15th September 2021

Darktrace plc
Results for the Financial Year Ended 30th June 2021

Robust financial and operational performance with strong growth during the period

41.3% year-on-year revenue growth
45.3% year-on-year growth in customer base
Increasing expectations for FY 2022

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 financial year ended 30th June 2021.

Financial Performance

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

See "Definitions" below for the meanings and calculations of non-IFRS measures and other key performance indicators

- Robust year-on-year revenue growth across all geographic markets and contract sizes.
- Strong increase in adjusted EBITDA and move to positive cash flow before financing activities driven by both scale effects and a significant reduction in travel and entertainment costs from COVID-related global travel restrictions.
- Year-over year increase in EBIT (loss) and reduction in EBITDA due to:
  - increased share-based payment charges and associated employer tax charges related to the IPO and transition to listed company equity compensation plan structures; for FY 2021, charges totalled $38.6 million compared to $10.3 million in FY 2020,
  - non-recurring IPO-related costs totalling $15.3 million,
  - partially offset by reductions in travel and entertainment costs due to COVID-related global travel restrictions, which were $19.2 million lower in FY 2021 than in FY 2020.
- Year-on-year increase in net (loss) driven by $107.2 million in non-cash finance costs related to convertible loan notes (convertible interest expense and accretion of embedded derivative value) issued to certain shareholders in July 2020. These notes and associated finance costs were eliminated upon conversion to equity with the IPO.

Operating Performance

Operating highlights	FY 2021	FY 2020	%
Constant currency ARR at 30 June ($'000)	343,476	235,676	45.7%
Net constant currency ARR Added ($'000)	107,800	66,483	62.1%
One year constant currency ARR gross churn at 30 June	7.7%	6.9%	n/a
Net constant currency ARR retention rate at 30 June (%)	103.1%	98.4%	n/a
Number of customers at 30 June	5605	3858	45.3%

Remaining US$ performance obligations (RPO) at 30 June ($'000)	758,216	539,929	40.4%

See "Definitions" below for the meanings and calculations of non-IFRS measures and other key performance indicators

- Strong constant currency ARR growth driven by new customer additions at stable average contract ARR values.
- Growth in net constant currency ARR added was higher than typical largely because of comparisons to a low prior year base. In FY 2020, net constant currency ARR added and the resulting year-on-year growth rate were low due to overweighting early renewal and contract extension activity; this has since been rebalanced.
- While still higher than at 30 June 2020, one-year constant currency gross ARR churn was down from a mid-year high of over 8%, driven by the lapping of early COVID periods (during which churn activity was higher) and the impact of a consistent customer success effort.
- As one-year churn has reduced from its mid-year high, the benefit of focused upsell activity has shown itself in an increasing net ARR retention rate.
- 45.3% increase in number of customers, year-on-year
- New product innovation, with the launch of Version 5 of Darktrace Immune System
- R&D headcount increased year-on-year by 47.9% to 241, including a core development team that increased by 97.2% to 140.

FY 2022 Outlook (unaudited)

To enable a consistent basis for evaluating its performance, Darktrace reports ARR in constant currency, at rates established at the start of each year(1). Applying FY 2022 rates to the Group's ARR balance for 30 June 2021, as well as to all prior comparison periods, results in a rebased ARR balance of $357.3 million, the new amount against which it will measure constant currency ARR growth for FY 2022.

Darktrace is increasing its expectations for FY 2022 from those presented with its FY 2021 trading update. The Group has now confirmed strong sales trends exiting the second half of FY 2021, including a particularly strong June performance, and has seen early FY 2022 sales performance towards the upper end of its expectations. It is balancing this momentum with potential temporary sales productivity impacts that may occur as it evolves ways to expand and optimise its salesforce structure. These efforts will begin in the second quarter of FY 2022 and are intended to support anticipated growth and continued scaling of its business.

Darktrace now expects year-on-year revenue growth of between 35% and 37% (previously 29% to 32%), driven by a year-over year increase in constant currency ARR of between 34% and 36% (previously 32% to 34%). This constant currency ARR growth implies a year-on-year increase in net constant currency ARR added of between 12% and 14% for FY 2022, which should be distributed according to the Group's normal quarterly seasonality patterns, including typically softer first-quarter sales relative to later periods.

Darktrace also now expects that approximately 45% to 46% of both its revenue and net constant currency ARR added will be recognised in the first half of FY 2022.

For FY 2022, Darktrace does not expect any material changes to its cost structure or trends, except as they may be impacted by the return of travel and entertainment expense, and by higher than typical share-based payment and associated employer tax charges resulting from making the transition to listed company equity compensation plan structures, which it expects to continue through FY 2022. The Group now expects an adjusted EBITDA margin for the year of between 2% and 5% (previously 1% to 4%).

(1) The Group's primary currency exposures are the British Pound and the Euro converting to its US Dollar reporting currency. For FY 2022, it is using constant currency rates of 1.3835 and 1.1878 for the Pound and the Euro, respectively. For FY 2021, constant currency rates were 1.2368 and 1.1235 for the Pound and the Euro, respectively.

Poppy Gustafsson, CEO of Darktrace said:

"At our first full-year earnings, we are very pleased to report robust financial and operational performance, and strong growth, during the period. In this new era of cyber-threat, Darktrace is helping organizations from every industry sector, including providers of critical national infrastructure, to protect their digital assets, and avoid the serious disruption that cyber-attacks can cause.

As the adoption of Self-Learning AI accelerates globally, we are also excited to be continually pushing the boundaries of innovation, extending the reach of our AI technology to new applications and use cases. From our world-class R&D centre in Cambridge, we are committed to delivering on a uniquely ambitious vision for the future of enterprise security."

Analyst and Investor Webcast

Management will hold an analyst and investor webcast to review its FY 2021 results on Wednesday 15 September at 1pm UK time / 8am ET
https://www.lsegissuerservices.com/spark/DARKTRACE/events/7f8eefd2-f3de-47f0-bcec-931e9d466ff5

Prior to this webcast, management's results presentation will be available to view from 7:30am UK time / 2:30am ET at either https://www.lsegissuerservices.com/spark/DARKTRACE/events/7f88409f-1e56-4e9e-8e48-a9fca7b2db08

or https://ir.darktrace.com/financial-results

Annual Report & Accounts

Darktrace's Annual Report & Accounts for the financial year ended 30 June, 2021 will be published in the investor section of it's website (https://ir.darktrace.com/financial-results) shortly following this announcement.

About Darktrace

Darktrace (DARK:L), a global leader in cyber security AI, delivers world-class technology that protects over 5,600 customers worldwide from advanced threats, including ransomware and cloud and SaaS attacks. Darktrace's fundamentally different approach applies Self-Learning AI to enable machines to understand the business in order to autonomously defend it. Headquartered in Cambridge, UK, the Group has 1,600 employees and over 30 offices worldwide. Darktrace was named one of TIME magazine's 'Most Influential Companies' for 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.

Definitions

- Earnings before interest and taxes, or EBIT, is the Group's operating profit or (loss).
- Adjusted EBIT is the Group's EBIT adjusted to remove share-based payment charges and share option-related employer tax charges.
- EBITDA is the Group's earnings before interest, taxation, depreciation and amortisation.
- Adjusted EBITDA is the Group's EBITDA, but including appliance depreciation attributed to cost of sales, adjusted to remove share-based payment charges and employee share plan-related employer tax charges.
- Constant currency annualised recurring revenue, or ARR, is defined as the sum of all ARR, at the period's constant currency rate, for customers as of the measurement date. The ARR for each customer is the annual committed subscription value of each order booked for which it will be entitled to recognise revenue. In the small number of cases where a customer has an opt-out within six months of entering a contract, Darktrace does not recognise ARR on that contract until after that opt-out period has passed.
- Net constant currency ARR added is defined as new customer constant currency ARR added, plus the net impact of upsell, down-sell, and churn activity in the existing customer base, in the same constant currency, for a period.
- One-year constant currency ARR gross 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. This churn rate reflects only customer losses and does not reflect customer expansions or contractions.
- Net constant currency ARR retention rate is the current 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 customer losses, expansions, and contractions.
- Constant currency rates are rates established at the start of each year and used for reporting ARR and related measures without the impact of foreign exchange movements. For FY 2021, constant currency rates were 1.2368 and 1.1235 for the British Pound and the Euro, respectively.
- Number of customers is defined as the count of contracting entities that are generating ARR at the measurement date.
- Remaining performance obligations, or RPO, represents committed revenue backlog. RPO 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.

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Strategic Overview

Looking back at Darktrace's achievements in FY 2021, it delivered a robust first set of results, successfully completed its IPO and, most importantly, continued to help protect Darktrace's customers during what was a challenging year for many organisations.

Financial Results

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

Darktrace IPO

In May 2021, Darktrace made its debut on the London Stock Exchange, highlighting the business to prospective customers and boosting its ability to continue to recruit the best talent. Darktrace raised gross proceeds of £171.0 million ($237.4 million), part of which will be invested in expanding the workforce in its R&D centre in Cambridge, allowing Darktrace to continue to evolve its product offerings and explore applications for the Darktrace AI technology in adjacent fields. Additional proceeds will be used to accelerate adoption of Darktrace technology in new and existing markets.

Technology Innovation and Vision

Darktrace's successful IPO is testament not only to the underlying strength of its business but also to its pioneering self-learning AI technology. At its core, Darktrace is a business driven by technology innovation. The Group was founded with the premise that a sophisticated attacker will always find a way to infiltrate an organisation. Challenging the security status quo - that breaches could be stopped at the perimeter - Darktrace approached the problem differently by developing technology that would analyse the digital activity inside a business and build up a picture of that organisation. As the first company to apply artificial intelligence to the challenge of cyber security, Darktrace has fundamentally transformed cyber defence with its pioneering Self-Learning AI Autonomous Response technology.

Darktrace continues to have an ambitious vision for its technology which, in time, it wants to be able to deliver as new products to all our customers. Darktrace wants customers to have an optimal self-learning security ecosystem which evolves with organisations - a Self-Learning AI 'loop' that can operate at machine speed, and autonomously optimise a digital environment to best mitigate cyber risk. This has been the focus of Darktrace's research for the next phases of its product development.

