32 - £0.53)	2.68	1,310,561	3.19	2,647,949	3.68	2,995,449
\$1.37- \$1.45 (£1.07 - £1.13)	3.94	1,468,985	4.45	1,703,785	4.94	1,993,785
\$2.09 - \$2.21 (£1.61 - £1.70)	4.39	1,292,210	4.89	2,059,364	5.39	2,111,031
\$2.76 - \$2.87 (£2.06 - £2.14)	5.47	6,972,214	5.98	8,818,333	6.47	9,373,958
\$5.20 (£3.73)	7.21	5,643,256	7.72	5,833,880	8.21	5,887,006
	5.29	21,596,329	5.72	28,641,281	6.22	30,864,785

Share awards outstanding

	Six-months ended 31-Dec-23 Awards number	Six-months ended 31-Dec-22 Awards number
Outstanding at 1 July - Audited	16,954,694	23,903,647
Granted	13,850,736	7,506,525
Lapsed	(729,257)	(720,110)
Exercised	(1,424,873)	(19,033,298)
Outstanding at 31 December - Unaudited	28,651,300	11,656,764
Exercisable at 31 December - Unaudited	196,402	258,534

Awards granted during the period

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

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

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

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

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

The Company's Annualised recurring revenue (ARR) growth is measured between the basis year (year ended 30 June rolling) 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.

The following assumptions were used in the valuation of the awards issued in the current period:

	Six-months ended 31-Dec-23 Unaudited		Six-months ended 31-Dec-22 Unaudited	
	Time based awards	Performance awards	Time based awards	Performance awards
Grant dates	19/07/23 - 09/11/23	19/07/23 - 09/11/23	21/09/22 - 21/12/22	21/09/22 - 21/12/22
Share price at grant date	£3.53 (\$4.28) - £3.94 (\$5.00)	£3.53 (\$4.28) - £3.94 (\$5.00)	£2.71 (\$3.28) - £3.69 (\$4.25)	£2.71 (\$3.28) - £3.69 (\$4.25)
Exercise price	-	-	-	-
Fair value per option	£3.53 (\$4.28) - £3.94 (\$5.00)	£2.30 (\$2.79) - £3.94 (\$5.00)	£2.71 (\$3.28) - £3.69 (\$4.25)	£2.71 (\$3.28) - £3.69 (\$4.25)
Expected life in years	N/A	2.73 - 3.03	N/A	1.78 - 3.00
Expected volatility	N/A	55%	N/A	50%
Risk free interest rate	N/A	4.30% - 4.56%	N/A	3.07% - 3.94%
Cancellation rate	N/A	10%	N/A	10%

Dividend yield	N/A	0%	N/A	0%
Correlation	N/A	20%	N/A	25%
Number of awards	9,867,980	3,982,756	4,063,215	3,443,310

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

9 Capital management policies and procedures

The Group's objectives when managing capital are to:

- safeguard the ability to continue as a going concern, to provide adequate returns for shareholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group monitors capital based on the carrying amount of the equity less cash and cash equivalents as presented on the face of the statement of financial position.

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited \$000
Capital			
Total equity	302,483	263,513	304,192
Less cash and cash equivalents	(383,150)	(356,986)	(374,915)
Total	(80,667)	(93,473)	(70,723)
Overall financing			
Total equity	302,483	263,513	304,192
Plus leasing liabilities, borrowings and other financing liabilities	(60,151)	(57,608)	(64,364)
Total	242,332	205,905	239,828

Working capital

10 Capitalised commission

Commission costs are all recognised as S&M 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.

Prior to 1 July 2023, depending on their role, sales staff were eligible to receive either the first 50% or 100% of commission at the point of contract signing, which was 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, were therefore capitalised and amortised over the customer contract term, with the amortisation being recognised as S&M costs. For the majority of sales staff, 50% of commission was eligible for payment at the point of contract signing, with the remaining 50% of commission eligible for payment on either the earlier of the full contract value being paid, or, most frequently, after one year, as these commissions had additional service and performance requirements. Therefore, this portion of the commission was not eligible to be capitalised under IFRS 15. Instead, the commission and associated social security costs accrue 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

Opening provision	6,156	2,512	8,668	15,192	2,100	17,292	15,192	2,100	17,292
Accrual for the period	1,980	-	1,980	4,315	(316)	3,999	3,145	1,859	5,004
Reclassification from lease liability	-	-	-	-	1,528	1,528	-	-	-
Utilisation	(2,117)	(955)	(3,072)	(13,351)	(800)	(14,151)	(12,831)	(660)	(13,491)
Closing provision	6,019	1,557	7,576	6,156	2,512	8,668	5,506	3,299	8,805
Current	5,425	985	6,410	5,943	984	6,927	4,305	3,299	7,604
Non-current	594	572	1,166	213	1,528	1,741	1,201	-	1,201
Total provision	6,019	1,557	7,576	6,156	2,512	8,668	5,506	3,299	8,505

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

Other provision includes:

- \$1.0 million (30 June 2023: \$1.0 million, 31 December 2022: \$2.3 million) estimated of corporate tax charge and expected interests and penalties related to permanent establishments in countries where Darktrace plc does not currently have a subsidiary and is the result of the assessment of the potential historical impact arising as a consequence of Darktrace's continuous international expansion into new jurisdictions.
- \$0.6m provision for dilapidations.

