Company Registration Number 10185006

GRAPHCORE LIMITED

Annual report and consolidated financial statements

for the year ended 31 December 2022

GRAPHCORE LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

GRAPHCORE LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS

H Jiang
S Khaliq
S Knowles
M Miller
E Niv
D J Richardson
N Toon

SECRETARY

OHS Secretaries Limited

REGISTERED OFFICE

9th Floor
107 Cheapside
London
EC2V 6DN

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Statutory Auditor
2 Glass Wharf
Temple Quay
Bristol
BS2 0FR
United Kingdom

SOLICITORS

Orrick, Herrington & Sutcliffe LLP
107 Cheapside
London
EC2V 6DN

BANK

HSBC Bank PLC
4th Floor
Temple Quay
Bristol
BS1 6DZ

STRATEGIC REPORT

The Directors present their strategic report for the Graphcore Limited Group ("the Group", "Graphcore") for the year ended 31 December 2022 ("FY22"). The Group comprises Graphcore Limited ("the Company") and its subsidiary undertakings.

Review of the business

The principal operations and activities of the Group are the research and development of hardware and software designed to build IPU (Intelligent Processor Unit) systems that will expand and accelerate current and future machine intelligence applications.

The Group also accelerated its IPUaaS offering to make IPU's available in the cloud.

The Group's revenues for the year ended 31 December 2022 were $2.7 million (2021: $5.0 million) of which the majority was generated from system sales plus a smaller contribution from services and cloud services. Total operating costs were $206.8 million (2021: $183.5 million). The increase in costs is primarily attributable to continued investment in research and development.

Loss before tax for the year ended 31 December 2022 was $204.6 million (2021: $184.5 million).

At 31 December 2022 the Group had total cash and short-term investments of $157.0 million (2021: $327.0 million) and total net assets of $161.7 million (2021: $342.7 million).

Future developments

The Group's stated mission is to deliver the world's best processors and software tools to support new breakthroughs in machine intelligence that will expand human potential. To fulfil this mission the near-term goal is to increase IPU adoption with an increasing focus on delivering this through the cloud. Graphcore will continue to invest in research and development to expand the use cases for its technology, optimize user interfaces, and build a cloud native capability. The Group will expand on its fast-growing network of partners in the machine learning ecosystem to make IPUs more accessible for all customers.

The Group will also continue to work on designing and bringing to market its next generation technology which will further enhance its performance advantages for users.

Operating review

During the year the Group continued with commercial progress and released the Bow 2000 product to the market, which is the first processor to use wafer-on-wafer 3D stacking technology, designed to optimize performance and minimize power consumption. The Bow-2000 machine, which began to ship in volume in early 2022 is the building block for Bow Pod systems for disaggregated machine intelligence infrastructure at scale. The Group also launched the C600 PCIe card, based on Graphcore's Mk2 IPU and targeted at machine learning inference applications. The C600 is developed in response to customer demand in markets where datacenter configurations, including rack size and power delivery, vary widely.

2022 was also a key year for the Group in further developing its IPU cloud offering. Working closely with key cloud service partners, IPU's are now available globally enabling innovators to make new breakthroughs in machine learning. The Group announced key partnerships with G-Core and Paperspace to deliver IPUs in the cloud.

The Group was hit by headwinds in the wider macroeconomic environment which resulted in softer demand for hardware sales. As a result of a strategic review, in September 2022 the Group made the decision to close its operations in Norway, Japan and South Korea and make smaller headcount reductions in the US and UK. These exercises were completed in Q4 of 2022.

Going into 2023, the Group is aligned and focused on further delivering and scaling out IPU's in the cloud and continuing to invest in R&D of next generation IPU systems. The strategic decisions made in 2022 will allow for sustainable growth in 2023.

STRATEGIC REPORT (continued)

Operating review (continued)

Revenue generated for the year was $2.7 million (2021: $5.0 million). Whilst revenue decreased the Group grew its customer base through hardware sales to new customers and customers using IPUs in the cloud. The C600 PCIe card was launched in 2022 to continue the growth in China where the Group has a good pipeline of major customers. In EU/RoW (rest of world) Graphcore continued to add customers and expand opportunities at research, finance, internet and datacenter companies. Partnering with G-Core, the group launched a Sovereign EU cloud service. In North America, the Group continued to sell hardware to key customers and launched a partnership with Paperspace to allow IPUs to be used in the cloud on pre-configured systems. The Group continued to grow its cloud services revenue during the year. This is as an important growth axis as Graphcore continues to make IPU access available to a wider range of users.

The Group made significant progress with the ongoing development of its technology. In October Graphcore announced the release of Poplar SDK 3.0 software stack which is now available to download from its support portal and Docker Hub. The new release provides a host of improvements to further enhance ease-of-use, performance and help developers run their machine learning models even faster.

During the year, Graphcore announced a number of new partnerships that will accelerate the commercialization of IPUs as well as broaden access to IPUs for the developer community.

Headcount increased in the year to an average of 650 (2020: 534) with the majority of the increase in research and development. During 2022 the Group made the difficult decision to close operations in Norway, Japan and South Korea and scale back headcount in other locations. As a result, the headcount at the end of 2022 was 494 (2021: 631). Existing engineering centers are in Bristol, UK (HQ), Cambridge, UK and Gdansk, Poland. Sales and support offices are in Palo Alto, US, Beijing, Shenzhen, and Shanghai, China, Singapore, Munich, Germany and London, UK. Offices in Oslo, Norway, Tokyo, Japan and Seoul, South Korea were closed.

Financial performance review

Revenue

Revenue and Gross Margin	FY 2022 $'000	FY 2021 $'000	$ Change $'000	% Change %
Revenue	2,715	5,044	- 2,329	-46%
Gross Margin (%)	63%	-4%	67%	n/a
Product Revenue	2,100	4,869	- 2,769	-57%
Cloud Revenue	137	-	137	0%
Service revenue	478	175	303	173%

Reported revenue was $2.7 million (2021: $5.0 million), 46% lower than the prior year.

Total product revenues decreased $2.8 million (57%) to $2.1 million in 2022 due to lower hardware sales at key strategic customers. The main reduction was in China where the Group shipped significant product in 2021 to a major customer with a delay in follow on orders. In EU/RoW the group launched the Bow-2000, powered by the Bow IPI - the first processor in the world to use Wafer-on-Wafer (WoW) 3D stacking technology to deliver higher performance and better power efficiency. The Bow-2000 machine is the building block for our Bow Pod systems for disaggregated machine intelligence infrastructure at scale.

During the year, the Group found that the macroeconomic environment had deteriorated, with customers taking longer to make purchasing decisions leading to slower progress in hardware sales. In contrast, the cloud computing market for AI workloads has shown strong growth and is expected to overtake on-premises hardware sales in the coming years. This shift started during COVID but has continued to accelerate in the current economic environment. As a result of the weaker demand for disaggregated hardware systems, the group shifted focus in the second half of 2022 to build its cloud AI offering which resulted in lower hardware sales in 2022.

The Group had its first cloud revenue at the end of 2021, and this grew further in 2022. This will now be a focus in 2023 as the Group partners with cloud service providers to makes IPUs available to a wider range of users in the cloud.

Service revenues grew $0.3 million (173%) to $0.5 million in 2022. Primarily this was due service contracts for hardware sales made in 2021 and 2022.

STRATEGIC REPORT (continued)

Financial performance review (continued)

Gross Margin

Gross Margin in the year was 63% which is normalized following the lower gross margin in 2021.

Administrative Expenses

Administrative Expenses	FY 2022	FY 2021	$ Change	% Change
	$'000	$'000	$'000	%
Research and development expenses	119,216	95,755	23,461	25%
Sales, general and administrative expenses	41,125	45,440	- 4,315	-9%
Administrative Expenses from continuing operations	**160,340**	**141,195**	**19,145**	**14%**
FX	5,021	49	4,972	10147%
SBP	16,469	21,970	- 5,501	-25%
Total Administrative Expenses from Continuing Operations	**181,830**	**163,214**	**18,616**	**11%**
Total Administrative Expenses from Discountinued Operations	***25,018***	***20,292***	***4,726***	***23%***
Total Administrative Expenses	**206,848**	**183,506**	***23,342***	***13%***

Administrative expenses from continuing operations, before share based payments and foreign exchange have increased by $19.1 million or 14% to $160.3 million (2021: $141.2 million). The increase in administrative expenses was primarily attributable to an increase in headcount costs as a result of 22% growth in the average number of employees in FY 2022, net of one-off restructuring costs associated with headcount reduction. Total employee costs before share based payment charge, increased to $94million in FY 2022 from $76.8million in FY 2021.

Research and development expenditure from continuing operations increased $23.5 million to $119.2 million (2021: $95.8 million). The primary increase in research and development costs was due to an R&D engineering headcount increase ($10.0 million). Other increases relate to investment in our cloud offerings through increased asset depreciation and data centre hosting costs plus continued investment in the next generation of IPU as well as impairment of goodwill and right of use assets.

Sales, general and administrative expenditure from continuing operations decreased $4.3 million to $41.1 million (2021: $45.4 million). 2021 included a one-off ($2.5 million) increase in professional fees which were not incurred in 2022 and further savings from lower average headcount during 2022.

There was a $5.5 million, or 25% decrease in the share-based payment charges in the year to $16.5 million (2021: $22.0 million) driven largely by a lower number of share options being granted in 2022. The impact of foreign exchange movements which were $0.1 million unfavourable in 2021 and $5.0 million adverse in 2022 are also included within administrative expenses. The adverse foreign exchange loss in 2022 is as a result of the significant weakening of the GBP sterling during 2022.

Total administrative expenses from discontinued operations were $25.0m (2021: $20.3m). Discontinued operations arise from the closure of operations in Norway, Japan and South Korea. Included within the higher 2022 charge is the Group's full impairment of the goodwill associated with the purchase of its Norwegian subsidiary of $2.0m and $2.3m for impaired right of use assets related to the closures.

EBITDA

The Group uses the Alternative Performance Measures ("APMs") of EBITDA and Adjusted EBITDA in addition to other measures shown in the financial statements. The reconciliation from net loss to these measures is shown below. The Group adjusts for depreciation, amortization, share based payments charges and restructuring costs in calculating its APMs in order to ensure relative comparability of the underlying performance of the business. Both continuing and discontinued operations are included in calculating the APMs.

STRATEGIC REPORT (continued)

Financial performance review (continued)

Operating Loss, EBITDA and Adjusted EBITDA	FY 2022	FY 2021	$ Change	% Change
	$'000	$'000	$'000	%
Loss for the financial year	(198,804)	(167,957)	(30,847)	18%
Taxation (net income and expenditure)	(5,815)	(16,584)	10,769	-65%
Loss before tax for the financial year	(204,619)	(184,541)	(20,078)	11%
Finance income	(2,350)	(613)	(1,737)	283%
Finance cost	1,833	1,423	410	29%
Restructuring Charges	4,884	0	4,884	0%
Operating loss	(200,252)	(183,731)	(36,599)	20%
Foreign exchange	5,335	143	5,192	3631%
Depreciation + Amortisation + Impairment	30,708	21,717	8,991	41%
EBITDA	(164,209)	(161,871)	(2,338)	1%
Share-based payment (SBP) charges	17,592	23,066	(5,474)	-24%
Adjusted EBITDA	(146,617)	(138,805)	(7,812)	6%

EBITDA loss for 2022 was $164.2 million, an increase of 2.3 million or 1% compared to the prior year (2021: $161.9 million). Adjusted EBITDA loss, which excludes share based payment charges, increased by 6% to $146.6 million (2021: $138.8 million).

The Group continues with its strategy of making investments in research and development and is investing heavily in the next generation of IPU technology that will power the world's first ultra-intelligence AI computer that we are calling the Good Computer. During 2022, the Group has also invested to build out it's cloud AI infrastructure to make IPU's available in the cloud. As a result of the wider macroeconomic environment and the decision to strategically focus on the cloud opportunities, the group has focused its investments in these areas. This has resulted in the difficult decision to close its operations in Norway, Japan and Korea and also reduce headcount in other locations such as the US and UK. This decision resulted in a one-off restructuring charge of $4.9m during the final quarter of 2022. The restructuring completed in 2022 is expected to result in an improvement in adjusted EBITDA in 2023.

Group headcount at the end of 2022 was 494, down from 663 at the start of the year.

Full year 2022 loss was $198.8 million, compared with a net loss after tax of $168.0 million in the prior year representing an increase of 18%.

Cashflows	FY 2022	FY 2021	$ Change	% Change
	$'000	$'000	$'000	%
Operating cash (outflow) before working capital movements	(150,735)	(144,674)	(6,061)	4%
Cash (outflow) from operating activities	(145,183)	(110,623)	(34,560)	31%
Cash inflow/(outflow) from investing activities	174,330	(101,746)	276,076	-271%
Cash (outflow)/inflow from financing activities	(7,862)	230,696	(238,558)	-103%

Cashflow from Operations

The Group had cash outflow before working capital movements of $150.7 million, a 4% or $6.1 million increase from FY 2021. This movement is principally due to the increase in operating loss driven by higher headcount costs, increased investment in R&D to develop the technology and unfavourable FX movements. Total cash outflow from operating activities has increased by $34.6 million or 31% largely due to change in the working capital position generated primarily from a decrease in the payables balance of $9 million as accruals from 2021 that were paid in 2022 (2021: increase of $18.4 million).

Cashflow from Investing Activities

The cash inflow from investing activities largely results from the redemption of short-term investments into cash.

Cashflow from Financing Activities

Cashflow from financing activities of minus $7.9m (2021: 230.7m) was primarily a result of payments under right of use asset leases. 2021 included financing receipts of $236.7 million from Series E fundraising.

Financial performance review (continued)

Balance Sheet

Balance Sheet	FY 2022 $'000	FY 2021 $'000	$ Change $'000	% Change %
Non current assets	36,891	52,049	15,158	-29%
Cash and short-term investments	156,987	327,017	(170,030)	-52%
Other current assets	18,224	29,432	(11,208)	-38%
Liabilities	(50,424)	(65,775)	15,351	-23%
Share capital and share premium	(722,886)	(722,782)	(104)	0%
Total equity	(161,678)	(342,723)	181,045	-53%

Non-current assets

The Group had non-current assets as at 31 December 2022 of $36.9 million (2021: $52.0 million). The decrease was primarily driven by depreciation and amortization of existing non-current assets including right of use assets and data centre infrastructure. This reduction also includes the impairments of goodwill and right of use assets as a result of the closure of the Norway operation.

Cash and short-term investments

The Group had cash, cash equivalents and short-term investments as at 31 December 2022 of $157.0 million (2020: $327.0 million), a decrease of $170.0 million from 31 December 2021.

Other current assets

Other current assets have decreased by $11.2 million from the prior year as a result of net changes including a decrease in the value of the R&D tax credit claim in 2022 due to the company moving from the SME scheme to the RDEC scheme.

Total liabilities

Non-current & current liabilities decreased by $15.3 million, or 23%, to $50.4 million (2021: $65.8 million). This is primarily driven by both the reduction in liabilities on the ROU assets in the year from payments made under the leases, and the significant timing differences on trade payables in 2021 which did not reoccur in 2022.

Total equity

Total equity reduced from $342.7m in 2021 to $161.7m in 2022 as a result of the losses made during 2022.

STRATEGIC REPORT (continued)

Business Model and Market Overview

Artificial intelligence continues its rapid transition from a primarily research-based endeavor, to a widely adopted commercial technology.