Taking this even further, Darktrace believes that in the future its technology has the potential to be applied beyond cyber security. It believes there will be growth opportunities in the broader Enterprise AI market, and Darktrace wants to develop its Self-Learning approach to autonomously keep organisations in compliance with ever-changing regulations like data privacy, as well as enhancing the productivity of employees, processes, and systems.

Rapidly Evolving Cyber Threat Landscape

Darktrace has continued to help its customers respond to a spate of advanced ransomware attacks that have caused severe disruption not only to businesses, but to critical national infrastructure. As the cyber threat landscape continues to evolve, Darktrace's mission to ensure organisations are protected from sophisticated attacks has never been more important.

Darktrace's focus in FY 2021 has been on supporting its customers through what has been a period of accelerated change for many organisations, helping them build resilient systems and minimise cyber disruption as they adapted to home-working practices, tackled new security challenges and as cyberattackers sought to take advantage of a widening attack surface. Darktrace reported in May 2021 that ransomware is now the top use case of its Autonomous Response technology, which reacts to ransomware in one second, on average, stopping it spread through an organisation. The technology's rapid AI-driven response gives the security team precious time to catch up, while the response action is highly targeted, meaning that normal business operations can continue unhindered.

Expanding Our Customer Base

In FY 2021, Darktrace's worldwide customer base grew by 45.3% year-on-year, with organisations across all industry sectors, and of all sizes, represented. Darktrace is proud to be working with some of the world's largest financial organisations, energy and utilities companies and media corporations, as well as protecting the businesses that keep society running, from healthcare providers and charitable institutions through to educational institutions.

Outlook

Following a successful IPO, and with a strong financial profile and a fast-growing customer base, Darktrace is well-placed to take advantage of a rapidly expanding market. Darktrace remains focused on accelerating the deployment of its technology worldwide and investing in long-term growth for the benefit of all its stakeholders. In this new era of cyber threats, Darktrace's customers have never needed its technology more, and it will continue to focus on meeting their needs and helping them to adapt as the threat landscape evolves.

People

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

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

Darktrace recognises the need to continually develop its culture as it grows as a business, and to engage in a company-wide conversation about how it can have the most impact both internally and externally. Some of these initiatives are in:

- Skills, training and career development
- Mentoring
- Developing the cyber skills ecosystem
- Improving employee engagement; and
- Creating a diverse and inclusive environment.

Sustainability

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

In addition to the work Darktrace does with its customers and suppliers, it also focuses on making a wider contribution to society in several key areas. These include contributing to the development of the cyber skills system, promoting women in technology and developing a charitable giving program. See the companies annual report for more information about its statements regarding modern slavery, human rights, privacy, the environment and climate change.

FY 2021 Strategic Performance Review

Key Performance Indicators (KPIs)

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

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

Annualised recurring revenue (ARR)

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

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

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

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

As of 30 June 2021, the distribution of customer contracts at 30 June 2021 that were above and below $100,000 in ARR remained consistent with the prior year end, demonstrating that the Group continues to add to customers across the full range of customer sizes and requirements. The distribution of ARR by the size of contract ARR also remained consistent with the prior year end.

Net ARR Added

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

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

Net ARR added increased by 62.1%, a $41.3 million increase over the prior year and was primarily driven by the addition of 1,747 new customers during that period. While FY 2021 growth in net ARR added was very strong, the growth rate was higher than typical because of the low growth rate, and therefore low net ARR added result, in FY 2020. In FY 2020, we saw that sales efforts had had become overweighted towards renewing and extending customer contracts well before expiration. Changes to our sales management structure and to the requirements for achieving maximum commissions corrected this and restored the desired balance in our new prospect vs existing customer efforts, driving a return to year-on-year growth in net ARR added for FY 2021.

One-Year Gross ARR Churn Rate

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

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

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

Net ARR Retention Rate

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

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

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

Average Contract ARR

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

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

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

Operating profit or (loss) (EBIT)

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

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

For FY 2021, the $13.6 million year-on-year increase in operating loss was primarily a due to year-over year increases of $6.7 million and $21.6 million in share-based payment charges and associated employer tax charges, respectively.

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

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

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

Adjusted EBIT

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

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

EBITDA

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

EBITDA is a non-IFRS financial measure defined as the Group's earnings before interest, taxation, depreciation and amortisation. Depreciation and amortisation charges of $41.3 million are the only difference between EBITDA and EBIT.

Adjusted EBITDA

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

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

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

Number of customers

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

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

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

Remaining Performance Obligations (RPO)

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

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

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

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

Financial Review

$'000	FY 2021	FY 2020	%
Revenue	281,341	199,076	41.3%
Gross profit	252,885	181,599	39.3%
Operating loss	(38,514)	(24,903)	54.7%
Net loss	(149,588)	(28,672)	421.7%
Cash and cash equivalents	342,358	53,944	534.7%
Total assets	555,415	232,940	138.4%
Deferred revenue	(187,864)	(122,548)	53.3%
Net assets	258,258	23,856	982.6%
Cash Inflow/(Outflow) before financing activities	34,610	(3,415)	n/a

At 41.3%, Darktrace delivered strong FY 2021 year-on-year revenue growth, which, because it largely signs subscription contracts that typically average 36 months, was less impacted by the pandemic than businesses without this recurring revenue model. Revenue growth was driven primarily by growing the customer base by 45.3% year-on-year, which resulted in a 45.7% year-on-year increase in constant currency ARR. The Group continued to invest for future ARR and revenue growth by continuing to hire employees in its technical teams to drive research and development leading to new products. It also continues to invest in marketing and expanding its sales force and to increase market penetration. During 2021, Darktrace's total number of employees increased by 45.4% from over 1,100 to over 1,600, despite still being in the process of catching up from an early COVID hiring freeze.

$000	30-Jun-21	30-Jun-20	%
Sales and marketing costs			
Non T&E operating	(172,533)	(138,921)	24.2%
Travel and Entertainment	(1,518)	(19,429)	-92.2%
Share-based payment (SBP) charges	(6,446)	(4,762)	35.4%
SBP related employer tax charges	(8,439)	60	n/a
Total sales and marketing costs	**(188,936)**	**(163,052)**	**15.9%**
Research and development costs			
Non T&E operating	(18,604)	(8,840)	110.5%
Travel and Entertainment	(55)	(669)	-91.8%
Share-based payment (SBP) charges	(2,730)	(2,522)	8.2%
SBP related employer tax charges	(7,425)	1	n/a
Total research and development costs	**(28,814)**	**(12,030)**	**139.5%**
Other administrative expenses			
Non T&E operating	(42,678)	(22,939)	86.1%
Travel and Entertainment	(229)	(882)	-74.0%
Share-based payment (SBP) charges	(7,870)	(3,072)	156.2%
SBP related employer tax charges	(5,663)	6	n/a
Total other administrative expenses	**(56,440)**	**(26,887)**	**109.9%**
IPO Costs	(15,250)	-	n/a
Finance costs	(109,157)	(2,405)	4,438.8%

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

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

Revenue

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

Cost of sales

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

Sales and marketing costs

Sales and marketing costs increased by $25.9 million, or 16%, to $188.9 million for FY 2021, as compared to $163.1 million for FY 2020. The increase in non T&E operating expenses of $33.6 million was primarily attributable to a $20.7 million increase in staffing costs. There was a $7.1 million or 14.4% increase in salaries as a result of the 15.8% growth in the average number of employees in sales and marketing in FY 2021. Growth in average number of employees was largely increases in sales personnel to drive customer acquisition. There was a $12.6 million increase in commissions in the year, as a result of increased sales in the year and $1.0 million increase in other employment costs, primarily employer taxes linked to increased salary costs. Direct marketing expense increased by $8.0 million between the periods to $36.3 million. There was a $4.8 million increase in operating costs including rent and other operating costs that have increased as the average number of employees has increased.

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

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

Research and development costs

Research and development costs increased by $16.8 million, or 140%, to $28.8 million for FY 2021, as compared to $12.0 million for FY 2020. The increase in non T&E operating expenses of $9.8 million was in part attributable to a $5.9 million or 90.3% increase in research and development staffing costs, as a result of increases in cash compensation, including retention bonuses to retain key talent. There was also a 39.7% increase in the average number of employees, as the Group expanded its technical departments focused on research and new product development efforts to expand its product offerings. There were also a $1.7 million increase in other employment costs, and a $2.1 million increase in operating costs, including rents, that have increased with average number of employees.

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

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

Other administrative expenses

Other administrative expenses increased by $29.6 million, or 110%, to $56.4 million for FY 2021, as compared to $26.9 million for FY 2020. There was a $19.7million increase in non T&E operating expenses, mostly as a result of a 95.6% increase in average number of employees. $8.7 million, or 92.5% of the increase was in cash compensation costs driven by a 53.7% increase in average number of employees in finance, legal and other supporting functions to ensure Darktrace could operate successfully as a listed company, as well as a 116.8% increase in bonus payments for employee retention, rewarding efforts around IPO preparation and transitioning to listed company compensation structures. Further, the Group created its customer success function in the second half of FY 2020 so significantly scaled that team in FY 2021. There was an increase of $4.8 million, or 367.7%, in cash compensation costs for this team driven by a 364.7% increase in average number of customer success employees to 79. This includes $1.9 million in cash tax payment related to equity granted to independent non-executive board members and a $3.4 million increase in other employment costs, primarily employer taxes linked to increased salary and bonus payments. Additionally, there was a $2.8 million increase in all other operating costs, including rents, driven by the increase in average number of employees.

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

In FY 2021 there was a $4.8 million increase in share-based payment charges in the year, or 156%, to $7.9 million. Included in the SBP charge was $2.2 million related to the granting of equity to the independent non-executive board members of Darktrace plc. There was also a $5.7 million increase in SBP related employer tax charges resulting from the decision to IPO which triggered this liability to be recognised for participants in most countries.