Long term assets

13 Intangible assets

Software consists of capitalised development costs, being internally generated intangible assets of \$2.3 million (30 June 2023: \$2.2 million; 31 December 22: \$3.6 million), and acquired software from acquisition of \$5.9 million (30 June 23: \$6.6 million; 31 December 22: \$7.5 million) with a remaining useful life of 3.2 years. The Group has not identified any impairments to the intangibles.

	Customer relationships	Software	Software under development	Total
	\$000	\$000	\$000	\$000
Cost				
1-Jul-22 Audited	869	25,535	1,517	27,921
Additions	-	-	1,142	1,142
Reclassification	-	1,034	(1,034)	-
31-Dec-22 Unaudited	869	26,569	1,625	29,063
Amortisation				
1-Jul-22 Audited	(26)	(12,246)	-	(12,272)
Charge for the period	(36)	(3,300)	-	(3,336)
31-Dec-22 Unaudited	(62)	(15,546)	-	(15,608)
NBV* at 31-Dec-22 Unaudited	807	11,023	1,625	13,455
Cost				
1-Jan-23 Unaudited	869	26,569	1,625	29,063
Additions	-	-	1,377	1,377
Reclassification	-	48	(48)	-
30-Jun-23 Audited	869	26,617	2,954	30,440
Amortisation				
1-Jan-23 Unaudited	(62)	(15,546)	-	(15,608)

Charge for the period	(36)	(2,225)	-	(2,261)
30-Jun-23 Audited	(98)	(17,771)	-	(17,869)
NBV* at 30-Jun-23 Audited	771	8,846	2,954	12,571
Cost				
1-Jul-23 Audited	869	26,617	2,954	30,440
Additions	-	-	1,217	1,217
Reclassification	-	1,472	(1,472)	-
31-Dec-23 Unaudited	869	28,089	2,699	31,657
Amortisation				
1-Jul-23 Audited	(98)	(17,771)	-	(17,869)
Charge for the period	(36)	(2,098)	-	(2,134)
31-Dec-23 Unaudited	(134)	(19,869)	-	(20,003)
NBV* at 31-Dec-23 Unaudited	735	8,220	2,699	11,654

*Net book value

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

Financial risk management

14 Cash and cash equivalents

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited \$000
Cash at bank and in hand	99,724	132,396	204,230
Deposits at call	283,426	224,590	170,685
Cash and cash equivalents	383,150	356,986	374,915

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.

15 Risk management objectives and policies

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

Market risk

Foreign exchange risk

The table below details the Group's exposure to foreign currency risk, in currencies different from the Group's functional currency, for periods in which the functional currency was USD:

	AUD \$000	CAD \$000	EUR \$000	GBP \$000	JPY \$000	Other currencies \$000	Total \$000
Trade receivable	1,967	4,849	24,157	15,525	313	1,431	48,242
Deposits	152	161	301	5,166	59	245	6,084
Cash and cash equivalents	3,957	3,469	11,868	24,561	1,166	8,326	53,347

Trade payables	(60)	(42)	(341)	(3,394)	(13)	(186)	(4,036)
31-Dec-23 - Unaudited	6,016	8,437	35,985	41,858	1,525	9,816	103,637
Trade receivable	1,840	2,756	18,211	11,614	17	962	35,400
Deposits	257	134	245	6,377	63	622	7,698
Cash and cash equivalents	1,226	1,584	6,483	40,471	164	1,698	51,626
Trade payables	(204)	(87)	(579)	(2,313)	(119)	(241)	(3,543)
31-Dec-22 - Unaudited	3,119	4,387	24,360	56,149	125	3,041	91,181

Aggregate net foreign exchange losses recognised in the periods:

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
Net foreign exchange loss	(12)	(3,618)

As shown in the table above, the Group is primarily exposed to changes in USD/GBP and USD/EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD or GBP denominated financial assets and liabilities.

	Six-months ended 31-Dec-23 Unaudited \$000	Six-months ended 31-Dec-22 Unaudited \$000
USD/EUR exchange +/- 10%	(3,271) / 3,998	(2,215) / 2,707
USD/GBP exchange +/- 10%	(3,805) / 4,651	(5,110) / 6,246

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 debt investments carried at amortised cost deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Credit risk is managed on a Group basis. Partners, through which Darktrace sells to end users, are independently rated through credit agencies, if there is no independent rating an internal review is carried out. The Credit manager assesses the credit quality of the partner, taking into account its financial position, as well as experience for customers and partners in the same region. There are no significant concentrations of credit risk, whether through exposure to individual customers or partners, specific industry sectors or regions.

The Group's main financial assets that are subject to the expected credit loss model are trade receivables from the sale of software products and, to a lesser extent, related services. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Board approved the Treasury policy that governs the credit limits for deposits with banks and financial institutions. Credit ratings and limits are reviewed on monthly basis by Group Treasury.