Thousands of new AI-centric startups are being created around the world, while large, established companies are looking to realise the AI advantage in their business.

In common with the consumer internet and SAAS revolution of the past two decades, users are looking to develop their AI capability on cloud-based compute infrastructure. Graphcore has moved rapidly to position itself ahead of this emerging need and is seeing excellent traction that will drive future revenue.

This year – in addition to delivering a new, more powerful Intelligence Processing Unit, the Bow IPU - we continued to build out the means of delivering that compute power to users. The Graphcore cloud AI ecosystem expanded substantially through new partnerships with software and hardware-infrastructure companies:

Paperspace provides cloud-based AI compute instances and is a leading competitor to Google's Colab. Customers can train and run models on Graphcore IPUs remotely – scaling the size of their system in-line with their business' evolving needs. Paperspace Gradient Notebooks provide a flexible, user-friendly environment for developers to interact with their models, while the company's deployment-focused products support enterprise-scale applications.

GCore delivers cloud computing infrastructure to users around the world, through its global network of datacenters. The company has built a reputation for low-latency (fast round-trip) cloud services, regarded as an essential pre-requisite for real-time AI-based services. GCore's strong presence in Europe allows it to service the growing base of users that wish to take advantage of cloud AI compute while needing to physically locate their data in the EU for regulatory purposes.

Through our cloud partnerships and direct relationships, Graphcore once again demonstrated the standout capabilities of the IPU compute platform. Customers reported industry-leading performance and efficiency on a wide range of applications, including Graph Neural Networks – a highly-anticipated but computationally demanding approach to machine intelligence that is seeing increasing adoption.

The IPU performance advantage when running Graph Neural Networks (GNN) was reported by users at the US Department of Energy's PNNL Lab, National University of Singapore, and Twitter's Head of Graph Learning, Michael Bronstein. Meanwhile Graphcore claimed a double first place in OGB-LSC, the industry's leading test of GNN capabilities, defeating teams from nvidia, Microsoft and Tencent.

A range of GNNs, running on Graphcore IPUs, are now available on Paperspace for commercial and other uses.

As both AI generally and the commercial AI cloud compute opportunity continues to grow apace, Graphcore is well-positioned to capitalize on this vast opportunity in coming years.

STRATEGIC REPORT (continued)

People and Culture

Creating a Diverse and Inclusive Environment (DE&I)

We welcome people with different backgrounds and experiences and strive to make Graphcore a great home for everyone.

We are committed to offering fair, equal and unbiased recruitment, promotion and reward systems and a safe, inclusive work environment where everyone can do their best work. From attracting female talent to Graphcore, through to growing, developing and retaining our people once they have joined us, we are focused on building programmes that ensure that everyone has an equal opportunity to progress.

Our DE&I strategy, designed in collaboration with our employees, aims to ensure that all employees feel informed, understood, considered, and part of an organization that supports DE&I. Being successful in our DE&I efforts means we are all working together to achieve our goals.

It is important that our DE&I Strategy is championed in all areas of Graphcore, which is why we have formed a voluntary DE&I Committee. This is a Group of employee representatives from across our different teams, who support and champion the implementation of our DE&I Strategy and provide regular progress updates to the business.

To this end, our strategy has three main themes:
1. Education and Knowledge – raising awareness of, and participation in, DE&I initiatives and activities through learning programs (e.g. Unconscious Bias, Anti-Harassment & Prejudice, Stereotyping and Working Effectively across Cultures), dedicated employee intranet page, groups and data collection and analysis.

2. Wider Diversity - widening our approach beyond gender diversity. We have several internal groups, such as Women at Graphcore and LGBTQ+ at Graphcore which have been created organically, allowing members to support and champion one another. We aim to encourage more individuals to come together and create groups to celebrate each other, provide support and social events.

3. Targets – monitoring, reporting and sharing our progress against specific gender ratio targets and initiatives. Over the last 3 years we have continued to increase the number of women employed at Graphcore from 12% to 15%. Although we set targets to increase the number of women employed at Graphcore during 2022, the result of our closure of operations in certain locations meant that we have had to review those targets. This continues to be an important focus area for Graphcore, and targets will be set in 2023 as to how we can increase the number of women employed at Graphcore.

Flexible working practices

We have generous parental leave and pay programmes for new mothers and fathers. We have always had a flexible working approach based on responsibility and trust and this will continue for the long term. We firmly believe that our flexible and supportive environment nurtures an inclusive culture.

Women in Technology

We are actively focused on increasing the proportion of women joining Graphcore at all levels. We support several female engineering societies and have regular outreach and mentoring with female computer science and electronic engineering undergraduates. We provide insights days to STEM Women Groups and societies, giving those considering a career in AI engineering the chance to understand more about our work, our people and what a career in this sector could offer. There is a well-established Women at Graphcore network which frequently hosts guest speakers, including academics, researchers and leaders who come and share insights to the Group.

People and Culture (continued)

Unbiased recruitment

We are striving to remove bias from our recruitment processes by ensuring that the language used in job adverts is inclusive and gender balanced and holding unconscious bias training for hiring managers and interviewers. Our job adverts are put through Textio and we are scored 91 out of 100 for all published job posts which compares favourably to our competitors. We have a structured interview process to make recruitment as objective as possible and all candidates are treated equally and fairly. We use skills-based assessments for our technical roles to evaluate based on ability and not just interview performance. As part of our Early Careers programmes we hold skills seminars to support students through this process and encourage participation.

Talent Development

We are committed to ensuring that all employees are offered the same development and progression opportunities, to help them reach their full potential, including development programmes for people managers and leaders. During the year the Group introduced the concept of personal development plans for all employees and launched an online learning platform to support employees with their continued development.

We're also committed to helping inspire & develop the next generation of technical talent via our global Early Careers programs. These include undergraduate internship opportunities (10 weeks, 6 months and a year in industry program) where students have the opportunity to work alongside experts from different functions of the business, gaining valuable insight and experience of what a career in AI can offer. Our global Graduate program offers individuals a 2-year development pathway as they learn not only about their own roles and develop the hard & soft skills required, but also about the AI industry and the broader world of work.

Graphcore also works with the UKESF (UK Electronics Skills Foundation) to help tackle the skills shortage in the electronics sector. Through their scholarship scheme, we provide sponsorship, industry placements, employability skills and mentoring schemes to students every year.

Employee Engagement

We place considerable value on the involvement of our employees and continue to keep them informed on matters affecting them and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal Companywide meetings and Company updates as well as regular employee engagement activities.

We ran our second Graphcore employee survey in December 2021, focused around our Graphcore Engagement Framework. 65% of employees responded with 8.7 out of 10 stating that they would recommend Graphcore as a great place to work. We plan to run a further company-wide engagement survey in 2023 to assess the full cycle of the employee experience starting from onboarding, to learning and development and progression/exit.

Incentives/Benefits

Exceptional people deserve the best we can provide, as well as the freedom to make choices that work for them and their loved ones. Graphcore offers generous benefits and a very flexible working approach. All employees receive share options, giving everyone a stake in the future success of the business.

Culture & Development

Andon is a Japanese word meaning 'paper lantern'. The Andon Cord system is a key element of the Jidoka quality control method pioneered by Toyota decades ago, now part of the global lean production approach.
If anyone on the line saw a problem with a vehicle, they would pull the Andon Cord, halting the whole production line and triggering a process to immediately investigate the problems and comprehensively resolve them.
No one is reprimanded for pulling the Andon Cord – even if it turns out there was no problem at all. What matters is that every single member of the team is able to speak up when they think there may be a defect or a problem. Everyone should feel free to raise an issue or call for support.

People and Culture (continued)

At Graphcore, there's no physical Andon Cord running above our desks, but we want all our employees to feel empowered to raise any issue, to anyone, at any time. If something looks wrong, our employees are encouraged to pull the Andon Cord, tell their manager, CEO or the People Team – everyone wants to hear about potential issues so we can get on and fix them.

Our Culture – The Companio

Combining the Latin 'com' (which means 'together') and 'panis' (which means 'bread'), the word 'company' literally means 'a group of people who come together to share bread'. And 'one who shares the bread' is known as a 'companio'. At its root, a company is about people; people who come together to work towards a common purpose. For Graphcore, our purpose is an ambitious one: to ensure the IPU becomes the standard for machine intelligence computing. To achieve this, we need a group of people united in our shared mission. Our culture and values are how we choose to work together as a team. The Companio is intended to articulate our values and to help everyone at Graphcore nurture our culture and keep it strong.

Our culture shapes the way we work and the decisions we make every day as we look towards the future. But our culture has a heritage too. In the early days of Graphcore, the team (around 40 people at that time) got together to talk about culture. They asked themselves what they liked about working here. They talked about the principles and values that mattered most to them, and how those were best reflected within Graphcore. Eventually, the team identified three central behaviours that define the Graphcore spirit: Tackling hard problems together; Speaking up and Taking responsibility.

Our behaviours can't be simplistic lines printed on mugs and posters and then forgotten. They are a practice and discipline that need to be lived daily in order to help us do better work. At Graphcore, there are three particular ways our behaviours can be put into meaningful action; all-round leadership, hiring brilliance and customer focus. Leadership is how we drive change to achieve our company goals, and it's how we empower our people to grow their skills and thrive. It is a way to inspire greatness in each other. Although we like to default to 'yes' at Graphcore, that's not the case when it comes to recruitment. When hiring, even when we need to hire quickly, we must be ready to say 'no'. While we have a strong internal culture at Graphcore, it mustn't distract us from putting ourselves in our customers' shoes, anticipating what they need and supporting them as best as we can.

Beyond the behaviours, we have developed a set of tools that continue to inspire and inform our culture. These four tools can be applied everywhere and to everyone at Graphcore. These tools are; above the line/below the line; the andon cord; the word 'yes' and objectives and key results (OKRs).They're designed to help us plan, to work at pace, to remain positive and to stay aligned, even in the face of complexity.

It was easy to communicate these behaviours when we all worked on one floor. Now we don't just work on different floors, we work in different countries. As our company grows, it becomes even more important to stay true to our culture. That's why we created the Companio – to share our insights into the essence of Graphcore and to empower our employees to express our culture in their own authentic way.

Climate

As required by the Streamlined Energy and Carbon Reporting (SECR) which came into place on 1 April 2019, the Group has identified its UK energy and carbon usage for the year ended 31 December 2022.

The Group has reported on all sources of GHG emissions and energy usage as required under *The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* as amended.

2022 is the second financial year in which the Group reports so comparatives are shown for 2021.

Energy Use (kWh)	**Year ended 31 December 2022**	**Year ended 31 December 2021**
Gas	45,780	34,363
Electricity	1,112,298	1,587,265
Total	**1,158,078**	**1,621,628**

Carbon Emissions

CO2 Emissions (tCO2e)	**Year ended 31 December 2022**	**Year ended 31 December 2021**
Emissions from combustion of gas (Scope 1)	9	7
Emissions from combustion of fuel for transport purposes (Scope 1)	0	0
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2)	215	463
Emissions from electricity purchased for use in leased data centers (Scope 2)	1,181	1,284
Emissions from business travel in Company-owned vehicles or employee-owned vehicles where the Company is responsible for purchasing the fuel (Scope 3)	9	59
Total	**1,414**	**1,813**

Intensity Ratio

CO2 Emissions (tCO2e)	**Year ended 31 December 2021**	**Year ended 31 December 2021**
Total Emissions per Full time Employee (FTE)	3.25	4.91

Methodology

Energy figures are based on data from all UK sites and include electricity and gas where applicable. Output is in kilowatt hours (kWh). Responsibility for emissions sources was determined using the operational control approach. Graphcore has taken the option to disclose C02 emissions from electricity purchased for use in UK-based leased data centers.

The carbon emissions figures are calculated in accordance with the Greenhouse Gas (GHG) Protocol and outputs are in tC02e using the most up-to-date conversions factors from the Department of Business, Energy & Industrial Strategy (BEIS). Carbon emission figures are premise-related only (gas and electricity). We have followed the 2019 UK Government environmental reporting guidance. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emissions factors from the UK Governments GHG Conversion Factors for the Company reporting 2021 to calculate the above disclosures.

Climate (Continued)

Energy Efficient Measures

The Group introduced several measures during 2021 which have continued in 2022 for the purpose of increasing energy efficiency including:

- Electric car charging stations installed in some sites;
- Reducing hours of heating and cooling in offices;
- All lights being converted to LED;
- Changing light sensor timings in offices;
- Increase in cycle to work scheme allowance to accommodate employee electric bike purchases; and
- All electricity used in UK leased data centers is 100% renewable electricity

Principal risks and uncertainties

The following, while not exhaustive, are considered the principal risks and uncertainties facing the Group:

Impact of technological uncertainties

Our emerging technology is novel, and as such its development involves significant technological uncertainty. Accordingly, there is risk that the products will take longer or be more costly to develop than planned, or in the extreme, may not be technologically feasible. The Group incorporates rigorous testing and validation throughout the development process to minimize these risks.

Market acceptance of our products and competition

The market for high performance computing platforms designed for AI and the machine intelligence computing market, in which solutions such as our IPU solution are a key component, is a narrow market whose growth and contraction are closely tied to general economic conditions. General economic downturns and swings in the market's capacity to absorb both more and new products, which could result in lower demand for high power computing systems, could result in a lower demand for our IPU solution and negatively impact our operating results. In addition to the technological risk involved with new product development, there is the commercial risk that the technology is not accepted by customers, is made available in the wrong form factor, is superseded, or better solutions are made available by competitors. To mitigate this the Group engages with customers from an early stage to understand their needs and requirements and continues to invest in research and development to ensure that its technologies evolve and are able to meet changing customer demand patterns.

Reliance on a small number of suppliers for the manufacture of all our products

The Group utilizes one third-party foundry to manufacture its IPUs, and a handful of key suppliers are used to provide assembly, test and other back-end services. Manufacturing delays caused by our foundry or other key suppliers could cause issues either with lead times or the cost of production. Production and assembly cost increases or shortages due to a supplier suspending operations, for example as a result of a natural disaster, could adversely affect the ability to meet customer demands. If they are unable to manufacture or supply components on a timely and cost-effective basis in sufficient quantities and using competitive technologies, or have a manufacturing problem or insufficient foundry capacity, we may incur significant costs or delays which could negatively affect our operations. To mitigate this the Group works closely with world-class suppliers that have knowledge of the industry and a reputation for consistent and high-quality production. In addition, the Group holds an inventory of products at various stages of completion to provide a buffer against interruptions in supply.

Our product success depends on both our own and third-party intellectual property

The Group relies upon patent, copyright, trade secret, mask work and trademark laws to protect our intellectual property (IP). We cannot provide assurance that such IP rights can be successfully asserted in the future or will not be invalidated, violated, circumvented or challenged. Third parties may attempt to misappropriate our IP through electronic or other means or assert infringement claims against us or parties we have agreed to indemnify.

Principal risks and uncertainties (continued)

Such assertions by third parties may result in costly litigation, indemnity claims or other legal actions, and we may not prevail in such matters or be able to license any valid and infringed patents from third parties on commercially reasonable terms. This could result in the loss of our ability to import and sell our products or require us to pay costly royalties to third parties in connection with sales of our products. Any infringement claim, indemnification claim, or impairment or loss of use of our IP could materially adversely affect our financial condition and results of operations. To mitigate this risk the Group has an experienced internal patent attorney team which works closely with well-reputed external patent attorneys to register protection for its IP.