IPO costs

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

Finance costs

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

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

Operating or EBIT (Loss), EBITDA and Adjusted EBITDA

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

Darktrace incurred a net loss of $149.6 million, 421.7% greater than prior year, with $109.2 million of the loss a result of finance costs, predominantly non-recurring, as a result of the convertible loan notes. Adjusting for taxation and finance income and costs to get back to operating loss, the business saw a 54.7% increase in operating loss compared to prior year as detailed above, which resulted in an operating loss of $38.5 million.

There was an $8.4 million increase in depreciation and amortisation in the year. Depreciation of property plant and equipment increased by $2.8 million, as a result of increased depreciation of appliances which have scaled with the increased customer base. Amortisation of capitalised development costs increased by $1.3 million as more of the internally generated software products were completed and then are amortised over three years. Amortisation of right of use assets increased by $0.6 million as more leases were entered into. Amortisation of capitalised commissions increased by $3.7 million as a result of increased commissions being capitalised that have scaled in line with increased revenues. Adjusting for depreciation and amortisation resulted in EBITDA for FY 2021 of $2.8 million compared to $8.0 million in FY 2020, a reduction of $5.2 million.

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

Cash and cash equivalents

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

Intangible assets

The Group capitalises allowable costs related to the development of new products and related significant functional enhancements to its Cyber AI platform. In the year the Group capitalised $3.8 million of development costs, including $0.9 million of capitalised interest, an increase of $0.9 million from FY 2020. In the second half of FY 2021 more of the development teams work was in a research phase and therefore a higher percentage of research and development costs were expensed. Capitalised development costs are amortised on a straight-line basis over a three-year period, resulting in an amortisation charge in the year of $2.7 million increased by $1.3 million from FY 2020. At 30 June 2021 the Group had $7.1 million of intangible assets, increased by $1.1 million, from $6.0 million at 30 June 2020.

Capitalised commission

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

Deferred revenue

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

Equity

As a result of transactions with shareholders, the Group had an increase in equity of $384 million during FY 2021 driven by:

- $9.7 million increase in share capital as a result of the IPO
- $54.4 million increase in share premium as a result of issuing of new capital in the year
- $305.8 million in merger reserve: As Darktrace plc issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued. Instead, a merger reserve is recorded equal to the value of share premium which would have been recorded if the provisions of section 612 of the Companies Act 2006 had not be applicable. The value of the merger relief for the Darktrace plc is $ 55.2 million. As management has used the retrospective presentation method, the equity structure (that is, the issued shares capital) would reflect that of the new entity (Darktrace plc), with other amounts in equity (such as revaluation, retained earnings and cumulative translation reserve) being those from the consolidated financial statements of the previous Group holding entity (Darktrace Holding Limited). The resulting difference has been recognised as a component of the equity as a merger reserve ($250.6 million).
- $14.9 million increase in stock compensation reserve related to grants made under employee equity schemes.

Cash flow from operating and financing activities

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

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

Going Concern

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

The results of these assessments have enabled the Directors to assert a reasonable expectation that the Group has adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors are of the view that the preparation of the consolidated financial statements on a going concern basis continues to be appropriate and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Viability

In accordance with the UK Corporate Governance Code, the Directors are required to assess the prospects of the Group over an appropriate period and state whether there can be a reasonable assumption that the Group will be able to continue to operate and meet its liabilities as they fall due throughout this period. In doing so, the Directors have considered the Group's principal risks and uncertainties in the current operating environment and assessed these risks via a series of scenario analyses designed to evaluate the capacity of the Group to withstand a prolonged period of adverse financial conditions. The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for at least the next three years.

Consolidated statement of comprehensive income

$'000	**FY 2021**	**FY 2020**
Revenue	281,341	199,076
Cost of sales	(28,456)	(17,477)
Gross profit	252,885	181,599
Sales and marketing costs	(188,936)	(163,052)
Administrative expenses		
Research and development costs	(28,814)	(12,030)
Other administrative expenses	(56,440)	(26,887)
IPO transaction costs	(15,250)	-
Expected credit loss charge	(3,324)	(5,344)

Other operating income	1,365	811
Operating loss	(38,514)	(24,903)
Finance costs	(109,157)	(2,405)
Finance income	50	382
Loss before taxation	(147,621)	(26,926)
Taxation	(1,967)	(1,746)
Net loss attributable to equity shareholders	(149,588)	(28,672)
Other comprehensive (loss)/ income	-	-
Total comprehensive loss	(149,588)	(28,672)
Basic loss per share	$(0.290)	$(0.054)
Diluted loss per share	$(0.290)	$(0.054)

Consolidated statement of financial position

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

	(61,077)	(56,422)
Total liabilities	**(297,157)**	**(209,084)**
Net asset	**258,258**	**23,856**
Equity		
Share capital	9,756	29
Share premium	224,782	170,402
Merger reserve	305,789	-
Foreign currency translation reserve	(4,398)	(4,398)
Stock compensation reserve	35,723	20,868
Treasury shares	(761)	-
Retained loss	(312,633)	(163,045)
Total equity attributable to equity shareholders of Darktrace plc	**258,258**	**23,856**

Consolidated statement of changes in equity

$'000	**Share capital**	**Share premium**	**Merger reserve**	**Foreign currency translation reserve**	**Stock compensation reserve**	**Treasury shares**	**Retained loss**	**Total equity**
Balance at 30 June 2019	**27**	**170,264**	**-**	**(4,398)**	**10,512**	**-**	**(134,373)**	**42,032**
Net loss	-	-	-	-	-	-	(28,672)	(28,672)
Total	**-**	**-**	**-**	**-**	**-**	**-**	**(28,672)**	**(28,672)**
Shares issued	2	138	-	-	-	-	-	140
Credit to equity for share based compensation charge	-	-	-	-	10,356	-	-	10,356
Transactions with shareholders	**2**	**138**	**-**	**-**	**10,356**	**-**	**-**	**10,496**
Balance at 30 June 2020	**29**	**170,402**	**-**	**(4,398)**	**20,868**	**-**	**(163,045)**	**23,856**
Net loss	-	-		-	-	-	(149,588)	(149,588)
Total comprehensive income	**-**	-	-	-	-	-	**(149,588)**	**(149,588)**
Share purchased for cancellation	(2)	(127,061)	-	-	-	-	-	(127,063)
Convertible loan conversion	1,076	269,016	-	-	-	-	-	270,092
Shares issued	1,872	238,506	-	-	-	-	-	240,378
Transaction cost	-	(13,511)	-	-	-	-	-	(13,511)
Share for share exchange	6,781	(312,570)	305,789	-	-	-	-	-
Shares held for options holders	-	-	-	-	-	(761)	-	(761)
Credit to equity for share based compensation	-	-	-	-	14,855	-	-	14,855

Transactions with shareholders	**9,727**	**54,380**	**305,789**	**-**	**14,855**	**(761)**	**-**	**383,990**
Balance at 30 June 2021	**9,756**	**224,782**	**305,789**	**(4,398)**	**35,723**	**(761)**	**(312,633)**	**258,258**

Consolidated statement of cash flows

$'000	**FY 2021**	**FY 2020**
Cash generated from operations		
Loss for the period after tax	(149,588)	(28,672)
Depreciation of PPE and Right of Use Assets	24,475	21,055
Amortisation of intangible assets	2,729	1,429
Amortisation of capitalised commission	14,101	10,441
Impairment of capitalised commission	1,091	-
Loss on disposal of PPE	1,556	376
Impairment of PPE	158	-
Foreign exchange differences	(4,026)	(148)
Credit loss charge	3,324	5,344
Share based compensation charge	17,045	10,356
Finance costs	109,157	2,405
Finance income	(50)	(382)
Other operating income	(1,365)	(811)
Taxation	1,967	1,746
Operating cash flows before movements in working capital	**20,574**	**23,139**
Increase in trade and other receivables	(17,657)	(25,641)
Increase in capitalised commission	(28,657)	(19,064)
(Decrease)/Increase in trade and other payables	(1,191)	10,758
Increase in Provisions	22,945	-
Increase in deferred revenue	65,316	27,294
Net cash flow from operating activities before tax	**61,330**	**16,486**
Tax (paid)/received	(1,438)	2,894
Net cash inflow from operating activities	**59,892**	**19,380**
Investing activities		
Development costs capitalised	(2,691)	(2,788)
Purchase of property, plant and equipment	(22,641)	(20,389)
Finance income	50	382
Cash outflow from investing activities	**(25,282)**	**(22,795)**
Financing activities		
Proceeds from share issues	237,427	140
Share issue costs	(13,511)	-
Repurchase of shares	(127,063)	-
Convertible loan issuance	162,821	-
Repayment of lease liabilities	(6,259)	(4,519)
Payment of interest on lease liabilities	(2,800)	(2,405)
Cash inflow/(outflow) from financing activities	**250,615**	**(6,784)**
Net changes in cash and cash equivalents	**285,225**	**(10,199)**
Cash and cash equivalents, beginning of year	**53,944**	**64,443**

Exchange difference on cash and cash equivalents	3,189	(300)
Cash and cash equivalents, end of year	**342,358**	**53,944**

Notes to the consolidated financial statements

1. General information

Company information
Darktrace plc is a company incorporated in England and Wales under company number 13264637. The principal place of business is Maurice Wilkes Building, St John's Innovation Park, Cowley Road, Cambridge.

Basis of preparation
The financial information set out below does not constitute the Group's consolidated financial statements for the years ended 30 June 2021 and 2020 but is derived from those accounts. Statutory accounts for FY 2020 have been delivered to the Registrar of Companies and those for FY 2021 will be delivered in due course. The auditor has reported on those accounts. Their report for the accounts of FY 2021 was (i) unqualified, and (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. They have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The policies set out below have been applied consistently throughout all periods presented.

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

Predecessor accounting
Darktrace plc was incorporated on 12 March 2021 and became the parent entity of the Group on 4 May 2021 when Darktrace plc acquired the entire shareholding of Darktrace Holdings Limited by way of share for share exchange agreement.