Trade receivables are fully provided where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than six 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
Trade payables	7,910	-	-	-	7,910
Accruals	11,426	-	-	-	11,426
Lease liabilities	14,431	13,176	29,399	14,957	71,963
31-Dec-23 Unaudited	33,767	13,176	29,399	14,957	91,299
Trade payables	14,965	-	-	-	14,965
Accruals	21,203	-	-	-	21,203
Lease liabilities	7,951	13,852	33,019	15,004	69,826
30-Jun-23 Audited	44,119	13,852	33,019	15,004	105,994
Trade payables	9,670	-	-	-	9,670
Accruals	15,089	-	-	-	15,089
Lease liabilities	9,354	13,422	35,127	18,687	76,590
31-Dec-22 Unaudited	34,113	13,422	35,127	18,687	101,349

16 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:

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited \$000
Financial assets at amortised cost			
Deposits	7,772	10,195	5,728
Trade and other receivables	99,919	97,189	73,979
Cash and cash equivalents	383,150	356,986	374,915
Total financial assets at amortised cost	490,841	464,370	454,622
Financial liabilities at amortised cost			
Trade payables	(7,910)	(14,953)	(9,670)
Accruals	(11,426)	(21,203)	(15,089)
Lease liabilities	(60,151)	(57,608)	(64,364)
Total financial liabilities at amortised cost	(79,487)	(93,764)	(89,123)

The Group entered a new unsecured multicurrency revolving credit facility agreement ("RCF") of \$80.0 million on 12 December 2023. The RCF has an uncommitted accordion feature allowing it to be increased in size by a further \$50.0 million. The new RCF is for an initial three-year term, with an option to extend the term by two further one-year periods, subject to lender consent.

The new RCF is supported by Citibank (N.A. London Branch), HSBC UK Bank PLC and Barclays Bank Plc and replaces Darktrace's previous \$25.0 million secured multicurrency revolving credit facility. No drawdowns have been made as of 31 December 2023.

Under the terms of the new RCF the Group must report the following financial covenants.

- Interest Cover (ratio of Adjusted Consolidated EBITDA to Consolidated Net Finance Charges) in respect of any Relevant Period shall not be less than 4.00:1.
- Debt Cover (ratio of Consolidated Total Net Debt to Adjusted Consolidated EBITDA) in respect of any Relevant Period shall not exceed 3.00:1.

The Group met both financial covenants as at 31 December 2023.

Other notes

17 Tax expense and deferred tax assets

Tax charged within the six-months ended 31 December 2023 has been calculated by applying the effective rates of tax which are expected to apply to the Group for the year ending 30 June 2024 using rates substantively enacted by 31 December 2023 as required by IAS 34 'Interim Financial Reporting'. Where appropriate, the Group has estimated and applied separate annual effective income tax rates for each jurisdiction and category of income. This results in a consolidated tax credit of \$2.1 million representing an expected ETR of 25.5% once adjusted for loss utilisation and ad hoc items.

At 31 December 2023, the Group has significant tax losses in the UK available for offset against future taxable profits. The latest Management forecasts have shown an uplift from those used to determine deferred tax recognition as at the 30 June 2023 year-end and as such there has been a net increase to the total deferred tax asset recognised at 31 December 2023 of \$4.1 million to \$24.0 million.

	31-Dec-23 Unaudited \$000	30-Jun-23 Audited \$000	31-Dec-22 Unaudited \$000
Opening	19,849	1,799	1,041
<i>(Charged)/credited through the income statement:</i>			
<i>Deferred tax asset movement</i>			
Movement of deferred tax asset previously recognised	(7,588)	2,317	523
Recognition of previously unrecognised deferred tax asset	12,734	16,437	-
<i>Deferred tax liability movement</i>			
Movement in deferred tax liability previously recognised	(1,017)	2,270	235
Recognition of previously unrecognised deferred tax liability	-	(2,974)	-
Closing	23,978	19,849	1,799

The Group has not recognised a deferred tax asset related to losses and share-based payments for approximately \$79.9 million (30 June 2023: \$78.3 million) as there remains sufficient uncertainty beyond the 2-year forecast period as to whether the losses will be utilised in the foreseeable future.

The tax rate applied for the recognised and unrecognised deferred tax assets, considers 25.0% for UK, 25.8% for Netherlands and 27.4% for US as these are the tax rates expected to be applicable by the time the loss or temporary difference will be unwound.

18 Related Parties

Other than as described elsewhere in these financial statements, there are no material related party transactions requiring disclosure under IAS 24 'Related Party Disclosures' except for compensation of key management personnel, which will be disclosed in the Groups' Annual Report for the year ended 30 June 2024.

19 Capital commitments

The Group had no capital commitments at 31 December 2023, 30 June 2023 or 31 December 2022.

20 Subsidiaries

Darktrace New Zealand Limited was incorporated on 16 November 2023 and has its registered office at Turner Hopkins, Floor 1, 1 The Strand, Takapuna, Auckland, 0622, New Zealand. The subsidiary is 100% owned through Darktrace Holdings Limited.

21 Post balance sheet events

Darktrace has appointed Jill Popelka and Paula Hansen as independent Non-Executive Directors with effect from 1 January 2024.