In the design and development of new products and product enhancements, we rely on third-party intellectual property such as software development tools and hardware testing tools. Furthermore, certain product features may rely on intellectual property acquired from third parties, including hardware and software tools and products. The design requirements necessary to meet future consumer demands for more features and greater functionality from semiconductor products may exceed the capabilities of the third-party intellectual property or development tools that are available to us. In addition, hardware and software tools and products procured from third parties may contain design or manufacturing defects, including flaws that could unexpectedly interfere with the operation of our products. If the third-party intellectual property that we use becomes unavailable or fails to produce designs that meet consumer demands, our business could be adversely affected. To mitigate this risk the Group works closely with leading global suppliers and incorporates thorough verification and testing throughout the development process.

Competition for manufacturing capacity and key personnel

The Group operates in an industry that is intensely competitive and characterized by companies that are larger and better resourced. If we were to be unsuccessful in competing for manufacturing capacity or key employees then our business and financial condition could be harmed. To mitigate this the Group seeks to recruit and retain staff by offering competitive packages including good benefits and retention incentives through share options. Multiple office locations in key strategic locations across the globe enable access to a wider talent pool.

Public health crises, earthquakes or other natural disasters could disrupt our operations and have a material adverse effect on our financial condition and results of operations.

Our worldwide operations could be disrupted by public health crises such as an outbreak of contagious diseases like COVID-19, earthquakes or other natural disasters such as typhoons, tsunamis, volcano eruptions, fires or floods, as well as disruptions in access to adequate supplies of electricity, natural gas or water. Our independent foundry, upon which we rely to manufacture our products, as well as our non-UK facilities, are located in regions that are subject to earthquakes, wildfires or other natural disasters. Our third-party foundries in Taiwan, and our assembly and test partners in other regions are located in areas that have been seismically active in the past and some of these areas have also been affected by other natural disasters such as typhoons.

Disruption of operations at these locations could cause delays in manufacturing and shipments of our products and could have a material adverse effect on our results of operations. Any catastrophic event in these locations would disrupt our operations, and our insurance may not cover losses resulting from such disruptions of our operations, thereby materially adversely affecting our financial condition and results of operations. Furthermore, natural disasters can also indirectly impact us. For example, our customers' supply of other complimentary products may be disrupted by a natural disaster and may cause them to delay orders of our products. We see the risks associated with COVID-19 starting to decrease as countries and business adapt to the pandemic and find ways to operate successfully within it. Safety of employees is of crucial importance and the Group continues to follow local country government guidance to ensure all staff are able to continue to work in a manner that both protects employee health and mental wellbeing and ensures they feel safe in the environment they are working in.

To reduce the impact of natural disasters on our business we maintain close dialogue with all our key partners to understand their protocols. We also ensure that we are adequately capitalized to provide time to adapt to any supply or broader economic shocks.

Principal risks and uncertainties (continued)

Reliance on small number of customers

As a growing Company, we are reliant on a small number of customers for our revenue and for input on our new products and technology. Product and software performance issues, issues caused by limited resources to support customers, and other factors may negatively impact our customer relationships, resulting in material impacts to our financial condition and results of operations. Our reliance on a small number of customers also creates a concentration of credit risk, in that our receivables in any given financial quarter may be highly dependent on a small number of customers. The Group mitigates these risks by growing the number of customers and increasing penetration with existing customers through innovative products and customer support across a broad spectrum of end markets. We consistently monitor our credit risk exposure and have good relationships with our customers which allows us to swiftly address any issues.

We are subject to regulatory and operational risks associated with conducting business operations outside of the UK which could adversely affect our business.

In addition to international sales and support operations and development activities, we purchase our wafers from foreign foundries, have our commercial products assembled, packaged and tested by subcontractors located outside the UK and utilize third party warehouse operators to store and manage inventory levels for certain of our products. All of these activities are subject to the uncertainties associated with international business operations, including global laws and regulations, trade barriers, economic sanctions, tax regulations, import and export regulations, duties and tariffs and other trade restrictions, changes in trade policies, anti-corruption laws, foreign governmental regulations, potential vulnerability of and reduced protection for IP, longer receivable collection periods, disruptions or delays in production or shipments and the impact from a global pandemic, such as COVID-19 and responsive government measures, any of which could have a material adverse effect on our business, financial condition and/or operating results.

We are dependent upon our ability to obtain export licenses, or exceptions to export license requirements, from the UK and other foreign regulatory agencies. There is no assurance that we will be issued these licenses or be granted exceptions, and failure to obtain such licenses or exceptions could limit our ability to sell our products into certain countries and negatively impact our business, financial condition and/or operating results.

Additional factors that could adversely affect us due to our international operations include volatility in oil prices and increased costs, or limited supply of other natural resources. Moreover, our financial condition and results of operations could be adversely affected in the event of political conflicts, economic crises or changes in international relations affecting countries where our main wafer providers, warehouses, end customers, and contract manufacturers who provide assembly and test services worldwide, are located. The Group actively monitors emerging conflicts and related export restrictions or sanctions. The Group employs both internal and external experts to advise and ensure adherence to various trade laws.

Cyber-attacks and data breaches could have an adverse effect on our business and reputation and negatively impact our financial condition and results of operations.

Security breaches, including cyber-attacks, phishing attacks or attempts to misappropriate or compromise confidential or proprietary information or sabotage enterprise IT systems, are becoming increasingly frequent and more sophisticated. We depend on the uninterrupted operation of our IT systems to manage our operations, store and retrieve business and financial data and facilitate internal communications and communications with customers, subcontractors, suppliers and distribution partners. We experience security incidents of varying degrees on an ongoing basis. We take steps to detect and investigate any security incidents and prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. Because the techniques used to obtain unauthorized access to or sabotage networks and systems change frequently, we may be unable to anticipate these techniques or to implement adequate protections. These security incidents may involve unauthorized access, misuse or disclosure of intellectual property or confidential or proprietary information regarding our business or that of our customers or business partners.

Principal risks and uncertainties (continued)

We also may be subject to unauthorized access to our IT systems through a security breach or cyber-attack. Recently, several large organizations have been infected by "ransomware," through which an attacker gains access to the organization's computer files, renders them temporarily inaccessible and threatens to permanently delete them if a cash ransom is not paid by a specified deadline. Third parties may continue to attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our network and systems. The IT systems of our remote internet-connected third-party server providers (sometimes called the "cloud"), customers, suppliers, and distribution partners and the links between our IT systems and our customers are subject to the same risks as those of our IT systems. The costs to us to prevent, detect or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful. In addition, as a result of the COVID-19 pandemic, some of our employees have been working remotely, which may pose additional IT security risks. In the event of a security breach, our business and reputation could be harmed, and we could be subject to legal and regulatory claims.

We have an extensive suite of cybersecurity tools which monitor and react to all aspects of cybersecurity 24x7 via our Security Operations Centre. By running continuous cyber security assessments, we uncover any weaknesses in our infrastructure, controls and processes. The Group also provides regular training to all employees regarding phishing and other forms of illegal system penetration.

Risk of disputes and litigation

From time to time, the Company is involved in various disputes and litigation matters that arise in the ordinary course of its business. These may include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contract law, tax, regulatory, distribution arrangements, employee relations and other matters. Periodically, the Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, the Company accrues a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, the Company continues to reassess the potential liability related to pending claims and litigation and may revise estimates. There are currently no pending claims, litigation, or allegations of which the Directors are aware.

Section 172 (1) Statement

Our success depends on fostering successful relationships with stakeholders. We are conscious of our duty to promote our success with regard to our stakeholders under s172(1) of the Companies Act 2006.

We acknowledge that the success of Graphcore's strategy is reliant on positive engagement with all the Group's stakeholders. Graphcore has a global and diverse community of stakeholders, each with its own interests in and expectations of the Group. Due to the scale and geographic spread of our businesses, stakeholder engagement mostly takes place at an operational level and the Board is therefore reliant on executive management to help it fully understand the impact of the Group's operations on its stakeholders.

During the year, the Board considered information from across the Group's businesses in the form of presentations from executive management and reports and took part in discussions which considered, when relevant, the impact of the Group's activities on its key stakeholders. These activities, together with direct engagement by the Board and individual Directors with the Group's stakeholders, helped to inform the Board in its decision-making processes. As a Board, the collective role of the Directors is to act as responsible guardians and stewards of the Group. In so doing, the Board ensures that the Group is optimally positioned to achieve its long-term sustainable aims while safeguarding the interests of all its stakeholders.

Our People

Without talented and committed employees, we could never deliver on our ambitions. We aspire to make Graphcore a great place to work in order for our people to better serve our customers. We place considerable value on the involvement of our employees and continue to keep them informed on matters affecting them and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal Companywide meetings, Company updates as well as regular Employee engagement surveys, further details of the Group's engagement activities with employees can be found in the People and Culture section of the Strategic Report on page 10. Our Chief People Officer sits on our Executive management team.

Our Customers, Partners, Suppliers and Others

At each scheduled board meeting, the board reviews data, reports and feedback from key stakeholder engagement activities with customers, partners, suppliers and others. Using this information, the board and executive management are able to identify and carefully consider the interests of stakeholders who may be affected by key decisions and reflect on how such interests should be taken into consideration strategically as part of the board's decision-making process.

Investors

We greatly value strong relationships with our investors. We uphold our commitments with frequent dialogue and regularly scheduled meetings, covering a wide range of strategic, operational, financial and ethical topics. We value the output received from this communication and endeavor to incorporate this into business operations.

Communities and environment

With a global presence, we recognize the importance of respecting the communities we do business in. We like our offices to be in central locations with good public transport links and we have implemented energy saving initiatives including low-energy lighting and recycling waste facilities. We also support schemes such as cycle to work.

This is the second year the Company has published carbon emissions data as a large Company under the Streamlined Energy and Carbon Reporting within the climate section of the Strategic Report on page 13. The Group is committed to further building out its environmental reporting.

We continue to help build a community of IPU developers by enabling easier access to IPUs and supporting developers with code, model examples and documentation. Programs to give access to academics around the world are facilitating research on IPUs which is shared with the wider AI community.

STRATEGIC REPORT (continued)

Section 172 (1) Statement (continued)

Business Conduct

We are committed to acting fairly and upholding the highest standards of business conduct.
We approach our operations with the utmost integrity and ethical behavior. Business decisions are balanced with risk and compliance, with consideration given to the environment we operate in and the effect those decisions may have.

We are an equal opportunity employer and have clear and detailed equal opportunities policy. We are determined to ensure that no applicant or employee receives less favorable treatment on the grounds of gender, age, disability, religion, belief, sexual orientation, marital status, or race, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable.

Consequences of any decision in the long term

When making any decisions, each Director ensures that they act in a way that they consider, in good faith, would most likely promote the success of the Group for the benefit of its members as a whole, and in doing so, have regard for the matters set out in section 172(1).

Approved by the Board and signed on its behalf by:

N Toon
Director

May 2023

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Group and Company, together with the audited consolidated financial statements and auditors' report, for the year ended 31 December 2022.

Future developments

Details of future developments can be found in the Strategic Report on page 4 and form part of this report by cross-reference.

Events after the balance sheet date

There are no post balance sheet events to report which would have a material impact on the financial statements presented.

Research and development

During 2022, the Group continued to invest heavily in R&D. Further details and progress made can be found in the operational review of the Strategic Report.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Credit risk

The Group's principal financial assets are bank balances, cash and short-term investments.

The Group is in the early stages of revenue generation and so as yet, it is not exposed to significant credit risk from trade and other receivables. The Group measures its receivables using the expected credit losses model on recognition and assesses its receivables at the end of each year for any impairment based on the expected receipt and the customers' ability to pay. As at 31 December 2022 there has been no write-off of any trade receivable balance.

The credit risk on liquid funds is limited because the Board only approved counterparty banks with high credit-ratings assigned by international credit-rating agencies.

Cash flow risk

The Group operates internationally, and its activities expose it primarily to the financial risks of changes in foreign currency exchange rates. Foreign exchange risk arises primarily with respect to sterling reflecting the fact that a large part of the Group's cost base is settled in sterling whereas funding and revenues to date are denominated in US dollars. The Group also has some currency exposure with regards to its subsidiaries in Norway and China. The Group seeks to mitigate this risk by the use of currency exchange contracts to manage the US Dollar / Sterling risk as appropriate. At 31 December 2022 the Group had no unsettled currency exchange contracts.

The Group does not have any material debt financing so is not exposed to interest rate risk.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group regularly reviews the funding available to it. The primary source of funding is through equity investment.

DIRECTORS' REPORT (continued)

Financial risk management objectives and policies (continued)

Going concern

These financial statements have been prepared on a going concern basis.

Graphcore Limited incurred a loss in 2022 and further losses are expected in 2023 as the business continues to invest in growing the company. On 31st December 2022, the Group has net assets of $161.7m including a year-end cash balance of $157.0m. The Group and Company have prepared a detailed cashflow forecast through to December 2027 which indicates that there will be a need for further funding into the Group before a planned cashflow break-even point is reached. The forecast indicates that the Group and Company will require further investment to finance the existing requirements over the 12 months from the date of signing these financial statements. The Group and Company are in discussions with potential investors to secure the additional funding required, but has not yet reached agreement. However, the Directors expect that appropriate funding can be secured before it is required.

On this basis, the validity of the going concern assumption depends principally on the ability of the directors to secure additional funding and the Group to achieve its forecast level of revenue and cost bases for 2023. These conditions constitute a material uncertainty in relation to going concern. The financial statements do not include any adjustments that would result if the going concern assumption were not applicable.

The directors consider than in preparing the financial statements they have taken into account all information that could reasonably be expected to be available and, on that basis, they consider that it is appropriate to prepare the financial statements on a going concern basis.

Dividends

The Group cannot pay a dividend due to its deficit position. The Directors do not recommend payment of a final dividend (2021: £nil).

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

H Jiang
S Khaliq
S Knowles
M Miller
E Niv
D J Richardson
N Toon

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

DIRECTORS' REPORT (continued)

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal companywide meetings and company bulletins. Employees are consulted regularly on a wide range of matters affecting their current and future interests. Details of the Group's engagement with employees through its People and Culture are given in the Strategic Report.

Stakeholder engagement

Identification of other key stakeholders and details of how the Group engages with other key stakeholders can be found in the Section 172 (1) Statement in the Strategic Report.