This does not constitute a business combination under IFRS 3 'Business Combinations' as it is effectively a combination among entities under common control. There is currently no guidance in IFRS on the accounting treatment for combinations among entities or businesses under common control. IAS 8 requires management, if there is no specifically applicable standard or interpretation, to develop a policy that is relevant to the decision-making needs of users and that is reliable. The entity first considers requirements and guidance in other international standards and interpretations dealing with similar issues, and then the content of the IASB's Conceptual Framework for Financial Reporting (Conceptual Framework). Management might consider the pronouncements of other standard-setting bodies that use a similar conceptual framework to the IASB's, provided that they do not conflict with the IASB''s sources of guidance.

Considering facts and circumstances management has decided to apply a method broadly described as predecessor accounting. The principles of predecessor accounting are:

- Assets and liabilities of the acquired entity are stated at predecessor carrying values. Fair value measurement is not required.
- No new goodwill arises in predecessor accounting.
- Any difference between the consideration given and the aggregate carrying value of the assets and liabilities of the acquired entity at the date of the transaction is included in equity in retained earnings or in a separate reserve.

Management has used the retrospective presentation method or merger accounting. Under merger accounting principles, the assets and liabilities of the subsidiaries are consolidated at book value in the Group financial statements and the consolidated reserves of the Group have been adjusted to reflect the statutory share capital of Darktrace plc with the difference presented as the merger reserve.

These consolidated financial statements of the Group are the first set of financial statements for the newly formed Group and the prior period has been presented as a continuation of the former Darktrace Holdings Limited Group on a consistent basis as if the Group reorganisation had taken place at the start of the earliest period presented. The prior period comparatives are those of the former Darktrace Holdings Limited Group since no substantive economic changes have occurred.

2. Preliminary announcement

The Board of Directors approved the preliminary announcement on 15 September 2021.

3. Significant accounting policies

Segment reporting
The Group has concluded that it operates in one business segment as defined by IFRS 8: Operating Segments, being the development and sale of cyber-threat defence technology. The Chief Operating Decision Makers (the "CODMs"), which include the Executive Directors and certain Senior Managers, make operating decisions for a single operating unit and operating performance is assessed as a single operating segment. The information used by the CODMs is consistent with, and prepared on the same basis as, that presented in these financial statements. Further there are no separately identifiable assets attributable to any separate business activity or business unit.

Revenue recognition
The Group does not recognise any revenue until there is a legally binding contract in place with a customer or partner acting on behalf of a customer, the commencement date of that agreement has passed, and the obligations to fulfil that contract have been met. It applies the IFRS 15 principles-based, five step model to all contracts as follows:

- Identify the contract with the customer,
- Identify the distinct performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis, and
- Recognise revenue when the entity satisfies its performance obligations.

The Group has only a single performance obligation, being to deliver a Cyber Security software and related services to its customers as such the transaction price is the total amount charged to the Customer over the service period.

Most of the Group's revenue is derived from multi-period subscription or licence contracts. This revenue is recognised on a straight-line basis over the subscription or license period as the customer simultaneously receives and consumes the benefits from the products it purchased within the Group's Cyber AI Platform as the Group performs. The Group's efforts are expended evenly throughout the subscription period and therefore using the input method under IFRS 15, it is appropriate to recognise revenue on a straight-line basis. The Group does not have any variable consideration as defined under IFRS 15.

In a very small number of cases, the Group sells supplementary training or extra appliances separately from its software product deployments, but always to customers who have software product deployments. The revenue from these contracts is recognised at the point in time when the training or appliance is delivered.

The Group deploys a significant portion of its software on appliances that it delivers to the customer. These appliances are encrypted devices that can only be used to run the Group's software. They cannot be used for any other purpose and have no separate value to the customer, and as the Group retrieves its appliances at the end of deployments, each appliance may be redeployed multiple times, in multiple situations over its useful life. The Group considers that the appliances it deploys are an integral part of the delivery mechanism for the service to the customer and are not normally sold to the customer.

Customers are generally billed in advance, with credit term of typically 30-60 days, in line with market practice. In instances where payment for the subscription is within 12 months or less of the service being provided Darktrace has taken the practical expedient under the standard of not adjusting for any financing component. In some instances, the Group bills in advance for periods of greater than on year. In these instances no financing component is deemed to be present as this arrangement is customer driven.

Commission cost recognition
Commission costs are all recognized as Sales and marketing costs. The Group pays commissions to sales staff and to referral partners. IFRS 15 requires that certain costs incurred in both obtaining and fulfilling customer contracts be deferred on the statement of financial position where recoverable and amortised over the period that an entity expects to benefit from the customer relationship. The only significant cost falling within the remit of IFRS 15 is the portion of commission costs classified as a cost of contract acquisition. Sales staff receive the first 50% of commission at the point of contract signing, which is deemed to meet the criteria of being incurred solely to acquire the contract. These transaction related commission costs, including related social security and similar contributions, are therefore capitalised and amortised over the customer contract term, with the amortisation being recognised as a Sales and marketing cost. Commissions paid to referral partners are also capitalised and amortised to Sales and marketing costs over the life of the related contracts.

The remaining 50% of sales staff commission is paid on the earlier of the full contract value being paid, or, most frequently, after one year. Because these commissions have additional service and performance requirements, they are not eligible to be capitalised under IFRS 15. Instead, the commission and associated social security costs are accrued based on the expected period between the sale and payment, then the accrual is released when the commission is paid or earlier if commission is recouped due to the customer defaulting on payments or salesperson ceases to be employed prior to the commission becoming payable.

Research and development
The Group capitalises the costs of development work that meets the criteria for capitalisation and amortises those costs once the software is released for production and/or brought into use. Research and development expenditures that do not meet the criteria for capitalisation, are recognised as expense when incurred. Development costs previously recognised as expenses are not recognised as assets in any subsequent period. Development costs for features and enhancements that are available to all customers without additional charge, are expensed as incurred. Amortisation of capitalised development costs is recognized as R&D cost (see Intangible Assets for additional detail).

Share based payments
The Group operates equity settled share-based payment schemes. The equity settled share-based payments are measured at fair value at the date of grant. Having a graded vesting schedule, the fair value determined is expensed on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. The charge for the period is allocated to the relevant statement of comprehensive income categories where the employment costs of the employee who is granted the equity options are charged.

<u>Employee options</u>
The fair value of options granted is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity’s share price)

- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. When the options are exercised, the appropriate number of shares is issued to the employee. The proceeds received, net of any directly attributable transaction costs, are credited directly to equity.

The pre- IPO share-based payment scheme has been in place since 2013. All Awards vest over three years from the grant date (or contractual commencement date in the case of Growth Shares) in six-month intervals, (i.e. 1/6 of the Awards will vest every six months over 36 months) subject to continued employment. At the time of IPO the options originally in shares of Darktrace Holdings Limited, converted into options in shares of Darktrace plc, retaining same conditions; the growth shares in Darktrace Holdings Limited, converted into shares of Darktrace plc at same conditions.

<u>Growth shares in Darktrace Holdings Limited</u>
Growth shares are equity instruments that allow the holder to participate in the value of a business only where the overall equity value exceeds a hurdle rate. Growth shares are therefore economically similar to vanilla share options where the hurdle acts as a quasi-exercise price. The strike price applying to the Options is the same as the hurdle applying to the Growth Shares. The Board's intention has been for the terms of the Growth Shares to mirror the terms of the Options, as such they are accounted for in the same way as share options.

Growth shares usually crystallise value on an exit where sales proceeds are apportioned to the holders of different share classes in accordance with a company's value waterfall. By contrast employee option schemes typically crystallise value on the exchange of a strike price for the underlying equity.

Growth shares in Darktrace Holdings Limited have been converted into ordinary shares in Darktrace Holdings Limited and then exchanged for ordinary shares in Darktrace plc before IPO. The ordinary shares in Darktrace plc have been transferred to the employee holders at the same condition as the growth shares.

On 30 April 2021 four new award schemes were granted to the employees. None of the awards incorporate an exercise price. However, three carry market-based vesting criteria which must be incorporated into the valuation, per the requirements of IFRS 2.

<u>Performance based Conditional Award (the 'Performance Awards')</u>

Vesting of Tranche 1 is dependent on Group total shareholder return ('TSR') performance over the period from the Admission Date to the end of the Financial Year 2023, ranked in comparison to the constituents of the FTSE 350 (ex. Investment companies). Tranche 2 vests dependent on the same terms, albeit the measurement period runs from the Admission Date to the end of the Financial Year 2024 (i.e. an additional year). Awards do not incorporate an exercise price.

<u>Executive Director Conditional Awards ('Executive Awards')</u>

The Executive Awards carry the same market-based vesting criteria as Tranche 2 of the Performance Awards. Additionally, they have a holding period which determines vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

<u>Top-Up Awards ('Top-Up Awards')</u>

These awards vest according to a share price performance hurdle measured over a one-year period following the Admission Date. In essence, no shares vest where the closing share price is £2.50 or less, where closing share price is £5.00, 100% of the shares vest and where the closing share price is between £2.50 and £5.00 the number of awards vests on a straight-line basis. Awards do not incorporate an exercise price.

Time-based Awards

These awards vest according to time only. There is no market based vesting criteria and awards do not incorporate an exercise price. The value of the time-based awards will simply be the value of the underlying equity.

Intangible assets

The Group capitalises allowable costs related to the development of new products and related significant functional enhancements to its Cyber AI platform. The directly attributable costs capitalised are employee costs including the appropriate portion of relevant compensation-related overheads. Costs are only capitalised when the following criteria are met:

• it is technically feasible to complete the software so that it will be available for use

• management intends to complete the software so that it will be available for use

• there is an ability to use or sell the software

• it can be demonstrated how the software will generate probable future economic benefits

• adequate technical, financial and other resources to complete the development and to use or sell the software are available, and

• the expenditure attributable to the software during its development can be reliably measured.

These capitalised development costs are recorded as intangible assets and amortised from the point at which the developed assets are released for use, typically as a part of major version or product releases.

Capitalised development costs are amortised on a straight-line basis over a three-year period unless the related software is removed from service prior to that date, in which case the remaining amortisation related to the software removed from use would be accelerated. Amortisation is classified as Research and development costs.

Convertible loan notes

In July 2020, Darktrace Holdings Limited issued convertible loan notes (“CLNs”) to certain existing shareholders. The transaction completed when funds were received in early July 2020. The rate at which interest accrues on the CLNs is dependent on the mechanism by which it will ultimately be redeemed:

- 18% per annum compounded monthly if the CLNs are settled in cash; or
- 9% per annum compounded monthly if the CLNs are converted to equity plus the discount factor noted below.