Independent auditors

In the case of each Director in office at the date the Directors' Report is approved:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

N Toon
Director

May 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual report and consolidated financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Independent auditors' report to the members of Graphcore Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Graphcore Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: Consolidated and Company Statement of Financial Position as at 31 December 2022; the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity and the Consolidated cashflow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.b to the financial statements concerning the group's and the company's ability to continue as a going concern. The Group and Company has prepared detailed cash flow forecasts for the going concern period and thereon. The forecasts indicate that in its base case the Group and Company will require additional funding to meet its obligations as they fall due. The Group and Company expect that appropriate funding can be secured before it is required. These conditions, along with the other matters explained in note 1.b to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.
With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to direct and indirect taxes and employment laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals to deflate revenues, increase costs and misappropriation of cash. Audit procedures performed by the engagement team included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Auditing the risk of management override of controls, including testing through journal entries and testing accounting estimates;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statements disclosures and testing supporting disclosures to assess compliance with associated laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
18 May 2023

GRAPHCORE LIMITED

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Revenue	5	2,715	5,044
Cost of sales	6	(1,002)	(5,270)
Gross profit / (loss)		1,713	(226)
Other income	9	7,944	-
Research and development expenses		(119,216)	(95,755)
Sales, general and administration expenses		(41,125)	(45,440)
Foreign exchange charges		(5,021)	(49)
Share based payment charges	10	(16,469)	(21,970)
Operating Loss		(172,174)	(163,440)
Finance income		2,350	613
Finance costs		(1,833)	(1,423)
Loss before tax	6	(171,657)	(164,250)
Tax	9	(1,912)	17,172
Loss for the financial year from continuing operations		(173,569)	(147,078)
Loss from discontinued operations	4	(25,235)	(20,879)
Loss for the financial year		(198,804)	(167,957)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022 $'000	2021 $'000
Loss for the financial year	(198,804)	(167,957)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(63)	10
Other comprehensive loss for the year, net of tax	(63)	10
Total comprehensive loss for the year	(198,867)	(167,947)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022 $'000	2021 $'000
Non-current assets			
Goodwill	11	-	1,969
Property, plant, and equipment	12	16,073	19,858
Right of use assets	13	14,660	24,095
Non-current receivables	16,17	6,158	6,127
Total non-current assets		**36,891**	**52,049**
Current assets			
Inventories	15	6,197	4,087
Trade and other receivables	16,19	6,755	8,418
Tax receivables	9	5,272	16,927
Short-term investments	20	-	187,403
Cash and bank balances	21	156,987	139,614
Total current assets		**175,211**	**356,449**
Total assets		**212,102**	**408,498**
Non-current liabilities			
Lease liabilities	13	(10,649)	(17,905)
Other non-current liabilities	22	(575)	(1,131)
Provisions	23	(6,646)	(7,751)
Total non-current liabilities		**(17,870)**	**(26,787)**
Current liabilities			
Trade and other payables	22	(24,017)	(31,247)
Lease liabilities	13	(8,537)	(7,741)
Total current liabilities		**(32,554)**	**(38,988)**
Total liabilities		**(50,424)**	**(65,775)**
Net assets		**161,678**	**342,723**
Capital and reserves			
Share capital	24	137	136
Share premium account	24	722,749	722,646
Share based payment reserve	24	83,671	66,079
Translation reserve	24	443	380
Accumulated losses		(645,322)	(446,518)
Total equity	25	**161,678**	**342,723**

The consolidated financial statements of Graphcore Limited (registered number 10185006) on pages 27 to 76 were approved by the board of Directors on May 2023 and signed on its behalf by:

N Toon
Chief Executive Officer

N Bishop
Chief Financial Officer

GRAPHCORE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Called-up share capital $'000	Share premium account $'000	Share based payment reserve $'000	Translation reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2021	**121**	**486,128**	**43,013**	**390**	**(278,048)**	**251,604**
Loss for the financial year	-	-	-	-	(167.957)	(167,957)
Exchange differences on translation of a foreign operation	-	-	-	(10)	-	(10)
Issue of share capital (net of direct expenses)	15	236,518	-	-	-	236,533
Credit to equity for equity settled share-based payment	-	-	23,066	-	-	23,066
Direct accumulated losses impact of transition to IFRS	-	-	-	-	(513)	(513)
At 31 December 2021	**136**	**722,646**	**66,079**	**380**	**(446,518)**	**342,723**
Loss for the financial year from continuing operations	-	-	-		(173,569)	(173,569)
Loss for the financial year from discontinued operations	-	-	-	-	(25,235)	(25,235)
Exchange differences on translation of a foreign operation	-	-	-	63	-	63
Issue of share capital	1	103	-	-	-	104
Credit to equity for equity settled share-based payment	-	-	17,592	-	-	17,592
At 31 December 2022	**137**	**722,749**	**83,671**	**443**	**(645,322)**	**161,678**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2022

	Note	2022 $'000	2021 $'000
Net cash flows used in operating activities	25	**(145,183)**	**(110,623)**
Cash flows from investing activities			
Purchase of short-term investments	20	-	(199,795)
Purchase of tangible fixed assets	12	(15,617)	(19,281)
Proceeds on disposal of short-term investments	20	187,424	109,830
Interest received	6	2,523	5,418
Cash on assumption of employee liability	22	-	2,082
Net cash flows used in investing activities		**174,330**	**(101,746)**
Cash flows from financing activities			
Payments under headlease obligations	13	(8,056)	(5,749)
Receipts from subleases	13	178	-
Proceeds on issue of shares	24	104	236,720
Share proceeds transaction costs	24	-	(187)
Payments of loans	22	(88)	(88)
Net cash flows from financing activities		**(7,862)**	**230,696**
Net increase in cash and cash equivalents		**21,285**	**18,327**
Cash and cash equivalents at beginning of year	21	**139,614**	**120,957**
Effect of foreign exchange rates		(3,912)	330
Cash and cash equivalents at end of year	22	**156,987**	**139,614**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2022

1. General Information

The principal accounting policies of these financial statements are summarized below. They have all been applied consistently throughout the year and the preceding year.

a. General information and basis of accounting

Graphcore Limited (the "Company") is a private Company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 3.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations are set out in the Strategic Report on page 4.

The functional currency of Graphcore Limited is considered to be US Dollar ("USD") because that is the currency of the primary economic environment in which the Group operates. The Group has received all of its funding to date in USD which is the main source of cash generation before the product is brought to market. The consolidated financial statements are also presented in USD. Foreign operations are included in accordance with the policies set out below. All amounts in the financial statements and notes have been rounded off to the nearest thousand USD, unless otherwise stated.

The consolidated financial statements of the Group have been prepared in accordance with the requirements of the Companies Act 2006 and in accordance with UK-adopted International Accounting Standards. The financial statements have been prepared on the historical cost basis, which is generally based on the fair value of the consideration given in exchange for goods or services, with the exception of certain financial instruments which are measured at fair value.

These consolidated financial statements should be read in conjunction with the accompanying notes.

The Company Financial Statements are presented after the consolidated Group Financial Statements, commencing on page 77.

New Standards, Amendments, IFRIC Interpretations and new Relevant Disclosure Requirements Adopted by the Group

The Group has applied minor amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2022 set out below, none have a material impact on Graphcore's Group or Company financial statements.

- Amendments to IFRS 3,' Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, 'Property, plant and equipment'.
- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'.
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, ' Leases'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. General information (continued)

New Standards and Interpretations not yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group for future reporting periods or foreseeable future transactions:

New Standards and Interpretations not yet Adopted	Date published	Effective date
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	January 2020	1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	February 2021	1 January 2023
Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction	May 2021	1 January 2023
IFRS 17, 'Insurance contracts', as amended in December 2021	June 2020	1 January 2023

b. Going concern

These financial statements have been prepared on a going concern basis.

Graphcore Limited incurred a loss in 2022 and further losses are expected in 2023 as the business continues to invest in growing the company. On 31st December 2022, the group has net assets of $162m including a year-end cash balance of $157m. The Group has prepared a detailed cashflow forecast through to December 2027 which indicate that there will be a need for further funding into the Group before a planned cashflow break-even point is reached. The forecast indicates that the Group and Company will require further investment to finance the existing requirements over the 12 months from the date of signing these financial statements. The Group and Company are in discussions with potential investors to secure the additional funding required, but has not yet reached agreement. However, the Directors expect that appropriate funding can be secured before it is required.

On this basis, the validity of the going concern assumption depends principally on the ability of the directors to secure additional funding and the Group to achieve its forecast level of revenue and cost bases for 2023. These conditions constitute a material uncertainty in relation to going concern. The financial statements do not include any adjustments that would result if the going concern assumption were not applicable.

The directors consider than in preparing the financial statements they have taken into account all information that could reasonably be expected to be available and, on that basis, they consider that it is appropriate to prepare the financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

1. General information (continued)

c. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and the entities controlled by the Company up to 31 December each year. In accordance with IFRS 10, the Company determined that control is achieved when it has:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect returns.

The Company reassesses whether or not it controls an investee if facts or circumstances indicate that there are changes to one or more of the three elements of control listed. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income, and expenses are eliminated on consolidation.

d. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date.

All other exchange differences are recognized in profit or loss in the year in which they arise except for the following which are reported in other comprehensive income and accumulated in the translation reserve:

- exchange differences arising on translation of the opening net assets and results of overseas operations;
- exchange differences arising on gains or losses on non-monetary items which are recognized in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized in other comprehensive income and reported under equity.

2. Accounting policies

a. Intangible assets

In accordance with IFRS 3, Goodwill arising on the acquisition of subsidiary undertakings and businesses in the control of the Group, is recorded at cost, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is allocated to the immediately related Cash Generating Unit ("CGU") and is reviewed annually for indicators of impairment in accordance with IAS 36. Goodwill is presented net of cumulative impairment.

In a business combination, the Company and the Group assess the assets and liabilities acquired, including previously un-recognized intangible assets in accordance with IAS 38 in determining the fair value of Goodwill.

Research and development costs are reviewed annually in accordance with IAS 38 to determine if there are externally purchased intangibles or internally-generated intangibles arising from the development phase of R&D for which there is an identifiable asset expected to generate future benefit, and for which the cost can be reliably determined. The Group assesses any such asset for technical feasibility in determining whether it should be treated as an intangible asset or expensed in the Income Statement.

Any assets identified are recorded at their fair value, and amortization is charged on a straight-line systematic basis over their expected useful life.

b. Property, plant, and equipment

Property, plant, and equipment is recognized at cost in accordance with IAS 16 and is presented net of accumulated depreciation and accumulated impairment losses in accordance with IAS 36.

Cost is measured taking into account the purchase price and the costs directly attributable to bringing the asset to the location and condition necessary to operate and an estimate of the future decommissioning, dismantling and restoration costs.

Depreciation is charged on all significant components or property, plant, and equipment, based on an estimate of its useful economic life. Depreciation rates are calculated on a systematic basis to spread the cost, less estimated residual value, of each component of an asset on a straight-line basis to reflect the pattern of benefit to the Group, as follows:

Asset Class	**Depreciation method and useful economic life**
Leasehold land and buildings	- Straight line over period of lease
Development Equipment	- 2 years straight line
Fixtures and Fittings	- 5 years straight line
Office Equipment	- 2 years straight line
Computer Equipment	- 2 years straight line

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

c. Leases

The Group determines if an arrangement is or contains a lease under the definition of IFRS 16 at its inception. An arrangement is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Graphcore makes use of the following expedients in determining if a lease is in the scope of IFRS 16. The Group does not recognize right-of-use ("ROU") assets or lease liabilities for leases:

- With a term of 12 months or less; or
- With an equivalent asset value of $5,000 or less.

2. Accounting policies (continued)

c. Leases continued

Such leases are treated as 'operating leases' and are recognized in the Income Statement on a straight-line basis over the lease term.

The Group as a Lessee

Leases in which the Group is a lessee within the scope of IFRS 16 are included ROU assets and current and non-current lease liabilities on the Group's consolidated balance sheet. ROU assets represent the Group's right to use an underlying asset for the lease term. The corresponding lease liabilities represent its obligation to make lease payments arising from the lease.

Lease liabilities are calculated based on the present value of the future minimum lease payments over the lease term at commencement. The lease ROU asset is calculated based on the lease liability, adjusted for any initial direct costs incurred and/or dilapidation provision.

The Group has lease agreements which contain both lease and non-lease components and separates non-lease components in determining the lease liability to record. Relevant future minimum lease payments included in the lease liability exclude variable lease payments, such as common area maintenance, operating expenses, utilities, or other costs that are subject to fluctuation from year to year. Such payments are recognized in the Income Statement as incurred.

The Group's lease terms may include options to extend or to terminate the lease. Periods beyond the non-cancellable term of the lease are included in the measurement of the lease liability when it is reasonably certain that the Group will exercise the associated extension option or waive the termination option.

The Group reassesses the lease term if and when a significant event or change in circumstances occurs within the control of the Group.

As none of the Group's leases explicitly provide an implicit rate of borrowing, the net present value of future minimum lease payments is determined using the individual lessee's incremental borrowing rate. The Group applies the expedient to use a portfolio approach in determining the relevant incremental borrowing rate. The incremental borrowing rate for any Group of assets is an estimate of the interest rate the lessee would have to pay to borrow on a collateralized basis with similar terms and payments, in the economic environment where the leased asset is located.

ROU assets are assessed for indicators of impairment on an annual basis in accordance with IAS 36.

The Group as a Lessor

Leases in which the Group is a lessor within the scope of IFRS 16 are classified as either operating or finance leases. All leases which transfer substantially all the risks and rewards incidental to ownership of an underlying asset to another party are considered to be finance leases, all other leases are classified as operating leases. Finance leases are recognized as Finance Lease Receivables, measured at the value of the net investment in the lease or the future cashflows discounted at the interest rate implicit in the lease to the present value.

None of the Group's leases explicitly provide an implicit rate of borrowing, therefore the net present value of future minimum lease payments is determined using the individual lessee's incremental borrowing rate. Where the lessor arrangement arises as a result of the Group granting a sublease over a property on which they are a lessee, the Group uses the expedient to utilize the same interest rate as is included in the headlease.

2. Accounting policies (continued)

d. Impairment of Non-Financial Assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At a minimum, non-financial assets are reviewed and are tested annually for impairment.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year. Reversals of impairment losses are limited such that the value of the asset cannot exceed the carrying amount it would have had no impairment been recognized.

For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets. These are identified to be CGUs. The Group determines that the lowest level CGU is the Company that an asset is located within.

e. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

All financial assets and liabilities are initially measured at fair value, which normally equates to cost or to the consideration expected to be given or received.

Applying IFRS 9, all financial assets and liabilities are classified at initial recognition as fair value or amortized cost instruments. The Group primarily holds debt instruments. Debt instruments which are an asset are classified depending on the Group's business model for holding these instruments. All financial assets which are held by the Group are held for the collection of contractual cash flows of principal and interest, accordingly, are subsequently measured at amortized cost.

Certain financial instruments which have closely related assets and liabilities, but which do not qualify for a right of offset are irrevocably elected to be subsequently measured at fair value through profit and loss in order to manage accounting mismatch. All other financial liabilities are subsequently measured at amortized cost.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognized only when the obligation specified in the contract is discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

2. Accounting policies (continued)

f. Key categories of financial assets and liabilities

i) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

ii) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash within a few days and which are subject to insignificant risk of changes in value.

iii) Deposits

Deposits include rental deposits held by third parties to which the Group expects to be entitled. There are no credit losses recognized.

iv) Trade and other receivables

Amounts recorded as receivables are amounts expected to be received within 12 months and have no financing component. They are measured at the fair value of consideration expected to be received adjusted for expected credit losses ("ECL"). See the trade receivables note for the ECL accounting policy.

v) Short-term investments

Short-term investments represent the Group and Company's bond portfolio of short duration bond whose performance is linked to that of the underlying short-term investments. The short-term investments are measured at amortized cost in accordance with the business model to hold bonds for the purpose of cashflows of principal and interest only, for the purposes of capital preservation.

vi) Trade and other payables

Amounts recorded as payables are amounts expected to be paid within 12 months and have no financing component. They are measured at the fair value of consideration expected to be paid.

vii) Loans

Amounts recorded as a loan relate to low value financing arrangements with a lessor related to leased assets. These are measured at amortized cost to reflect the financing component.

viii) Provisions

Provisions are recorded in accordance with IAS 37 at the present value of the estimated expenditure required. Amounts include dilapidations provisions related to property, plant and equipment, and right-of-use-assets. Amounts related to warranties and rebates are recognized where there is not a separate performance obligation identified in the underlying contract under IFRS 15, and these are recognized instead as provisions.

Provisions related to share-based payment payroll taxes and their related reimbursement assets are recorded at fair value through profit or loss in order to address any possible accounting mismatch.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

2. Accounting policies (continued)

g. Inventory

Inventories are stated at the lower of cost and estimated selling price less costs to sell. Inventories are recognized as an expense in the period in which the related revenue is recognized.

Cost is determined using Standard Cost. Cost includes manufactured cost, plus taxes, duties and other directly attributable costs to bring the inventory to its present location and condition. At the end of the reporting year, inventories are assessed for impairment in accordance with IAS 36. If an item of inventory is impaired, the item of inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognized in the profit and loss account.

h. Revenue Recognition

We derive our revenue from product sales, including hardware and systems, and service arrangements such as support sales, AI cloud sales and bespoke development services. We determine revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract (where revenue is allocated on a relative standalone selling price basis by maximizing the use of observable inputs to determine the standalone selling price for each performance obligation); and (5) recognition of revenue when, or as, we satisfy a performance obligation.

<u>Product sales revenue</u>

Our contracts with customers often include multiple promises for various products and services such as hardware, software licenses, and basic Support Services. We use judgment to assess whether these promises are distinct performance obligations that should be accounted for separately. In certain hardware solutions, the hardware is highly interdependent on, and interrelated with, the embedded software and the Support Services. In these offerings, the hardware, software licenses and the basic Support Services are accounted for as a single performance obligation.

Certain products are sold along with extended Support Services, for which revenue recognition is separately assessed. The warranty elements are assessed to be an assurance type warranty as they provide the customer with the peace of mind that the entity will fix or possibly replace a good or service if the original good or service was faulty, and accordingly these are not treated as a separate component of revenue.

We recognize revenue from product sales upon transfer of control of promised products to customers in an amount that reflects the consideration we expect to receive in exchange for those products. Revenue is recognized net of allowances for returns, discounts provided to customers, for example our Reseller's rebate program, and any taxes collected from customers on behalf of governmental tax authority.

Our Reseller's rebate program is designed to serve as sales incentives to Resellers of our products in various target markets. We account for the Reseller's rebate as a reduction to contract price and product revenue and accrue for potential rebates based on the amount we expect to be claimed by Resellers.

<u>Service revenues</u>

Certain products are sold along with extended Support Services. Revenue associated with such Support Services is recognized ratably over the service period in line with the pattern of services provided.

2. Accounting policies (continued)

h. Revenue Recognition (continued)

Cloud revenue is derived from sales of IPU-as-a-service to customers who wish to use IPUs for set periods of time. Our contracts with customers often include multiple promises such as access to the hardware via the cloud, access to a license and access to related support. We use judgment to assess if these components are separate performance obligations. We also apply judgement to determine that the customer simultaneously receives and consumes the benefits provided by the entity's performance of these obligations as the entity performs them, and thus it is appropriate to recognize revenue in accordance with this pattern over the period of the access.

Our development service arrangements with customers typically require creation of intellectual property. We determine whether to recognize the revenue as a single performance obligation, or as multiple. We also use judgement to determine how the customer receives the benefit for such services in determining how to recognize revenue. If a loss on an arrangement becomes probable during a period, we record a provision for such loss in that period.

- If the service creates or enhances an asset controlled by the customer and/or creates an asset with no alternative use for which we have an enforceable right to payment, where this is the case we record revenue over the period of the development service and measure progress to completion based on actual cost incurred to date as a percentage of the estimated total cost required to complete each project.
- Where the customer receives the benefit of such services only on completion revenue recognition is deferred until the performance obligation is complete and we have an enforceable right to payment.

i. Employee benefits

Short term employee benefits including salaries, bonuses, and non-monetary benefits and which are expected to be settled within 12 months are expensed in the profit and loss in the year in which the service is rendered in accordance with IAS 19, any unpaid amounts are presented as current liabilities on the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

j. Share-based payment

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value in accordance with IFRS 2. Due to the 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 fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

2. Accounting policies (continued)

k. Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

l. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is recognized for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognized in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognized only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognized in a business combination is less (more) than the value at which it is recognized, a deferred tax liability (asset) is recognized for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognized for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognized and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognized.

Deferred tax liabilities are recognized for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to non-depreciable property measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset. In other cases, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Where items recognized in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

2. Accounting policies (continued)

l. Taxation (continued)

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

m. Discontinued Operations

The Group presents separately as discontinued any component of an entity, or entity which has ceased to operate and comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group. In order to be classified as discontinued the component of an entity or entity must meet the following criteria:

- Be a separate major line of business or geographical area of operations, and
- be part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- be a subsidiary acquired exclusively with a view to resale.

Once an operation meets the definition of discontinued with the reporting period presented, the prior year comparatives are re-presented to show the same classification. The financial performance and cashflows of discontinued operations are separately reporting in a note to the financial statements.

The Group considers the existence of a discontinued operation to be an indicator or impairment under IAS 36. Additionally, in order to enable the comparability of financial performance, the Group identifies costs related to the discontinued operation which are one-off and non-recurring in the related notes of the financial statements as exceptional in nature.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

a) IAS 38 Recognition of Intangibles resulting from development expenses

The Directors apply judgement in determining that there are no material R&D expenses in the year which meet the definition of development under IAS 38, and which relate to a specific asset which has technical feasibility at any balance sheet date. Accordingly, no internally generated intangible assets are recognized and the total R&D cost is expensed.

This includes a rebuttal of the presumption that all externally acquired intellectual property should be capitalized as an intangible asset because of the uncertainty of expected future benefits flowing to the entity in relation to the intangible asset which the Group purchases. The Group purchases 3rd party intellectual property in the form of design and production licenses to use in the development of new products, the timing of the purchase of the intellectual property is before technical feasibility has been achieved and there is material uncertainty as to whether it is probable that economic benefits will flow into the entity that are attributable to the intangible fixed asset. The Group has evidenced this judgment concerning the lack of technical feasibility at acquisition date though its historical research and development work; such licenses, with no alternative use, are purchased in advance of reaching the relevant development gateway, with no certainty that they are likely to be incorporated into the asset.

b) Taxation provisions

The Group's tax credit is the sum of the current and deferred tax charges. The calculation of the Company's total tax charge necessarily involves a degree of estimation and judgment in respect of certain items. The key area of judgement in respect of the current tax charge is in determining the appropriate inputs to the calculation of the R&D tax credit claim. These are expected to resolve within 12 months of the balance sheet date as R&D tax credit is paid by the relevant authority. See note 9 for details of the R&D tax credit of the Company.

c) IAS 36 Impairments of right of use assets

The Company assesses the right of use assets of the Group for impairment when there are indicators that an asset may be impaired, for example it is no longer being used, is associated with a discontinued operation, or is damaged. In FY22 the Group undertook a restructuring exercise which included discontinuing certain operations and locations which resulted in certain right of use assets no longer being in-use. As part of the impairment review, the Group assessed the alternative uses for these assets and the likelihood of these contracts being completed using the current status of contract negotiations. Judgements were made as to the likelihood of certain outcomes. Estimates related to the expected future cashflows related to these assets are used to calculate if there was an impairment and its value. Any uncertainty concerning future cashflows is expected to be resolved within 12 months of the year end when the contract negotiations are completed.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

d) Useful economic lives of computer equipment

The annual depreciation charge for computer equipment recorded within property, plant and equipment is sensitive to changes in the estimated useful economic lives. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilization and the physical condition of the assets. See note 12.

In particular the critical accounting estimate is concentrated on the useful life of new technologies which is assessed to be 24 months. A variability of 6 months in the useful economic life estimate would have the following impacts on the in-year depreciation charge.

The impact of a change in useful life on the annual depreciation charge would be:

	2022 $'000	2021 $'000
Decrease of UEL by 6 months	5,439	4,853
Increase of UEL by 6 months	(3,263)	(2,912)

e) Fair Value of Share Based Payments

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The inputs to this model includes a number of judgments and assumptions, particularly around volatility of share price and employee attrition rates - see note 10 for details of the range of inputs and variability. The most material estimate made in this calculation is the fair value of the shares at grant date, this is benchmarked against a range of possible estimates, and Graphcore uses the midpoint of the range and interpolates valuations between points in time. The uncertainty in the estimate is resolved at each equity funding date at which there is objective evidence of the share price at a point in time.

Use of the low point or high point of the range in each year, would result in a change to the annual charge as follows in the financial statements:

	2022 $'000	2021 $'000
Increase to highest share price in the range	591	461
Decrease to the lowest share price in the range	(476)	(452)

4. Discontinued operations

Graphcore announced on 26 September 2022 that it would be commencing a program of headcount reduction and office closures globally. As a result of this it was announced that the entire operation of Graphcore Norway (an R&D hub) and Graphcore Japan (a Sales and Marketing hub) would cease, and the Companies be closed. Accordingly, Graphcore presents the results of these entities as discontinued operations in accordance with IFRS 5. Included within this result is the impact of the impairment in Goodwill and the right of use asset for the office both directly allocated to the Graphcore Norway operating unit.

In addition to this, within Graphcore Limited and Graphcore Inc there were a number of redundancies resulting from a headcount reduction, including the representative office in South Korea (a Sales and Marketing hub), however, as these companies' material operations continue, these have been classified as continuing operations. The impact of these unusual and non-recurring costs which Graphcore consider to be exceptional, is shown in Note 6: Loss before Tax. The below information is related to aggregate discontinued operations in each year presented:

Statement of Comprehensive Income	**2022 $'000**	**2021 $'000**
Revenue	-	-
Research and development expenses	(16,378)	(16,918)
Sales, general and administration expenses	(2,934)	(2,184)
Foreign exchange charges	(314)	(94)
Share based payment charges	(1,124)	(1,096)
Restructuring impairment charges	(4,268)	-
	(25,018)	**(20,292)**
Attributable tax expense	(217)	(587)
Net loss attributable to discontinued operations	**(25,235)**	**(20,879)**

Cashflow Statement	**2022 $'000**	**2021 $'000**
Net cashflows used in operating activities	(17,733)	(17,728)
Net cashflows used in investing activities	314	(328)
Net cashflows from financing activities	-	-
	(17,419)	**(18,056)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

5. Revenue and Contract Assets and Liabilities

a. Disaggregation of Revenue

The Group analyses its revenue by geographical market and by nature of the good or service provided. All sales are made by Graphcore Limited, the parent of the Group, and as such geographical market is determined by the location of the customer.

An analysis of the Group's turnover by geographical market is set out below:

	2022 $'000	2021 $'000
Americas	1,415	596
Europe	505	2,356
Asia	795	2,092
	2,715	**5,044**

An analysis of the Group's turnover by category of revenue is set out below:

	2022 $'000	2021 $'000
Sales of products	2,232	4,869
Sales of services	483	175
	2,715	**5,044**

b. Assets and liabilities related to contracts with customers

The Group has the following assets and liabilities resulting from contracts with customers:

	2022 $'000	2021 $'000
Trade receivables	1,419	2,364
Total contract assets	**1,419**	**2,364**
Contract liabilities – warranty and rebate provisions	(1,641)	(2,611)
Contract liabilities – deferred income	(925)	(611)
Total contract liabilities	**(2,566)**	**(3,222)**

5. Revenue and Contract Assets and Liabilities (continued)

The Group has met all performance obligations in relation to trade receivables which are analyzed further for recoverability in note 19; all are considered current and expected to be recovered within 12 months. There are no financing components, and the payment terms of all receivables are between 30 and 90 days.

The Group's contract liabilities result from both the products and services it provides. Rebates relate to its arrangements with distributors and resellers whereby distributors and resellers who arrange direct end sales can reclaim a credit against existing purchases that can be applied to future sales. Such arrangements depend on the nature of the end customer and the volumes of purchases. Further details of liabilities are given in note 23.

Warranty provisions and deferred income relate materially to the support packages that the Group sell to their customers, with a small amount of deferred income related to Graphcloud offerings.

Support packages are expected to be recognized in the consolidated Income Statement over the 36 months support period from the date of product purchase. Support obligations include standing ready to support customers who raise support tickets relating to software and hardware including, to investigate, repair and replace any faulty parts, or make available software patches or upgrades.

Graphcloud contracts are expected to be recognized in the consolidated Income Statement ratably over the course of the contract and access being provided to the cloud offering, which is expected to be less than 12 months.

c. Revenue recognition from deferred income

The amounts disclosed below provide information about the expected timing of the Group's satisfaction of its remaining performance obligations in relation to the contract liabilities. See further details in note 22.

	2022 $'000	2021 $'000
Amounts recognized in revenue in the year which formed part of the opening contract liability	**319**	**188**
Amounts expected to be recognized in:		
Less than one year	482	319
One to two years	307	194
Two to three years	136	98
Total deferred income	**925**	**611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

6. Loss before taxation

Loss before taxation is stated after charging the following material items:

	Notes	2022 $'000	2021 $'000
Cost of inventories recognized as an expense		1,002	5,022
Impairment of inventories recognized as an expense		7,714	7,055
Employee benefit expense	8	94,047	76,773
Depreciation and impairment of property, plant and equipment	12	18,820	16,851
Depreciation of right-of-use-assets	13	7,065	4,866
Short term and low value lease rentals expense		150	787
Variable lease expense not included lease liabilities		50	67
Other legal and professional fees		3,979	6,529

No other gains or losses related to fair value movements were charged to total comprehensive income in the year.

Materially all finance costs related to interest on leases using the incremental borrowing rate calculated under IFRS 16. See note 13.

In 2022, materially all finance income related to amounts earned on cash deposits. In 2021, this relates to returns on short-term investments under the amortized cost method in accordance with IFRS 9. See notes 20 and 21 . Cash amounts of interest received and paid are shown in the cashflow statement and the related note 25.

Further to the above the Group identifies that certain items included within loss before tax in both continuing and discontinued operations are one off and are not expected to recur related to the Group restructuring that was completed in Q4 2022, for these there are no comparative 2021 costs. The material items are set out below. These amounts include redundancy payments across the Group such as ex-gratia and statutory entitlements, and legal and professional fees incurred which are directly related to those redundancy costs. Additionally impairments were recorded of relevant intangible and right of use assets specifically related to the discontinued operations. These costs have been identified and classified as exceptional here as they are relevant to alternative performance measured used by the Board to identify recurring expenditure of the business.

	Note	2022 $'000	2021 $'000
Impairments of intangible assets	11	1,969	-
Impairments of right of use assets	13	2,854	-
Exceptional restructuring costs		4,884	-

Other movements are explained in the financial performance review of the Strategic Report or in the notes indicated above. Exceptional amounts related to the discontinued operation only are shown in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

7. Auditors' remuneration

The analysis of the auditors' remuneration is as follows:

	2022 $'000	2021 $'000
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	141	190
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries' annual financial statements	66	62
Total audit fees	207	252
Taxation compliance services	40	49
Other advisory services	19	957
Total non-audit fees	59	1,006

No services were provided pursuant to contingent fee arrangements.

8. Staff numbers and costs

The average monthly number of employees of the Group (including executive Directors) was:

	2022 Number	2021 Number
Engineering	516	380
Sales & Marketing	79	105
Administration	55	49
	650	534

8. Staff numbers and costs (continued)

Their aggregate remuneration comprised:

	2022 $'000	2021 $'000
Wages and salaries	80,536	66,565
Social security costs	9,221	7,291
Other pension costs	4,290	2,917
Employee benefits expense	**94,047**	**76,773**
Share based payment expense continuing operations	16,469	21,970
Share based payment expense discontinued operations	1,123	1,096
Total share-based payment expense (note 10)	**17,592**	**23,066**
Total employment related expenses	**111,639**	**99,839**

'Other pension costs' includes the defined contribution scheme charge.