In both cases, interest will be accrued until such time as the notes are redeemed.

If redemption occurred prior to June 2021, this discount would have been 35%. If no redemption occurred by that date, the amount of the discount would increase by 1% per month up to a maximum of 55%. The accrued interest would also convert at the applicable discount rate.

The principal and interest components of the CLNs do not meet the criteria for recognition as equity and therefore, the CLNs have been recognised as a financial liability.

The equity conversion and early settlement features included in the CLNs’ terms constitute an embedded derivative. The CLNs have, therefore, been treated as hybrid instruments. Given the embedded derivative is not closely related to the debt host contract, the derivative must be separated from the host and recorded at fair value through the statement of consolidated income on initial recognition. The host contract is measured at amortised cost using the effective interest rate over its expected life.

The conversion of the CLNs was approved on 30 April 2021.

Host contract - borrowing
The host debt instrument is measured at amortised cost based on the effective interest rate ("EIR") calculated at initial recognition. For a financial liability, the EIR is the rate that exactly discounts estimated future cash payments to the instrument's amortised cost. The EIR is calculated by estimating the instrument's expected cashflows considering all contractual terms of the instrument.

The calculation of the EIR in the case of an embedded derivative takes into account the presence of a conversion feature and where that embedded derivative is not closely related to the host debt instrument, the impact and timing of the cashflows of the conversion feature may be excluded from the estimated cashflows of the host debt instrument.

In the case of the CLNs, this may lead to a situation where the host debt instrument's EIR is calculated based on cashflows up to its contractual maturity in the absence of an expectation that any other contractual feature may impact the instrument's estimated future cashflows.

Fair value of embedded derivative
The fair value of the embedded derivative is calculated at initial recognition and the balance of the transaction proceeds received by the Company on issue of the CLNs (after deducting the fair value of the embedded derivative) is allocated to the host debt instrument.

We have considered the approach to the calculation of the EIR as that of an embedded derivative which arises due to the presence of a conversion feature and where that embedded derivative is not closely related to the host debt instrument. In this case, the impact and timing of the cashflows of the conversion feature may be excluded from the estimated cashflows of the host debt instrument, in compliance with IFRS 9. In the case of the CLNs, this leads to the host debt instrument's EIR being calculated based on cashflows up to its contractual maturity in the absence of an expectation that any other contractual feature may impact the instrument's estimated future cashflows.

The valuation of the embedded derivative at inception and conversion considers the following process and factors:

- determine the cash-based return, and separately the equity-based return, over a spectrum of time between the expected IPO date as at the Valuation Date and 4 years from initial recognition.
- discount the cash redemption amount to the expected conversion date at a market yield which assumes there is no conversion feature.
- compute the 'gain' on the equity conversion, being the additional return over and above the cash-based return.
- include the likelihood of the cash repayment after 4 years in the overall assessment.
- discount the 'gain' to its net present value, over the estimated time period using market yield.
- probability-adjust the outcomes based upon the following expected time horizon of:
    - an IPO or equity event; and
    - cash repayment after 4 years undiscounted.
- take the weighted average outcome as the fair value of the embedded derivative.

CLNs conversion
The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss. In order to calculate the gain or loss on settlement of CLNs it is necessary to establish the fair value of equity instruments issued, the carrying amount of the financial liability and the fair value of the embedded derivative recognised.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs
General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period that is required to complete and prepare

the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred. Since the issuance of the CLNs in July 2020, the effective interest rate of the CLNs has been applied to the value of development costs that have been capitalised up until conversion.

Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Equity comprises the following:

- Share capital: represents the nominal value of equity shares.
- Share premium: represents the excess over nominal value of the consideration received for equity shares, net of any transaction costs associated with the issue of shares (see note 3 for judgement applied).
- Merger reserve: As the Company issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued. Instead, a merger reserve is recorded equal to the value of share premium which would have been recorded if the provisions of section 612 of the Companies Act 2006 had not be applicable. Furthermore, as management has used the retrospective presentation method (merger accounting), the equity structure (that is, the issued shares capital) reflects that of the new entity (Darktrace plc), with other amounts in equity (such as retained earnings or cumulative translation reserve) being those from the consolidated financial statements of the previous Group holding entity (Darktrace Holding Limited). The resulting difference has been recognised as a component of the equity as a merger reserve.
- Foreign currency translation reserve: result of translating the financial statement items from the functional currency into the presentational currency using the exchange rate at the statement of financial position date before Darktrace Holdings Limited and its subsidiaries changed their functional currency on 1 July 2020.
- Stock compensation reserve: this reserve is used to recognise the grant date fair value of options issued to employees but not exercised, the grant date fair value of growth shares issued to employees and the grant date fair value of deferred shares granted to employees but not yet vested.
- Treasury shares are shares in Darktrace plc that are held by the Equiniti Trust (Jersey) Limited for the purpose of issuing shares under the Darktrace plc employee share scheme (see note 21 for further information). Shares issued to employees are recognised on a first in, first out basis.
- Retained earnings: represents retained profits and losses.

4. Key judgements and estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the period end and the reported amount of revenues and expenses during the reported period. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and for any future periods affected.

The areas involving significant judgements and estimates are:

Significant judgement in revenue recognition in determining one performance obligation exists
Group revenue is from subscription contracts and is recognised over the term of the contract.

Management considers that these contracts consist of a single performance obligation, which is the ongoing access to the portions of the Cyber AI platform purchased by the customer. The Cyber AI platform is a single combined solution, with customers able to choose the appropriate product mix based on their own needs. The key contractual elements considered by management included the deployment of the software (on appliances or virtually), the core software products and subsequent updates. Appliance deployments typically take an hour or less once the appliance is received by the customer, and virtual deployments can be enabled immediately, so deployment is not a material performance component of a subscription contract that has, on average, a three-year life. Subsequent updates to the platform ensure that the latest software is available with the latest capabilities but do not materially change the functionality of the platform. The products and, to a lesser extent, services are significantly integrated to provide a combined output and services which are highly interdependent with (and are not separately available from) the subscription to product within the Cyber AI platform. Some customers may purchase ancillary services or training, but these are immaterial to the total contract value and are not deemed to impact the assessment of there being only a single performance obligation.

Significant judgement in the share-based payments valuation
Share based payments are calculated in accordance with IFRS 2 – Share-based Payment. The Group has used a Black-Scholes valuation model to value the options and growth shares granted up to the IPO and a Monte Carlo Model for the awards granted at IPO.

Where an option scheme has no market-based performance conditions attached to the award, a Black-Scholes model is typically appropriate. The growth shares have a hurdle, which is a market-based performance condition, however, this is used a proxy for exercise price. Therefore, Black-Scholes is still an appropriate model.

Where market-based performance conditions attached to the awards, a Monte Carlo model is typically appropriate. This model has been used for the awards granted at IPO: executive awards, top-up awards and the performance awards.

Both models utilise various inputs, some of these, subject to management judgement , in particular with reference to the grant date of the AIP awards at IPO.

<u>Grant date for new AIP awards at IPO (significant judgement)</u>
On 30 April 2021 AIP awards were approved and finalised under five award schemes preceding Darktrace's admission to the London Stock Exchange on 6 May 2021 (the 'Admission Date').

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

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

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

This estimate does not result in a significant risk of a material adjustment as the grant date fair value estimate for existing awards is not revised in subsequent periods. However, given the sensitivity of the valuation with respect to the share price, we have included sensitivity analysis.

	FY 2021
Share price at grant date	$ 3.5 (£2.50)
Current valuation ($'000)	24,115
'- 10% in share price at grant date – variance in overall valuation ($'000)	(5,673)
+ 10% share price value at grant date - variance in overall valuation ($'000)	7,020

<u>The expected volatility of the share price on all schemes (significant estimate)</u>

Before the Group was listed, Management considered the volatility of comparable listed companies when valuing the awards, as sourced from their published accounts. Volatility is a subjective input. Darktrace is at an earlier stage in its development compared to the other listed companies and its volatility would therefore be expected to be towards the upper end of the range. Given the average share value at grant has significantly increased over the years, the valuation of the share-based payments is particularly sensitive to the volatility.

Management has used a range of values to derive a high volatility input for the year as follows:

	Options	**Growth shares**
Expected volatility by management (%)	40%	50%
Higher volatility – sensitivity (%)	45%	55%
Variance in overall valuation ($'000)	3,353	438
Lower volatility - sensitivity (%)	35%	45%
Variance in the overall valuation ($'000)	(2,867)	(441)

Significant estimates in the convertible loan note valuation and critical judgement in accounting treatment

On 8 June 2020, Darktrace Holdings Limited executed a 'Note Subscription Agreement' in order to issue convertible loan notes which generated proceeds (excluding transaction costs) of $163m. The convertible loan notes were issued on 1 July 2020. The CLN's redemption features required the instrument to be converted into ordinary equity in the event of either an IPO, a trade sale of business or following an issue of additional equity. If none of the conversion features were triggered, the CLNs was to be settled by redemption in cash on the fourth anniversary of its issue. A coupon interest was payable at 18% per annum for settlement in cash or 9% per annum for conversion into equity. At initial recognition, the CLNs was accounted for as a financial liability in respect of a debt host contract which was subsequently measured at amortised cost and an embedded derivative measured at FVTPL. The following values were assigned to the derivative and the host loan liability at inception.

In order to calculate the gain or loss on settlement of CLNs it is necessary to establish the fair value of equity instruments issued, the carrying amount of the financial liability and the fair value of the embedded derivative recognised. Gain or loss on settlement of CLNs will be disclosed separately from the gain or loss on settlement of the embedded derivative.

The key assumptions driving the fair value of the embedded derivative at inception and before conversion included the timing and likelihood of a transaction that would lead to its settlement. It was, therefore, highly sensitive to the probability assessments, which are ultimately a best estimate and clearly an area of judgement. At conversion, the convertible loan note resulted in a number of shares being issued. The number of shares issued depended on the timing of the settlement event and was driven by the 9% interest plus the discount factor applied at the time of the event.

The selection of an appropriate discount rate required judgement. There are a number of observable Internal Rate of Return ("IRRs") which the holder will achieve depending upon the timing of conversion, ranging from c.20% to c.80%. The earlier the conversion the higher the return to the holder. To derive an appropriate rate to discount cash flows, a mid-point of 40% has been used and is considered a reasonable basis for calculating the discount rate that a market participant would apply to a similar instrument with no conversion feature.

Recognition of the CLNs at inception and fair valuation:

Management has prepared the following sensitivities, flexing the discount rates and the probability of a May 2021 IPO by 10% up and down. This shows how much the value at inception would have changed depending on the change in the assumptions:

	Actual $'000	**Discount $'000**	**Discount* $'000**	**Probability** $'000**	**Probability*** $'000**
01-Jul-20					
Embedded derivative	79,535	85,188	68,970	80,661	78,410
Host loan	83,286	77,633	93,851	82,160	84,411
	162,821	162,821	162,821	162,821	162,821

*This is increasing the discount rate by 10%
**This is decreasing the discount rate by 10%
***This involves increasing the probability of the May 2021 IPO date by 10%. Aggregate 70% probability of IPO (July) unchanged.
****This involves decreasing the probability of the May 2021 IPO date by 10%. Aggregate 70% probability of IPO (July) unchanged.

Date of derecognition of the CLNs and fair valuation:

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

Derecognition was deemed to be at 00.45 on 30 April 2021. The share exchange deed was fully executed at 00.45 on 30 April 2021, shortly after pricing of the IPO, and superseded all previous CLNs agreements. Pursuant to the share exchange deed, it was unconditionally agreed that the CLNs would be converted on 4 May 2021.

As there was no active market value at the point of derecognition it is management's judgement that the offer price represents the fair value at that date, being the price fixed for the Company's shares based on the market information available at that time. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued annual interest of 9% and a discount of 35% implied by the terms.

The following table presents the valuation at conversion and the related impact on equity and on statement of comprehensive income.

	Host loan $'000	**Embedded derivative $'000**	**Total $'000**
1 July 2020 valuation	83,286	79,535	162,821
Accrued interests	27,239		27,239
Fair value movement		57,976	57,976
29 April 2021 valuation	110,525	137,511	248,036
Loss on conversion			22,026
Fair value CLNs at conversion (£2.50 equalising $3.5 per share for 77,475,499 shares)			270,062

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

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

There is judgement in the definition of directly attributable to the equity transaction and in the consideration of those costs relate or not to the listing of new shares or existing shares and significant estimate in the identification of the portion of the cost directly attributable to IPO activities. Furthermore, most of costs identified as directly attributable to the IPO have been apportioned to equity considering the portion of shares newly issued at IPO (19%) versus the existing shares admitted for listing, as applicable.

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

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

Significant judgement in the definition of the ultimate controlling party
The Directors have determined that no entity or party controlled Darktrace throughout the periods covered by these financial statements. Darktrace had no ultimate controlling party or parent company, and no other entity has financial statements or results included in the results of Darktrace.

In reaching this conclusion, the Directors have applied judgement, specifically in assessing whether a significant investor, Invoke Capital Partners ("Invoke"), controlled Darktrace at any point from 1 July 2019 to 30 June 2021. The table below illustrates the changes in the shareholdings held by Invoke from 1 July 2019 to 30 June 2021.

For the purpose of this disclosure, Invoke means ICP Darktrace Holdings Limited from 1 July 2019 to 30 June 2021.

% of ordinary and preference shares held by	Period
42.0%	1 July 2019 – 30 June 2020
30.6%*	After convertible loan conversion
29.1%*	Post IPO
26.1%*	At 30 June 2021

* Group of individual shareholders acting collectively as the on 7 August 2020, most of the shares of Darktrace held by ICP Darktrace Holdings Limited were distributed to the individual shareholders of ICP Darktrace Holdings Limited following liquidation of the company. The remaining shares were distributed on 30 November 2020.

During the period from 1 July 2019 to 30 June 2020, Invoke had three representatives on the Board of directors. Invoke had affiliations with three of the other Board members. From 1 April 2021 only one director out of 9 is representing Invoke and 4 are independent directors: significantly reinforcing the independence of the Board to any shareholder singularly taken, if existing.

In assessing whether Invoke controlled Darktrace, the Directors considered whether Invoke directly or indirectly had the ability to make decisions over the relevant activities of Darktrace. Decisions over the relevant activities were made by the Board of directors and the Board representation by Invoke and the associated voting rights did not provide Invoke power over the relevant activities.

Given the relationships of the other Board members with Invoke, the Directors evaluated different mechanisms, that could, in isolation or combination, have given Invoke the ability to make decisions over the relevant activities. The Directors applied judgement in evaluating the nature of the relationships, the interaction of these Board members with Invoke and whether these Board members could have been acting on behalf of Invoke. The Directors concluded that these Board members acted independently of Invoke when making decisions about Darktrace.

After assessing all relevant factors in their totality, the Directors concluded that Invoke did not control Darktrace but was deemed to have had significant influence over Darktrace during the period from 1 July 2019 to 31 March 2021. From 1 April 2021 Darktrace is independent from Invoke.

Significant estimate in the share price used to calculate the provision for share-option related employer tax charges
The provision represents the best estimate of the amount payable by the Group at year end if all options were exercised at that date. The key input for the calculations is the percentage applicable for each Country and the share price at each period end. The key element subject to change in future periods is the share price at time of exercise, is the share price and for this reason the Group has prepared the following sensitivity analysis:

	FY 2021 \$'000	**FY 2020 \$'000**
+/- 10% share price value – change in value of provision for the year (\$'000 absolute value)	2,797	211

Significant estimate in the expected useful life of appliances
The Group is required to assess if, as part of the assessment of the performance obligations, there is an embedded lease within the contract relating to the appliances used to deploy its software. Due to the length of the contracts, averaging approximately three years, and the underlying asset value, it is appropriate to assess if there is an inherent lease embedded within the contract.

The Group considered its continued ownership of the appliances, the appliances having a useful economic life in excess of the typical contract length (appliances are accounted for on an estimated useful life of five years based on the Groups experience to date), and the appliances being an immaterial portion of the total contract value in determining if there was a lease. It is managements' judgement that the Group retains control of the appliances throughout the performance period as the Group directs the use of the asset. It is also management's judgement that the Group's contracts do not contain leases under IFRS 16.

Given the sensitivity around the estimated useful life of the appliances, management has prepared an analysis to determine the impact on the financial position and in the statement of comprehensive income, from a change in the estimated useful life considering 3 years and 7 years as follows:

	FY 2021 \$'000	**FY 2020 \$'000**
3 years useful life applied		
Variance in appliances net book	(19,598)	(5,798)
Variance in depreciation	(7,686)	4,514
7 years useful life applied		
Variance in appliances net book	11,242	2,412
Variance in depreciation	2,323	(2,782)

5. Operating segment

The Group has concluded that it operates only one operating segment as defined by IFRS 8 Operating Segments being the development and sale of cyber-threat defence technology. The information used by the Group's CODM's to make decisions about the allocation of resources and to assess performance is presented on a consolidated Group basis. Accordingly, no segment analysis is presented. Refer to note 5 for disaggregated analysis on revenue from contract with customers.

No single customer accounted for more than 10% of revenue in any of the periods presented.

Non-current assets by geographical market	**FY 2021 $'000**	**FY 2020 $'000**
United Kingdom	36,193	32,219
USA and Canada	39,286	38,364
Europe	17,712	15,086
Rest of world	25,033	20,807
	118,224	**106,476**

USA non-current asset is $38.4 million, 32.5% of total non-current assets (as at 30 June 2020 $35.9 million, 33.7%).

6. Revenue from contract with customers

Disaggregation of revenue
Revenue recognised at a point in time is not significant to the reported results in any year. This includes revenue generated by separate contracts for training and sale of appliances. As at 30 June 2021 this revenue amounted to $1.1 million (30 June 2020 $0.4m).

Management has assessed that the single performance obligation that it is providing to customers is access to products, primarily software, within the Darktrace Cyber AI platform to protect customers' digital estates from the impact of cyber threats. There are no significant contracts with a single customer.

	FY 2021 $'000	**%**	**FY 2020 $'000**	**%**
USA and Canada	109,358	38.9%	81,207	40.8%
United Kingdom	50,433	17.9%	38,272	19.2%
Europe	61,922	22.0%	37,943	19.1%
Rest of World	59,628	21.2%	41,654	20.9%
	281,341	100%	**199,076**	100%

Revenue from customers has been attributed to the geographic market based on contractual location. No single customer accounted for more than 10% of revenue in 2021 and 2020. USA generated $99.0 million, 35.2% of total revenue (as at 30 June 2020 $74.1 million, 37.2%) but the business manages to the above regions.

Contract assets and liabilities related to contracts with customers
The following table provides information on accrued income and deferred revenue from contracts with customers.

	FY 2021 $'000	**FY 2020 $'000**
Accrued income	1,713	754
Total accrued income	**1,713**	**754**

Current deferred revenue	158,265	96,769
Non-current deferred revenue	29,599	25,779
Total deferred revenue	**187,864**	**122,548**

Deferred revenue has increased year on year in line with the increase in revenue.

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

Revenue recognised in relation to deferred revenues (contract liabilities)
The following table shows how much revenue recognised in each reporting period related to brought-forward contract liabilities:

	FY 2021 $'000	FY 2020 $'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	96,769	72,552

Revenue expected to be recognised
The following are the aggregated amounts of future revenues that relate to contracts that are unsatisfied or partially unsatisfied:

	FY 2021 $'000	FY 2020 $'000
Due within 12 months	330,006	223,481
Due within 1-2 years	238,110	159,730
Due within 2-3 years	147,435	95,150
Due within 3-4 years	58,904	41,493
Due over 4 years	5,952	14,007
	780,407	**533,861**

7. Finance costs and finance income

	FY 2021 $'000	FY 2020 $'000
Finance costs		
Total interest on financial liabilities measured at amortised cost (CLNs –	27,239	-
Fair value movement on derivative (CLNs – embedded derivative) – note	57,976	-
Loss on conversion of the CLNs – note 18	22,026	-
Interest on lease liabilities	2,800	2,405
Capitalised borrowing costs	(884)	-
Total Finance costs	**109,157**	**2,405**
Finance income		
Interest income from cash and cash equivalents	50	382
Total Finance income	**50**	**382**

Capitalised borrowing costs
A 40% capitalisation rate applicable to the CLNs, was used to determine the amount of borrowing costs to be capitalised. This is the weighted average interest rate applicable to the CLNs during the year. For the year ended 30 June 2020 the Group had no material borrowing costs for capitalisation.