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees of its UK, US and Norway companies. The total expense charged to profit or loss in the year ended 31 December 2022 was $4,290,000 (2021: $2,917,000). As at 31 December 2022, pension contributions of $505,000 (2021: $464,000) remain outstanding to be paid.

9. Tax on loss

During the period, Graphcore Limited exceeded the threshold for the UK Government SME research and development scheme and will file a claim under the research and development expenditure credit (RDEC) scheme for the accounting period ended 31 December 2022. The transition to the RDEC scheme materially impacts the tax accounting disclosures as the RDEC income is accounted for above the line as other income and tax charge (as seen in the income statement) whereas the SME scheme is accounted exclusively through the tax line as a tax credit.

	2022 $'000	2021 $'000
Current tax on loss		
UK corporation tax	1,509	(17,737)
Foreign corporation tax on profits for the year	1,078	941
Adjustments in respect of prior years	(675)	188
Total Tax	1,912	(16,608)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

9. Tax on loss (continued)

The tax charge/(credit) assessed for the year differs from the standard rate of corporation tax in the UK. For the year ended 31 December 2022 the standard rate of Corporation Tax is 19.00% (2021: 19.00%). The tax credit can be reconciled to the loss in the Statement of Comprehensive Income as follows:

	2022 $'000	2021 $'000
Loss from continuing operations before tax	(171,657)	(164,250)
Loss from discontinued operations before tax	(28,018)	(20,298)
Group loss before tax	**(199,675)**	**(184,548)**
Tax on Group loss at standard UK corporation tax rate of 19.00% (2020: 19.00%)	(37,938)	(35,064)
Effects of:		
Expenses not deductible for tax purposes	3,934	4,051
Fixed asset timing differences	(554)	(1,330)
Research and development enhanced deduction	-	(13,136)
Research and development rate differential	3,666	5,505
Movement in deferred tax asset not recognized	35,674	26,019
Adjustment in respect of prior year	(675)	188
Impact of overseas tax & rate differences	(251)	1,079
Origination and reversal of temporary differences	(1,944)	(3,920)
Group total tax charge / (credit) for year	**1,912**	**(16,608)**

At the balance sheet date, the Company has unused tax losses of $472,551,000 (2021: $284,686,000) available for offset against future profits. No deferred asset has been recognized in respect of these unused losses due to the unpredictability of future profits.

On 3 March 2021, the Chancellor of the Exchequer announced that the main rate of corporation tax in the United Kingdom will rise to 25% with effect from 1 April 2023 for companies earning annual taxable profits in excess of £250,000. Companies earning annual taxable profits of £50,000 or less will continue to pay corporation tax at 19% with a marginal rate adjustment for companies earning annual taxable profits between the two levels. These changes had been substantively enacted at the Balance Sheet date, and taking into account the expected future corporation tax rise, the Group estimates that the value of the unrecognized deferred tax asset is $117,654,000 (2021: $71,172,000).

The origination and reversal of temporary differences in 2022 above shows the impact of taxable deductible expenses on the exercise of share options (2021: Nil).

10. Share-based payments

The Group has equity settled share schemes for all employees of the Group. The Company takes part in this Group share-based payment plans and recognizes and measures its allocation of the share-based payment expense on a pro-rata basis. The Company administers and issues all schemes on behalf of Companies in the Group. Shares are granted under the plans for no consideration and carry no dividend or voting rights.

There are five equity-settled share-based compensation plans ("Plans") as set out below:

- Enterprise Management Incentive Plan ("EMI")
- Company Share Option Plan ("CSOP")
- Incentive Stock Option Plan ("ISO")
- Restricted Stock Award Plan ("RSA")
- Restricted Stock Units Plan ("RSU")

The Group analyses that there are two classes of scheme, Share option schemes and employee share plans. The Group recognized total expenses of $17,592,000 (2021: $23,066,000) related to equity-settled share-based payment transactions. The Company had cash inflow of $104,000 (2021: $72,000) from exercise of share awards in the years ended 31 December 2022.

The expense for 2022 is split between:	**2022 $'000**	**2021 $'000**
Share Options Schemes	922	771
Employee Share Plan Schemes	16,670	22,295
	17,592	**23,066**

Share Option Schemes

There are specific share option schemes based in each jurisdiction in which the Company operated prior to 2020, these have matching relevant terms, and as such they are accounted for as a single scheme. Options are exercisable in a combination of USD or GBP at a price ranging between £0.00025 and $1.49. The vesting period is four years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. There have been no new share options issued under these schemes since 2020.

Vested options expire if not exercised within 6 to 9 months of leaving employment. In 2022 an option expiry extension was offered to holders of a specific issue of Options with the $1.49 strike price who were made redundant as part of the restructuring program described in note 4. The fair value of this extension was calculated to be $0 in excess of the original option fair value at grant based on the prevailing fair value of a share, and accordingly no additional charge was recorded.

Details of the share options outstanding during the year are as follows:

	2022		**2021**	
	Number of share options (000)	**Weighted average exercise price**	**Number of share options (000)**	**Weighted average exercise price**
Outstanding at beginning of year	54,553	$0.06	58,356	$0.06
Granted in the year	-		-	
Forfeited or Cancelled during the year	(394)	$1.88	(162)	$0.54
Exercised during the year	(2,541)	$0.03	(3,641)	$0.02
Outstanding at the end of the year	51,618	$0.05	54,553	$0.06
Exercisable at the end of the year	50,368	$0.05	53,053	$0.05

10. Share-based payments (continued)

The total intrinsic value of options exercised during the years ended 31 December 2022 was $978,000 (2021: $1,012,000). The share options outstanding at the end of the year have the following issue periods, expiry dates and exercise prices which are used to calculate the weighted average contractual life:

Issue Period	Expiry Period	Exercise Price $	Number of share options 2022	2021
March 2017	February 2027	0.00025	29,078	30,655
September 2017	August 2027	0.00025	12,776	13,324
July 2018	June 2028	0.00025	7,265	7,715
May 2019	April 2029	0.63323 – 1.49	1,556	1,741
June 2019	May 2029	0.63323 – 1.49	432	507
October 2019	September 2029	0.63323 – 1.49	511	611
Total			**51,618**	**54,553**
Weighted average contractual life			**4.6 Years**	**5.6 Years**
Weighted average exercise price			**$0.06**	**$0.06**

No share options were issued in the year or prior year; therefore, no fair value disclosures are given.

Employee share schemes

All employee share-based payments granted from 2020 onwards are RSUs. The fair value of these schemes is calculated in a similar manner to the Share Option schemes.

Share allocations are granted by the board. Options are forfeited if the employee leaves the Group before the options vest. Shares granted under share plans have seven-year contractual terms. All share awards vest based on four years of continuous service. In addition, the RSU also includes a performance condition whereby the employee's ability to earn the award is contingent on the achievement of an Exit event, which is defined as a share sale, an asset sale or an initial public offering ("IPO"). Fair value of the RSUs was calculated at the grant date using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value using the key inputs above.

Details of the shares outstanding during the year are as follows:

	2022 Number of shares (000)	2021 Number of shares (000)
Outstanding at beginning of year	28,504	17,399
Granted during the year	3,189	11,976
Forfeited or Cancelled during the year	(4,098)	(871)
Exercised during the year	-	-
Outstanding at the end of the year	27,595	28,504
Vested at the end of the year	13,953	8,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

10. Share-based payments (continued)

The outstanding shares under the share plan are Grouped for analysis based on their grant date as set out below in determining their weighted average contractual life. All shares under the RSU share plan and the 2.278m shares originally granted in 2018 and 2019 under the RSA share plan have an exercise price of $0.00032:

Issue Year	Expiry Year	Number of shares 2022 (000)	Number of shares 2021 (000)
2018	2025	2,100	2,100
2019	2026	1,155	1,253
2020	2027	12,955	13,317
2021	2028	9,077	11,834
2022	2029	2,308	-
Total		**27,595**	**28,504**
Weighted average contractual life		**4.8 Years**	**5.7 Years**

RSUs are subject to income taxes and as such the Company records a provision for the primary obligation it holds related social-security type contributions on share-based payments which are payable at the time of exercise. All such payments are recoverable from the employee under the terms of the RSU through a net settlement feature, accordingly the Group is reasonably certain to recover such amounts and records a related reimbursement asset. The Group elects to record this asset at fair value through profit or loss under IFRS 9 to manage any exposure to accounting mismatch. See note 23 for details of this balance.

Fair Value of Shares

The fair value of the shares and options at the grant date was calculated collectively using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value. Because the Black-Scholes valuation methodology incorporates ranges of assumptions for inputs, those ranges are disclosed.

Expected volatility is calculated based on reported volatility data for a representative group of publicly traded companies for which historical information is available. The Company selects companies with comparable characteristics with historical share price information that approximates the expected term of the equity-based awards. The Company computes the historical volatility data using the daily closing prices for the selected companies' shares during the equivalent period that approximates the calculated expected term of the stock options. We will continue to apply this method until a sufficient amount of historical information regarding the volatility of our stock price becomes available.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected term assumption.

The Company estimates the expected term of the plans is the period from the valuation date to the expected Exit event date. The Company utilizes this method due to lack of historical exercise data. The expected dividend yield is assumed to be zero as the Company has no current plans to pay any dividends on common shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

10. Share-based payments (continued)

The key inputs into the Black Scholes model to determine the fair value of shares issued in the years presented were as follows:

	2022	**2021**
Expected volatility	50%-60%	50%-60%
Expected term	2 years	2-3 years
Risk-free rate	0.36% -0.73 %	0.36% -0.73 %
Expected dividend yields	0 %	0 %

The expected life used in the model has been adjusted, based on management's best estimate for the effects on non-transferability, exercise restrictions, and behavioral considerations, the key performance expectation is that 8% (2021: 5%) of the options would be forfeited in any year which is in line with attrition rates in the business.

The calculated range for the fair value of the shares and options granted in 2022 as $1.53 to $2.52 (2021: $2.68 to $2.76). Graphcore calculates an estimate of the fair value options issued at least annually, or more frequently where appropriate, and uses the mid-point of the range in calculating the share-based payment expense. Sensitivity on this judgement is performed as this is a critical accounting estimate.

Because the technology market was particularly volatile in 2022, the use of the low point or high point of the range, rather than the mid-point would result in a 24% change (2021: 2%), in the related charge recorded in the financial statements for new RSU share schemes issued in 2022.

Charges for the existing share schemes are not impacted by the in-year volatility of the fair value of a share. There were notably fewer new share schemes issued in 2022 than in 2021, and accordingly the sensitivity of the financial statements to a change in share price is not materially higher than in 2021. The impact of this change in rate is shown in note 3.

11. Goodwill

The Group fully impaired its Goodwill to $nil (2021: $1,969,000) during 2022. Goodwill related entirely to the excess of the fair value of consideration paid for 100 per cent of the issued share capital of Graphcore AS (formerly Skala Technologies AS, a Company incorporated in Norway whose primary activity was development of hardware solutions) over the fair value of the net assets acquired in 2019 and was determined in accordance with IFRS 3. The Directors assessed this was the relevant cash-generating unit to which the Goodwill was allocated.

Goodwill was entirely impaired in 2022 as the Graphcore AS business has been closed down as part of the restructuring described in notes 4 and 6. No reconciliation is shown as there are no other movements.

There are no other intangible assets held in the Group to consider when performing the CGU impairment review.

In determining the recoverable amount of the CGU, Graphcore uses the value-in-use method. The key inputs and assumptions for this method are as follows:

	2022	2021
Pre-tax discount rate	0.0%	8.5%
Operating margin	0.0%	13.8%

12. Property, plant and equipment

2022	Leasehold Land & Buildings $'000	Development Equipment $'000	Computer Equipment $'000	Fixtures & Fittings $'000	Office Equipment $'000	Total $'000
Cost or valuation						
At 1 January 2022	4,081	5,417	46,530	2,880	299	**59,207**
Additions	1,272	2,435	10,913	581	415	**15,616**
Disposals	-	(1,007)	(782)	(7)	-	**(1,796)**
Foreign Exchange difference	-	(54)	(247)	(38)		**(339)**
At 31 December 2022	5,353	6,791	56,414	3,416	714	**72,688**
Accumulated depreciation						
At 1 January 2022	2,288	5,229	30,025	1,619	188	**39,349**
Charge for the year	878	787	16,300	586	189	**18,740**
Impairment	5	-	-	295	3	**303**
Foreign exchange difference	-	(58)	(141)	(22)	(2)	**(223)**
Disposals	-	(958)	(596)	-	-	**(1,554)**
At 31 December 2022	3,171	5,000	45,588	2,478	378	**56,615**
Net book value						
At 31 December 2022	2,182	1,791	10,826	938	336	**16,073**
At 31 December 2021	1,793	188	16,505	1,261	111	**19,858**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

12. Property, plant and equipment (continued)

The assets are not pledged as security under any arrangements.

Impairments and disposals in the year primarily related to the closing down of the discontinued operations and restructuring carried out in 2022 described in notes 4 and 6. Impairments in 2021 related to Mk 1 Computer hardware where the useful life was shortened due to earlier than expected obsolescence.
There were no impairment or revaluation charges or credits recognized. There were no other changes in key estimates regarding useful life or depreciation method, or indicators of impairment for other assets.

The comparative information for 2021 is shown below:

2021	Leasehold Land & Buildings $'000	Development Equipment $'000	Computer Equipment $'000	Fixtures & Fittings $'000	Office Equipment $'000	Total $'000
Cost or valuation						
At 1 January 2021	3,867	5,356	27,960	2,666	77	**39,926**
Additions	214	61	18,570	214	222	**19,281**
Disposals	-	-	-	-	-	**-**
At 31 December 2021	4,081	5,417	46,530	2,880	299	**59,207**
Accumulated depreciation						
At 1 January 2021	1,419	4,330	15,659	1,029	61	**22,498**
Charge for the year	869	981	13,635	611	105	**16,201**
Impairment	-	-	924	-	-	**924**
Foreign exchange difference	-	(82)	(193)	(21)	22	**(274)**
Disposals	-	-	-	-	-	**-**
At 31 December 2021	2,288	5,229	30,025	1,619	188	**39,349**
Net book value						
At 31 December 2021	1,793	188	16,505	1,261	111	**19,858**
At 31 December 2020	2,448	1,026	12,301	1,637	16	**17,428**

13. Leases

The Group as a lessee

The Group are party to leases as a lessee. This note provides information about the Group's arrangements as a lessee, for which the following amounts are included within the Statement of Financial Position:

	2022 $'000	2021 $'000
Right-of use-assets		
Offices	10,454	17,334
Data centers	4,206	6,761
	14,660	**24,095**
Lease liabilities		
Current	8,537	7,741
Non-current	10,649	17,905
	19,186	**25,646**

Movements were recorded in the right-of-use-assets were as follows:

	2022 $'000	2021 $'000
Cost		
At 1 January	32,408	20,787
Additions	2,092	15,995
Disposals	(1,963)	(4,262)
Effects of foreign exchange	(743)	(112)
At 31 December	**31,794**	**32,408**
Accumulated depreciation		
At 1 January	8,313	7,041
Charge for the year	7,065	4,866
Disposals	(1,098)	(3,594)
Impairments	2,854	-
At 31 December	**17,134**	**8,313**
Net book value		
At 1 January	24,095	13,746
At 31 December	**14,660**	**24,095**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

13. Leases (continued)

The disclosures regarding expenses recorded within the Income Statement are included within note 6. The total cash outflow for leases in 2022 was $8,056,000 (2021: $5,749,000).