8. Loss for the year before taxation

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

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

	FY 2021 $'000	FY 2020 $'000
Research and development expenses	18,625	7,527
Short term property and low value lease rentals	2,482	2,997
Depreciation & Amortisation:		
- Capitalised development costs (note 11)	2,729	1,429
- Property, plant and equipment (note 12)	18,447	15,628
- Right-of-use assets (note 14)	6,028	5,427
- Capitalised commission (note 15)	14,101	10,441
US sales tax	1,264	2,304
IPO cost	15,250	-
Share-based payment charge (note 22)	17,045	10,356
Share-option related employer tax charges (note 20)	21,527	(67)
Credit loss charge	3,324	5,344
Other legal and professional fees	2,359	2,953
Net foreign exchange (gain)/losses	(845)	448

Research and development costs' increase was primarily attributable to an increase in research and development staffing to expand the Group's technical departments focused on research and new product development efforts to enhance its existing product offerings. The increase was also partially due to the share-based payments related to people working in this function and the associated provision for taxes which was recognised in FY 2021 (note 22).

Property lease rentals includes the cost for short term lease contracts or low value lease contracts.

US Sales tax is related to sales taxes in years prior to the Group being required to be registered in certain States. The Group has now obtained, or is in the process of obtaining, registrations in the relevant US states in which historically an obligation to collect and remit taxes existed.

IPO cost include registration and other regulatory fees, underwriting costs and brokerage fees, amounts paid to lawyers, accountants, investment bankers and other professional advisers, fees and commissions paid to agents, brokers and dealers, printing costs and stamp duties. Most of cost directly attributable to the IPO have been apportioned to equity (note 21) considering the portion of shares newly issued at IPO versus the existing shares admitted unless specific allocation has been possible. Refer to note 3 for the judgement around the classification of the IPO cost.

Litigation settlement is a non-recurring cost of settlement of class actions related to overtime payments for ex-employees in certain US States.

At admission to the London Stock Exchange, shares were transferred to the non-Executive Directors at $nil cost and therefore the distribution falls within the definition of equity-settled share-based payment under IFRS 2 Share-Based Payments and there are no vesting conditions attached to these shares and they vest immediately on distribution. Share based payment charge amounts to $ 2.2m. Refer to note 24 and 29 for further details.

Auditors' remuneration

	FY 2021 $'000	FY 2020 $'000
Audit of the Group and parent company accounts	471	554
Audit of the accounts of Darktrace's subsidiaries by the Group auditors	394	28
Total audit fees	**865**	**582**
Tax compliance services	11	7
Tax advisory services	282	100
Corporate finance services	1,970	-

Other non-audit services not covered elsewhere	2	6
Total non-audit fees	**2,265**	**113**

Corporate advisory services and tax advisory services are attributable mainly to the IPO and the related compliance activities.

9. Intangible assets

Software consists of capitalised development costs being an internally generated intangible asset. The amortisation expense related to this intangible asset is included as a part of research and development costs. Due to the future expected revenues of the capitalised development costs, the Group has not identified any impairments to the intangibles.

Version 3 of the Cyber AI Platform and related products were launched in August 2017 when the related cost ($1.6 million) has started to be amortised. Version 4 of Cyber AI Platform and related products ($5.5 million) was released in December 2019 when the related cost has been reclassified as software and the amortisation started. Version 5 was launched in January 2021 when the related cost ($5.2 million) has been reclassified and amortisation started.

			FY 2021			**FY 2020**
	Software	**Software under development**	**Total**	**Software**	**Software under development**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost						
As at 1 July	8,051	1,468	9,519	2,603	4,128	6,731
Additions	-	3,767	3,767	-	2,788	2,788
Reclassification	5,235	(5,235)	-	5,448	(5,448)	-
As at 30 June	13,286	-	13,286	8,051	1,468	9,519
Amortisation						
As at 1 July	(3,470)	-	(3,470)	(2,041)	-	(2,041)
Charge for the year	(2,729)	-	(2,729)	(1,429)	-	(1,429)
As at 30 June	(6,199)	-	(6,199)	(3,470)	-	(3,470)
Net book as 30 June	7,087	-	7,087	4,581	1,468	6,049

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

10. Capitalised commission

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

By Geographic market	**FY 2021 $'000**	**FY 2020 $'000**
United Kingdom	5,598	4,827
USA and Canada	10,976	8,854
Europe	9,374	6,819
Rest of World	13,066	5,049
	39,014	**25,549**
Current	16,303	10,890
Non-current	22,711	14,659
	39,014	**25,549**
Amortisation in the year	14,101	10,441
Impairment in the year	1,091	-

The impairment in the year of $1.1 million relates to the reduction in the capitalised commission asset value as a result of the diminished contract value.

11. Convertible loan notes ("CLNs")

On 1 July 2020, Darktrace Holdings Limited issued CLNs to investors for a cash consideration of $162.8 million (before transaction costs of c. $1.0m).

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

	1 July 2020 $'000
Value of derivative	79,535
Host loan	83,286
Total loan note value	**162,821**

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

According to the CLNs instrument, in case of the underwritten IPO, the amount of conversion securities is equal to accrued entitlement amount divided by the offer price per share. The price offered on IPO was £2.50 ($3.5) per share according to IPO Committee Minutes dated 29 April 2021. According to the Group legal advisers, the conversion became unconditional and was fixed at £2.50 offer price per share at 00.45 on 30 April 2021. The conversion into equity shares of Darktrace Holdings Limited was based on the nominal value of CLNs including accrued interest of 9% and a discount of 35% implied by the terms.

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

Each of the Shareholders of Darktrace Holdings Limited transferred the Darktrace Holdings Limited Shares (including those a result of the CLNs conversion) it held as at the Completion Date (as stated in the Darktrace's register of members) to Darktrace plc on 4 May 2021 (two days prior to the Admission Date) (see note 21).

The table below presents the result of the valuation at the time of conversion and the related finance costs accounted for during the year:

	Host loan $'000	**Embedded derivative $'000**	**CLNs $'000**
1 July 2020 valuation	83,286	79,535	162,821
Accrued interests	27,239		27,239
Fair value movement		57,976	57,976
29 April 2021 valuation	110,525	137,511	248,036
Loss on conversion			22,026
Fair value CLNs at conversion (£2.50 equalling $3.5 per share for 77,475,499 shares)			270,062

12. Share capital and share premium

Share capital	**Number of ordinary shares of £0.01 each**	**Number of preference shares of £0.01 each**	**Number of deferred shares**	**Number of growth shares**	**Total number of shares**	**Share capital $'000**	**Share premium $'000**	**Merger reserve $'000**

			of £0.01 each	of £0.01 each				
At 1 July 2019	1,761,399	364,264	118,888	-	2,244,551	27	170,264	-
Shares issued in the year	220	-	-	32,625	32,845	2	138	-
Transfers	-	-	400	(400)	-	-	-	-
At 30 June 2020	1,761,619	364,264	119,288	32,225	2,277,396	29	170,402	-
At 1 July 2020	1,761,619	364,264	119,288	32,225	2,277,396	29	170,402	-
Share cancellation	(177,343)	-	-	-	(177,343)	(2)	(127,061)	-
Shares issued in the period	275	-	-		275	-	212	-
Growth shares issued in the period	-	-	-	38,325	38,325	-	-	-
Growth shares converted into preference shares	-	-	775	(775)	-	-	-	-
Conversion of preference shares into ordinary	364,264	(364,264)	-	-	-	5	-	-
Share subdivision	485,254,934	-	-	-	485,254,934	-	-	-
Conversion of growth shares into ordinary shares	3,101,843	-	-	(69,775)	3,032,068	43	-	-
Convertible loan conversion	77,475,499	-	-	-	77,475,499	1,076	269,016	-
Share issued at incorporation of Darktrace plc	1	50,000	-	-	50,001	69	-	-
Share for share exchange	-	-	-	-	-	6,734	(312,569)	305,789
Shares issued at IPO	129,849,035	-	-	-	129,849,035	1,803	224,782	
At 30 June 2021	697,630,127	50,000	120,063	-	697,800,190	9,756	224,782	305,789

The preference shares are not redeemable. The holders of preference shares are not entitled to receive preferential dividends and are entitled to one vote per share.

All shares rank pari-passu in all respects except deferred shares hold no voting rights or rights to distribution and are entitled to receive £1.00 for the entire class in preference to any payment to the ordinary shares on liquidation, and preference shares have a liquidation preference up to their subscription price.

Share cancellation
On 14 July 2020 the share capital of Darktrace Holdings Limited was reduced with reference to the shares held by ICP Darktrace Holdings Limited.

CLNs conversion (note 18)
On 30 April 2021, each of the Convertible Note Holders (note 23) agreed that the CLNs would convert into ordinary shares in Darktrace Holdings Limited on 4 May 2021, two days prior to the Admission Date.

Group reorganisation
During the year, the Company carried out a reorganisation of its share capital to facilitate a listing to the premium segment of the official list of the Financial Conduct Authority and to trade on the London Stock Exchange Main Market for listed securities. This is described as follows:

Share conversion and CLNs conversion
On 4 May 2021, the Preferred Shares and Growth Shares in Darktrace Holdings Limited automatically converted into ordinary shares in Darktrace Holdings Limited. Later on 4 May 2021, the CLNs converted into ordinary shares in Darktrace Holdings Limited as described above.