All leasing arrangements are secured on the related asset. There are no other restrictions or covenants imposed.

Key sensitivities and judgements:

Impairments - The impairment of right of use assets relates to two offices affected by the restructuring set out in note 4 and 6. The inputs into this calculation are considered a critical accounting estimate and are disclosed in note 3. There were no impairments in 2021.

At 31 December 2022, the Group was in active discussions with other parties regarding assigning or subleasing assets which were no longer in use following the restructuring. There was a high level of certainty over the outcome due to the stage of the negotiations. Terms had been shared with the other parties and were being finalized. The Group has calculated its impairments in the related right of use assets by reference to these sublease or assignment terms and the expected future cashflows, using the same methodology as was used to calculate the right of use assets and lease liabilities. In doing so the Group has applied judgement as to the likelihood of a successful outcome of these negotiations. This calculation is also exposed to estimation risk related to discount rates as set out below.

The Group provides the following further information which explains the impact of variable lease payments, termination options and discount rates on the lease liability recorded. There are no residual value guarantees in the contracts.

Variable lease payments – there is variability in lease payments associated with data centers related to the required power capacity and tax or insurance payments related to certain office rentals. There are no material variable rental payments in leases within the scope of IFRS 16 for which further analysis of variable payments would be required.

Extension and termination options – the Group has no time-extension options on properties it occupies. The Group has a number of termination options built into its lease portfolio – these options provide the Group with flexibility regarding the assets used in its operations. Lease termination options are at the option of the Group and are assumed to be exercised in calculating the lease liability and ROU asset, there are no related termination costs associated with exercising these terms.

As at the year-end 31 December 2022 potential undiscounted cashflows with a total value of $4,349,000 (2021: $5,465,000) have been excluded from the value of the lease liability as the Group is reasonably certain that such options would be exercised. There have been no historical changes in such judgements.

Effective interest rate - In the absence of effective interest rates built into contracts as a lessee, the Group makes a number of estimates in determining the incremental borrowing rate used in calculating the recognition of right-of-use-assets and lease liabilities. These estimates are used alongside identifiable market rates for relevant assets and locations in determining appropriate discount rates. In 2021 and 2022 the Group calculates the relevant discount rates for properties to be between 5.7% and 13.8% across the related assets and jurisdictions. Leasing arrangements are material and exposed to uncertainty due to the effective interest rate estimate. The discount rate sensitivity to a change of +/-5.0%, which the Group consider to be a severe but plausible change in prevailing borrowing rates in the current environment, is as follows:

Impact of a change to discount rate of:	**+5.0%**		**-5.0%**	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Income statement	201	83	(237)	(123)
Right of use assets	651	(688)	(827)	766
Lease related liabilities	(854)	601	1,065	(637)

13. Leases (continued)

Other commitments including short term and low value leases - the Group takes advantage of the election to not recognize short term or low value leases. Accordingly, the following information is presented regarding the committed future cashflows related to such arrangements, and to leasing arrangements which the entity is committed to, but for which it does not yet have control of the relevant asset. Other short-term commitments in 2022 relate to short term office rentals. Included within commitments in 2021 was a further lease for a data center which the Group was committed to commencing during 2022, but subsequently assigned to another party.

	2022 $'000	2021 $'000
- within one year	315	378
- between one and five years	-	1,166
- after five years	-	-
	315	1,544

The Group as a lessor

In 2022, the Group entered its first arrangement as a lessor. The Group classifies this subleasing arrangement of excess office space as a finance lease because it is for substantially all of the remaining useful life and value of the headlease. On recognition of the finance lease receivable the Group reported a gain on disposal of $288,000 on derecognition of the right-of-use-asset. In 2022 the Group recorded finance income from this arrangement of $66,000 and received cash of $178,000 (2021: $Nil). There are no variable lease payments under this arrangement.

The minimum amounts receivable under the finance lease are as follows, and can also be reconciled to the present value of the minimum lease receivables as follows:

Amounts receivable under finance lease	2022 $'000	2021 $'000
- within one year	385	-
- between one and five years	638	-
- after five years	-	-
	1,023	-
Less unearned finance income	(107)	-
Present value of the minimum lease payments	**916**	-

The Group considers this finance lease receivable to have low risk as it is secured on the right to use the asset, and accordingly records no expected credit loss.

The inherent rate of interest in the lease is fixed at 10.0% for the life of the lease and represents the calculated incremental borrowing rate at the date of grant of the lease.

The fair value of the finance lease receivable is considered to be materially the same as the present value.

14. Interests in other entities

The Group has investments in subsidiaries and joint operations. There are no other associates or joint ventures. Graphcore Limited had trading branches and representative offices in France, Taiwan and South Korea in 2021 and 2022.

Subsidiaries

The following Companies are part of the Group. With the exception of Graphcore AS, all subsidiaries were incorporated by Graphcore Limited, and have always been 100% controlled by Graphcore Limited. The Company assesses if it controls an entity in accordance with IFRS 10 the percentage of ownership interest held demonstrates the percentage voting rights held by Graphcore Limited.

Subsidiary undertaking	Address of Registered Office	Country of incorporation	Year of incorporation or acquisition	Ownership interest held by the Company
Graphcore Inc	160 Greentree Drive, Suite 101, Dover, Kent, 19904	USA	2017	100%
Graphcore AS (formerly Skala Technologies AS)	Olaf Helsets vei 5, 0694 OSLO	Norway	2019	100%
Graphcore (Beijing) Technology Limited	3F, South Building, Tower C, Raycom Infotech Park, No 2 Kexueyuan South Road, Haidian District, Beijing	China	2019	100%
Graphcore GmbH	Lansberger Str. 302 80687 Munich	Germany	2020	100%
Graphcore Japan KK	Izumi Garden Tower, 28th Floor, 6-1 Roppongi 1-chome, Minato-ku, Tokyo	Japan	2021	100%
Graphcore PTE Ltd (Singapore)	80 Robinson Road, #02-00, Singapore 068898	Singapore	2021	100%
Graphcore Poland Sp.z.oo	Graphcore aleja Grunwaldzka 413, 80-309 Gdańsk, Poland	Poland	2021	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

14. Interests in other entities (continued)

The principal activities of all subsidiaries are Sales and Marketing Support, with the exception of Graphcore AS and Graphcore Poland sp.z.oo which have the principal activity of Research and Development. The country of registration is the principal place of business.

All entities are included within the consolidation. There are no non-controlling interests. At 31 December 2022, Graphcore AS and Graphcore Japan KK are treated as discontinued operations as their operations have ceased. The companies' assets and liabilities have already been assessed and appropriate impairment recorded where appropriate, based on value in use to the Group. The subsidiaries are not held for sale, and they are expected to be legally wound up in 2023.

Significant Restrictions

Graphcore Limited provides financial support to all subsidiaries in the form of intercompany loans. There are no material restrictions on the ability of Group to access or use the assets or settle the liabilities of the subsidiary entities across the Group. Cash and short-term deposits held in Asian countries (including China) are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. The carrying amount of the cash and working capital assets included within the consolidated financial statements to which these restrictions apply is $912,000 (2021: $3,650,000).

Joint operations

Through Graphcore Limited, the Group has two 50% interest in joint operations with partners to operate the Graphcloud. The joint operations were set up in 2021 and 2022 respectively for the purpose of setting up and pursuing the Graphcloud offering in the US and in Europe.

Graphcloud operations require unanimous consent from all parties for all relevant activities. The two partners have the right to control their respective assets in the partnership and are responsible for designated liabilities related to the operations. As such this is classed as a joint operation. The Group record their relevant revenues, costs, liabilities and assets in their financial statements. At 31 December 2021 and 31 December 2022 there are no material assets or liabilities held by Graphcore Limited in relation to either of these joint operations.

15. Inventories

	2022 $'000	2021 $'000
Raw materials	3,304	1,215
Work in progress	948	559
Finished goods	1,945	2,313
	6,197	**4,087**

Inventories are recorded at standard cost.

The amount of inventories recognized as an expense and the amounts recognized as cost of sales and as write downs in the year are recorded in note 6.

16. Financial assets and liabilities measured at amortized cost

The below table sets out the summary of financial assets and liabilities held by the Group, at their carrying value and their respective measurement bases at each balance sheet date, certain balances are split between current and non-current on the face of the financial statements but shown in aggregate below.

	Note	2022 $'000	2021 $'000
Trade receivables	19	1,419	2,364
Tax receivable	9	5,272	16,927
Finance lease receivable	13	916	-
Other debtors including prepayments and short -term deposits		4,737	5,756
Employee receivables		214	267
Long term deposits		1,915	1,971
Total receivables		**14,473**	**27,587**
Short-term investments		**-**	**187,403**
Cash		**156,987**	**139,614**
Trade payables		(2,657)	(5,283)
Other payables		(20,615)	(26,202)
Loan for leasehold improvements		(396)	(282)
Deferred income		(925)	(611)
Total liabilities	22	**(22,653)**	**(32,378)**

All financial assets and liabilities shown are measured at amortized cost as they are held within a business model to collect contractual cashflows and give rise to cash flows that are solely payments or principal and interest.

Liabilities described on the balance sheet as due after more than one year total $575,000 (2021: $1,131,000) and include the long-term components of deferred income $443,000 (2021: $292,000), loan for leasehold improvements $132,000 (2021: $187,000) as set out in note 22. In 2021 this also included an employee obligation of $652,000 which is entirely current in 2022.

In 2022, receivables described on the balance sheet as due after more than one year of $6,158,000 (2021: $6,127,000) include long-term rental deposits of $1,915,000 (2021: $1,971,000), the long-term components of the finance lease receivable $532,000 ($2021: nil) described in note 13, and the fair value national insurance asset recoverable $3,712,000 (2021: $4,007,000) described in note 17.

Other than the loan for leasehold improvements, no financial assets or liabilities have long term financing components. There have been no reclassifications in either year presented.

The impact of impairment on receivables is analyzed further in note 19.

17. Financial assets and liabilities recorded at fair value

The following loan receivable assets and provision liabilities are held by the Group at fair value through profit and loss based on the Group's election to minimize the impact of accounting mismatch. There are no assets or liabilities mandatorily measured at fair value through profit or loss.

	Note	Fair Value Hierarchy Level	2022 $'000	2021 $'000
Reimbursement asset for share-based payment taxes	*24*	3	3,712	4,007
Provision for share-based payment taxes	*24*	**3**	(3,712)	(4,007)
Total fair value financial instruments			0	0

There were no indicators of impairment in the reimbursement asset. Both asset and liability are recorded at fair value based on the best estimate of the fair value of the employer liability for share-based payment taxes. There is not a legal right of offset, however on the crystallization of the share-based payment tax liability which occurs on the exercise of the RSUs, the Group has the right to recover tax paid through a net settlement feature when issuing the proceeds of sale of RSU to the employee. As such it determines that recoverability of the reimbursement asset is virtually certain. The total decrease in fair value of the instrument in the year relates to the offset of the vesting of additional RSUs and the decrease in the prevailing tax rate from 15.1% to 13.8%. In year movements in in the value of the provision and asset are shown in note 24.

Valuation inputs

The table above gives details of the valuation method used in arriving at the fair value of financial instruments. There have been no transfers between levels in the year. The different levels have been identified as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

The fair value financial instruments above are considered Level 3 hierarchy due to the fair value reliance on a combination of level 2 and level 3 inputs. Key level 3 inputs are those determined in Note 10 related to determining the fair value of the RSUs and the related employee attrition rate used in vesting calculations. The financial instrument fair values are determined by applying these level 3 inputs to observable rates such as employer obligation tax rates across relevant jurisdictions. Key inputs into the model are:

	2022	2021
Fair value of an RSU unit at grant date	$1.53 to $2.52	$2.68 to $2.76
Expected annual forfeiture rate	5.0%	5.0%
Relevant employer tax rate	6.0-20.0%	6.0-20.0%

18. Financial risk management

The Group assesses the following categories of risk and the extent to which its financial instruments are exposed to them as follows:

Risk	**Exposure arises from**	**Risk level**	**Measurement**	**Management**	**Note**
Market risk (foreign exchange)	Future commercial transactions Financial instruments denominated in currencies other than US Dollars	Moderate	Cash flow forecasts Sensitivity analysis	Raising funding in relevant currency. Natural hedging by matching currencies of sales and purchase contracts.	18
Liquidity risk	Financial liabilities	Low	Cash flow forecasts Maturity analysis	No borrowing facilities. Surplus funds held in investment instruments with high credit ratings and maturity profile matched to cash requirements. Use of termination options in long term lease liabilities.	22
Credit risk	Trade and Group receivables	Moderate	Ageing analysis Credit ratings	Credit limits. Use of established Distributors and Resellers.	19

The Group currently uses no formal hedging methods and holds no derivative instruments as part of managing risk.

Foreign exchange risk

The Company and the majority of companies in the Group have a functional currency of USD, as described in note 1 this is a result of major funding and transactions in the industry being denominated in USD.

Accordingly, the Group manages its transactions into USD to effectively hedge against this risk, however some exposure remains. The USD value of financial assets and liabilities held in each key currency is set out in the below table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

18. Financial risk management (continued)

2022	USD $'000	GBP $'000	NOK $'000	Other $'000	Total $'000
Trade receivables	1,419	-	-	-	1,419
Tax receivables	-	5,272	-	-	5,272
Finance lease receivable	916	-	-	-	916
Other debtors	178	5,019	85	(331)	4,951
Long-term fair value reimbursement asset	-	3,712	-	-	3,712
Long-term deposits	214	1,049	-	652	1,915
Total financial receivables	**2,727**	**15,052**	**85**	**321**	**18,185**
Investments	-	-	-	-	-
Cash	**134,829**	**14,987**	**4,701**	**2,470**	**156,987**
Trade payables	(587)	(43)	(1,842)	(185)	(2,657)
Other payables	(4,940)	(4,494)	(9,522)	(1,659)	(20,615)
Loan for leasehold improvements	(209)	-	-	(187)	(396)
Deferred income, warranties and rebates	(2,567)	-	-	-	(2,567)
Dilapidations and national insurance provisions	(186)	(4,395)	(85)	(338)	(5,004)
Leases	(5,166)	(6,605)	(4,812)	(2,603)	(19,186)
Total financial liabilities	**(13,655)**	**(15,537)**	**(16,261)**	**(4,972)**	**(50,425)**
	123,900	**14,503**	**(11,475)**	**(2,181)**	**124,747**

2021	USD $'000	GBP $'000	NOK $'000	Other $'000	Total $'000
Trade receivables	2,364	-	-	-	2,364
Tax receivables	-	16,927	-	-	16,927
Other debtors	2,566	1,468	28	2,140	6,202
Long-term fair value reimbursement asset	-	4,007	-	-	4,007
Long-term deposits	214	1,198	-	559	1,971
Total financial receivables	**5,144**	**23,600**	**28**	**2,699**	**31,471**
Short-term investments	**187,403**	-	-	-	**187,403**
Cash	**101,757**	**33,615**	**2,532**	**1,710**	**139,614**
Trade payables	(3,148)	(548)	(167)	(1,420)	(5,283)
Other payables	(11,165)	(5,310)	(4,303)	(5,425)	(26,203)
Loan for leasehold improvements	(282)	-	-	-	(282)
Deferred income, warranties and rebates	(3,222)	-	-	-	(3,222)
Dilapidations and national insurance provisions	(171)	(4,661)	(78)	(230)	(5,140)
Leases	(7,449)	(8,732)	(6,003)	(3,462)	(25,646)
Total financial liabilities	**(25,437)**	**(19,251)**	**(10,551)**	**(10,537)**	**(65,776)**
	268,867	**37,964**	**(7,991)**	**(6,128)**	**292,712**

18. Financial risk management (continued)

The aggregate foreign exchange impact is shown in the Income Statement and derives primarily from USD/GBP a result of transactions denominated in GBP. In 2022, there is also foreign exchange risk deriving from the outstanding NOK transactions held by Graphcore AS, which was trivial in 2021. The Group holds the majority of its financial instruments in USD to manage this risk.