Shares Sub-Division
At 11.59pm on 4 May 2021, shortly following the Share Conversion and the Convertible Loan Note Conversion (note 17), the Ordinary Shares (being the entire outstanding Darktrace Holdings Limited Shares other than the Company Deferred Shares and the Company Redeemable Preference Shares) were sub-divided by 250.

As a result of the share sub-division and subsequent share exchange, the number of options outstanding at the time of share exchange has also been subdivided by 250 to mirror the new shares which issued in relation to the exercise of the options itself.

For a better presentation and comparability of the information here included, the subdivision has been applied to all years presented.

Share for share exchange
On 4 May 2021, after the share conversion and the subdivision, each of the shareholders of Darktrace Holdings Limited transferred the Darktrace Holdings Limited shares it held as at the completion date (as stated in the Darktrace Holdings' register of members) to Darktrace plc, and Darktrace plc allotted and issued an equivalent number of shares, credited as fully paid, in consideration for the transfer of such shares. The shares were exchanged as follows: one Darktrace plc ordinary share for one Darktrace Holdings Limited ordinary share and one Darktrace plc deferred share for one Darktrace Holdings deferred share (as applicable).

As Darktrace plc issued equity shares in consideration for securing a holding of 100% of the nominal value of each class of equity in Darktrace Holdings Limited, the application of merger relief is compulsory. Merger relief is a statutory relief from recognising any share premium on shares issued. Instead, a merger reserve is recorded equal to the value of share premium which would have been recorded if the provisions of section 612 of the Companies Act 2006 had not be applicable. The value of the merger relief for Darktrace plc is $55.2 million.

As management has used the retrospective presentation method, the equity structure (that is, the issued shares capital) would reflect that of the new entity (Darktrace plc), with other amounts in equity (such as revaluation, retained earnings and cumulative translation reserve) being those from the consolidated financial statements of the previous Group holding entity (Darktrace Holding Limited). The resulting difference has been recognised as a component of the equity as a merger reserve ($250.6 million).

Treasury shares
The directors have determined that they do control a company called Equiniti Trust (Jersey) Limited, even though Darktrace plc owns 0% of the issued capital of this entity. Equiniti Trust (Jersey) Limited holds shares (54,866,296) of Darktrace plc for the purpose of fulfilling the grants made under stock option plans in place prior to the IPO. Those shares are treated as treasury shares in the consolidated financial statements.

13. Share based payments

Growth shares and option schemes in place before IPO
Darktrace has growth shares and a share option scheme for certain employees. Share options are exercisable at prices determined at the date of grant. All awards vest over three years from the grant

date (or contractual commencement date in the case of growth shares) in six-month intervals, (i.e. 1/6 of the Awards will vest every six months over 36 months) subject to continued employment.

Growth shares are equity instruments that allow the holder to participate in the value of a business only where the overall equity value exceeds a hurdle rate. Growth shares are therefore economically similar to vanilla share options where the hurdle acts as a quasi-exercise price. The strike price applying to the options is the same as the hurdle applying to the growth shares. Management's intention is for the terms of the growth shares to mirror the terms of the options.

The valuation model treats the growth shares in a manner identical to options for valuation purposes, assuming an exercise date of four years from grant.

At IPO:

Growth shares

Growth shares in Darktrace Holdings Limited have been converted into ordinary shares in Darktrace Holdings Limited and then exchanged for ordinary shares in Darktrace plc. The ordinary shares in Darktrace plc have been transferred to the employee holders. General 360 day lock-up applies to all of the growth shares (vested and unvested) and legal title to the all of the growth shares cannot be transferred until the later of: (i) expiry of the 360 day lock-up period; and (ii) to the extent the shares are vested, the applicable vesting schedule.

Share options

Vested and unvested options outstanding over Darktrace Holdings Limited shares have been rolled-up to become options of equivalent value over Darktrace plc Shares after the reorganisation.

- Option holders have been invited to exercise and sell down up to 20% of their vested options on IPO.
- Employer's NICs (National Insurance Contribution and equivalent in other jurisdictions) was borne by the Group.
- Darktrace plc shares were issued to the Equiniti Trust (Jersey) Limited to cover all options (vested and unvested) which remain outstanding following the sell down.

All option holders are subject to the 360 day lock up period in line with the holders of shares arising from the conversion of growth shares.

Awards granted at IPO:

Performance based Conditional Award (the 'Performance Awards')

Vesting of Tranche 1 is dependent on Darktrace's total shareholder return ('TSR') performance over the period from the Admission Date to the end of the Financial Year 2023, ranked in comparison to the constituents of the FTSE 350 (ex. Investment companies). Tranche 2 vests dependent on the same terms, albeit the measurement period runs from the Admission Date to the end of the Financial Year 2024 (i.e. an additional year). Awards do not incorporate an exercise price.

Executive Director Conditional Awards ('Executive Awards')

The Executive Awards carry the same market-based vesting criteria as Tranche 2 of the Performance Awards. Additionally, they have a holding period which determines vested shares must be retained for a period of five years from grant. Awards do not incorporate an exercise price.

Top-Up Awards

These awards vest according to a share price performance hurdle measured over a one-year period following the Admission Date. In essence, no shares vest where the closing share price is £2.50 or less, where closing share price is £5.00, 100% of the shares vest and where the closing share price is between £2.50 and £5.00 the number of awards vests on a straight line basis. Awards do not incorporate an exercise price.

Time-based Awards

These awards vest according to time only. There is no market based vesting criteria and awards do not incorporate an exercise price. The value of the time-based awards will simply be the value of the underlying equity.

The share option schemes and awards are accounted for as an equity settled share-based payment transaction.

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

	FY 2021 $'000	FY 2020 $'000
Sales and marketing	6,446	4,762
Research and development	2,730	2,522
Other administrative	7,870	3,072
Total share-based payment expense	**17,045**	**10,356**

Other administrative share-based payment expense includes $2.2 million related to the shares granted to non-executive directors at IPO at £nil cost and therefore the distribution falls within the definition of equity-settled share-based payment under IFRS 2 Share-Based Payments and there are no vesting conditions attached to these shares and they vest immediately on distribution.

Growth shares and option schemes in place before IPO– key assumptions

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

	WAEP $	FY 2021 Options Number	WAEP $	FY 2020 Options Number
Outstanding at 30 June	1.19	55,784,588	0.94	54,657,987
Granted	3.78	9,556,605	2.87	2,651,383
Lapsed	2.87	(140,350)	2.49	(1,469,782)
Exercised	0.32	(7,128,369)	1.80	(55,000)
Converted growth shares	-	(3,101,843)	-	-
Outstanding at year or period end	1.56	54,970,631	1.19	55,784,588
Exercisable at year end	0.52	48,251,881	0.58	46,070,513

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	FY 2021 Options number	WACL	FY 2020 Options number
$0.00 to $0.23	1.40	22,627,078	4.12	25,045,239
$0.41 to $0.67	3.19	6,945,465	6.10	6,678,509
$1.37 to $1.45	4.45	3,654,320	7.50	3,627,821
$2.09 to $2.21	4.89	2,475,711	7.92	2,494,127
$2.76 to $2.87	3.84	12,549,307	9.09	17,938,892
$5.20	3.71	6,718,750	-	-
	3.70	54,970,631	6.35	55,784,588

The fair value of share-based payments has been calculated using the Black-Scholes option pricing model. Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from grant to exercise based on management’s best estimate. The following assumptions were used in the model for options granted during the financial years ended 30 June 2021.

	Options	Options	Options	Options	Growth shares	Growth shares	Growth shares	Growth shares	Growth shares
Grant date	22-Jul-20	30-Oct-20	16-Mar-21	10-Apr-21	22-Jul-20	01-Sep-20	14-Sep-20	30-Oct-20	09-Nov-20
Share price at grant date	2.87	2.87	5.2	5.2	2.87	2.87	2.87	2.87	2.87
Exercise price	2.87	2.87	5.2	5.2	2.87	2.87	2.87	2.87	2.87

Fair value per option	0.91	0.91	1.63	1.64	5.04	5.04	5.04	5.04	5.04
Expected life in years	4	4	4	4	1	1	1	1	1
Expected volatility	40%	40%	40%	40%	50%	50%	50%	50%	50%
Risk free interest rate	0.43%	0.43%	0.24%	0.27%	0.43%	0.43%	0.43%	0.43%	0.43%
Cancellation rate	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dividend yield	-	-	-	-	-	-	-	-	-
Number of awards	806,250	531,250	6,193,750	525,000	315,000	416,250	67,500	820,125	5,625

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

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

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

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

Given the same market-based criteria applies to both Tranche 2 of the Performance Awards and the Executive Awards, the same model and core inputs are used to value both of these Grants.

A correlation coefficient is included to model the way in which the price of a listed company's stock tends to move in relation to the stock of other listed companies.

Expected volatility was determined based on the historic volatility of comparable companies. The expected life is the expected period from grant to exercise based on management's best estimate.

The following assumptions were used in the valuation:

	Tranche 1 Performance awards	Tranche 2 Performance awards	Executive Awards	Top Up Awards	Time based awards
Grant date	30-Apr-21	30-Apr-21	30-Apr-21	30-Apr-21	30-Apr-21
Share price at grant date	£2.5 ($3.5)	£2.5 ($3.5)	£2.5 ($3.5)	£2.5 ($3.5)	£2.5 ($3.5)
Exercise price	-	-	-	-	-
Fair value per option	£1.5 ($2.08)	£ 1.59 ($2.20)	£ 1.59 ($2.20)	£0.77 ($1.07)	£2.5 ($3.5)

Expected life in years	2.17	3.17	3.17	1	N/A
Expected Volatility	40%	40%	40%	50%	N/A
Risk free interest rate	0.03%	0.14%	0.14%	0.00%	N/A
Cancellation rate	10%	10%	10%	10%	N/A
Dividend yield	0%	0%	0%	0%	N/A
Correlation	10%	10%	10%	10%	N/A
Number of awards	450,656	901,313	775,000	19,741,840	151,101

Time-based Awards vest according to time only. There is no strike price, no market-based vesting criteria and no expectation of dividends. For purposes of the valuation, the fair value of the time-based awards is the value of the underlying equity at the time they were granted on 30 April 2021 equal to £2.5 ($3.5).