The Group determines that it is not materially sensitive to the impact of such transactions and a change in foreign exchange rate. The Group considers that a 5.0% change in the FX is a reasonable and plausible expectation. The impact of a +/-5.0% exchange rate is set out below:

	2022 $'000	2021 $'000
USD/GBP exchange -5.0%	(691)	(1,808)
USD/GBP exchange +5.0%	725	1,898
USD/NOK exchange -5.0%	(574)	n/a
USD/NOK exchange +5.0%	546	n/a

Credit risk

The Group assess that the primary credit risk is concentrated in trade and employee receivables. Analysis of the Group's exposure to this risk is analyzed in note 19. Deposits on rental properties and receivables from taxation authorities are considered to have extremely low risk of credit loss due to the counterparties risk ratings.

Liquidity risk

The Group assess that the primary liquidity risk arises from the timing of liabilities and injections of funding. As described in note 24 the Group funding results primarily from equity raises whilst it develops and scales the product and services offering. The Group's primary long term financial liabilities are lease liabilities which are disclosed in note 13, related to these the Group also has a single loan from a lessor related to leasehold improvements. The Group monitors the future cash outflows from liabilities against the long-term cash inflows to assess liquidity risk. The undiscounted cashflows of the Group's liabilities are set out in note 22 in the creditor maturity analysis.

19. Trade and other receivables

Due to the short-term nature of trade and intercompany receivables, the fair values of the instruments are considered to be equal to their carrying amounts. The major risk which receivables are subject to is considered to be credit risk. Of the other receivables, only the employee receivables are considered to contain credit risk; due to the counterparties, prepayments and tax receivables are determined to have low or no credit risk. Where receivables are from Group entities, the Company additionally assesses if it is in a position to compel the counterparty to pay on-demand, and if there is a right of offset.

In the year ended 31 December 2022 the trade receivables balance includes balances with a total value of $731,000 with no associated credit risk. This relates to $1,353,000 constituting a balance with a right of offset against a related liability held with a joint operation partner specific to the joint operations disclosed in note 14, and a credit balance with no associated risk totaling $623,000 due to a timing difference on a rebate, accordingly, no ECL is recognized in either instance. There was no comparative balance for either in the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

19. Trade and other receivables (continued)

The trade receivables balance is reconciled from gross to net as follows:

	2022 $'000	2021 $'000
Gross trade receivables balance	1,424	2,470
Loss allowance	(5)	(106)
Net trade receivables balance	1,419	2,364

The credit losses for trade and employee receivables are calculated as follows:

31 December 2022	Current $'000	Less than 60 days past due $'000	60 to 120 days past due $'000	More than 120 days past due $'000	No risk $'000	Total $'000
Expected loss rate – trade receivables	0.5%	1.4%	2.2%	10.5%	0.0%	0.4%
Gross value of trade receivables	**478**	**207**	**8**	**-**	**731**	**1,424**
Expected loss rate – employee receivables	1.3%	3.8%	5.6%	62.5%	100.0%	**1.8%**
Gross value of employee receivables	**218**	**-**	**-**	**-**	**-**	**218**
Loss allowance – trade receivables	2	3	-	-	-	**5**
Loss allowance – employee receivables	4	-	-	-	-	**4**

31 December 2021	Current $'000	Less than 60 days past due $'000	60 to 120 days past due $'000	120 to 180 days past due $'000	More than 180 days past due $'000	Total $'000
Expected loss rate – trade receivables	0.34	0.7%	1.6%	8.4%	18.2%	**4.0%**
Gross value of trade receivables	**800**	**461**	**16**	**1,195**	**(2)**	**2,470**
Expected loss rate – employee receivables	1.3%	3.8%	5.6%	62.5%	100.00%	**1.5%**
Gross value of employee receivables	**271**	**-**	**-**	**-**	**-**	**271**
Loss allowance – trade receivables	(3)	(3)	-	(100)	-	**(106)**
Loss allowance – employee receivables	(4)	-	-	-	-	**(4)**

The Group apply the simplified approach to measuring expected credit losses by utilizing the lifetime credit loss approach for all trade and Group receivables, in order to measure the expected credit losses, receivables have been Grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 12-36 months before 31 December 2021, and the corresponding historical credit losses experienced within these periods.

19. Trade and Group receivables (continued)

Additionally, due to the size and nature of certain customers, the Group is also able to utilize public information regarding the credit rating of certain customers in determining the expected credit loss for similar Groups of customers. Historic loss rates are adjusted to reflect current and forward-looking information on macroeconomic and other factors affecting the ability of customers to settle the receivables.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

The movement in credit risk is reconciled as follows:

	2022 $'000	2021 $'000
Opening loss allowance	110	26
Charge for the year	5	110
Amounts written off	-	-
Reversals of loss allowances	(106)	(26)
Closing loss allowance	9	110

20. Short-term investments

The carrying values of such bonds are set out below including a reconciliation of the movements.

	2022 $'000	2021 $'000
Short-term investments at amortized cost	-	187,403

The movement in the year is as follows:	$'000
At 1 January 2021	**101,583**
Amortized interest income	487
Interest coupon paid out	(4,632)
Redemptions on maturity	(109,830)
Reinvestments	199,795
At 31 December 2021 and 1 January 2022	**187,403**
Amortized interest income	98
Interest coupon paid out	(2,474)
Redemptions on maturity	(184,950)
Fees paid	(100)
Interest on cash account	23
At 31 December 2022	-

The equivalent fair value of the marketable bonds at 31 December 2022 was $nil (2021: $188,373,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

21. Cash and cash equivalents

Cash and cash equivalents include regular bank accounts used for day-to-day transactions which can be immediately accessed. The Group draws attention to bank accounts held in certain Asian countries over which there are greater restrictions for use as discussed in note 14.

	2022 $'000	2021 $'000
Cash held at bank	156,987	139,614

22. Creditors

The Group analyze creditors as follows.

Amounts falling due within one year	**2022 $'000**	**2021 $'000**
Trade creditors	(2,657)	(5,283)
Accruals	(14,110)	(20,357)
Other short-term liabilities	(1,940)	(1,243)
Taxation and social security	(4,565)	(3,950)
Deferred income	(482)	(319)
Loan for leasehold improvements	(263)	(95)
Lease liabilities	(8,537)	(7,741)
	(32,554)	**(38,988)**
Amounts falling due after more than one year		
Lease liabilities	(10,649)	(17,905)
Deferred income	(443)	(292)
Loan for leasehold improvements	(132)	(187)
Other employee liabilities	-	(652)
	(11,224)	**(19,036)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

22. Creditors (continued)

Included within other short-term liabilities in 2022 are the Group's obligation to pay remaining additional fixed emoluments of $557,000 (2021: $1,895,000) to staff subject to a TUPE arrangement who transferred to the Group during 2021. Amounts were owed to employees based on performance-based payments prior to the transfer, for which the Group is now liable but was materially reimbursed by the previous employer. Amounts are due to be paid over a 24-month period, and on the occasion the employee ceases employment are repayable to the previous employer.

Also included within short term liabilities is a liability with a joint operation partner with which there is a receivable with a right of offset included within trade receivables with a value of $1,383,000 (2021: $nil).

<u>**Creditor maturity**</u>

In making its assessment of the liquidity risks to the business, the Group review the maturity profile of creditors other which fall due after more than one year using undiscounted cash flows. Current creditors including trade creditors, tax & social security creditors and accruals are expected to be paid within 12 months and balances for which the impact of discounting is immaterial are undiscounted and as such match to the carrying values – their maturity profile is not repeated below, provisions are considered of uncertain timing and included in note 23 and all other balances are shown. Where liabilities are in a foreign currency, it is assumed for the purposes of this disclosure that the prevailing year end rate will be fixed.

31 December 2022

	Due in less than 12 months $'000	Due in one to two years $'000	Due in two to five years $'000	Due after five years $'000	Total $'000
Deferred income	(482)	(307)	(136)	-	(925)
Loan for leasehold improvements	(263)	(83)	(50)	-	(396)
Lease liabilities	(8,537)	(7,475)	(6,708)	(2,063)	(24,783)
Other employee obligations	(1,940)	-	-	-	(1,940)
Total undiscounted cash flows	**(11,222)**	**(7,865)**	**(6,894)**	**(2,063)**	**(28,044)**

31 December 2021	Due in less than 12 months $'000	Due in one to two years $'000	Due in two to five years $'000	Due after five years $'000	Total $'000
Deferred income	(319)	(194)	(98)	-	(611)
Loan for leasehold improvements	(95)	(88)	(131)	-	(314)
Lease liabilities	(7,741)	(7,586)	(10,696)	(4,129)	(30,152)
Other employee obligations	(1,243)	(652)	-	-	(1,895)
Total undiscounted cash flows	**(9,398)**	**(8,520)**	**(10,925)**	**(4,129)**	**(32,972)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

23. Provisions

The Group has the following obligations recorded as provisions:

Provisions	2022 $'000	2021 $'000
Provisions for share-based payment taxes	(3,712)	(4,007)
Warranties and rebates	(1,641)	(2,611)
Provision for dilapidations	(1,293)	(1,133)
	(6,646)	**(7,751)**

All provisions are calculated at the fair value of the best estimate of future cashflow, their value or timing is uncertain, but they are expected to fall due after one year. Discounting of predicted cashflows is used where appropriate.

Movements in provisions are reconciled as per the below table.

	Provisions for share-based payment taxes		Warranties and Rebates		Provision for dilapidations	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Opening balance	(4,007)	(1,438)	(2,611)	(969)	(1,133)	(848)
Charge for the year	295	(2,569)	(97)	(2,214)	(160)	(285)
Amounts utilized	-	-	1,067	572	-	-
Amounts released	-	--	-	-	-	-
Closing provision	**(3,712)**	**(4,007)**	**(1,641)**	**(2,611)**	**(1,293)**	**(1,133)**

Provisions for share based payment taxes are disclosed and explained including key estimates and inputs into the provision in note 17. The movement in the related fair value asset disclosed in note 17 is identical to the movement in the provision.

Provisions for warranties and rebates are their expected timing and inputs are disclosed and explained in note 5. Utilization of the provision relates primarily to rebates accounted for at the 2021 year end and issued during 2022.

Provisions for dilapidations relate to leasing arrangement where the Group is a lessee and has a financial obligation to return a property to its previous condition on exit of the lease. Key inputs to the estimate of the provision are as disclosed in note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

24. Called-up share capital and reserves

At the balance sheet date, the share capital of the Group and Company were as follows:

	2022 # Shares	2021 # Shares	2022 $'000	2021 $'000
Allotted, called-up and fully paid				
Ordinary shares of £0.00025 each	32,879,274	30,580,458	12	11
'A' ordinary shares of £0.00025 each	4,747,728	4,747,728	2	2
Series A shares of £0.00025 each	128,000,000	128,000,000	43	43
Series B shares of £0.00025 each	79,999,996	79,999,996	26	26
Series C shares of £0.00025 each	34,305,300	34,305,300	11	11
Series D shares of £0.00025 each	50,732,421	50,732,421	16	16
Series D2 shares of £0.00025 each	35,715,879	35,715,879	12	12
Series E shares of £0.00025 each	46,457,711	46,457,711	15	15
			137	136

Share capital is denominated in GBP and translated into USD on the date of issue at the prevailing exchange rate. The share premium reserve contains the premium arising on issue of equity shares, net of directly attributable issue expenses.

During the year ended 31 December 2022 2,298,816 Ordinary Shares were issued under the various share based payment schemes (see note 10) for cash of $104,000, giving rise to an increase in share premium of $103,000. There were no directly attributable equity costs.

During the year ended 31 December 2021 365,444 Ordinary shares and 45,180,974 Series E shares were issued were issued for cash of $236,720,000 giving rise to an increase in share premium of $236,704,000. Directly attributable transaction costs of $187,000 were debited to share premium.

The Ordinary, Series 'A', Series 'B', Series 'C', Series 'D' and Series 'E' shares rank pari-passu in respect of their voting and dividend rights. The 'A' Ordinary Shares do not have any voting rights. The Series 'E' shares rank above the Series 'D', Series 'C', Series 'B' and Series 'A' shares which in turn rank above the Ordinary and 'A' Ordinary shares on a return of assets. Series 'E' shares entitle the holder on a liquidation to be paid first from surplus assets at the greater of (i) an amount equal to its preference amount (ii) or an amount per Series 'E' shares equivalent to that which the holder of that Series 'E' preferred stock would have received had the Series 'E' shares converted into ordinary shares immediately prior to such distribution, provided, however, that if there are insufficient surplus assets to pay the amounts per each Series 'E' shares equal to its preference amount, the remaining surplus assets shall be distributed to the holders of Series 'E' shares pro rata to their respective holdings of Series 'E' shares.

The Group and Company's other reserves are as follows:

- The accumulated losses reserve represents net realized and unrealized retained earnings and accumulated losses.
- The translation reserve represents the cumulative exchange differences related to the Group's foreign operations.
- The share-based payment reserve represents the cumulative impact of share options and restricted stock units issued to employees. Further details are disclosed in note 10.

The Group's objectives when managing capital are to continue as a going concern, provide adequate long term returns for shareholders and to make appropriate investments to continue to grow the business.
In order to maintain or adjust the capital structure the Group may seek additional funding from new or existing investors and issue new shares. There is no history of debt funding or dividend distribution on the capital management structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

25. Notes to the cash flow statements

a. Consolidated Cash Flow Statement

Reconciliation of loss for the financial year to cash used in operations:

	Note	2022 $'000	2021 $'000
Loss for the financial year from continuing operations		(173,569)	(147,078)
Loss for the financial year from discontinued operations		(25,235)	(20,879)
Total loss for the financial year		**(198,804)**	**(167,957)**
Adjustment for:			
Tax income	9	(7,944)	(16,603)
Tax charge	9	2,129	-
Unrealized foreign exchange differences		5,336	-
Finance income	6	(2,350)	(613)
Finance expense	6	1,833	1,423
Share-based payment expense	10	17,592	23,066
Inventory provision movement		1,049	(5,727)
Depreciation and impairment of property, plant and equipment	12	18,820	16,851
Gain on disposal of leases	13	(288)	-
Depreciation of right-of-use-assets	13	7,065	4,866
Impairment of right-of-use-assets	13	2,854	-
Impairment of intangible assets	11	1,969	-
Operating cash outflow before movement in working capital		(150,735)	(144,694)
(Increase)/decrease in inventories		(2,110)	4,813
Decrease/(increase) in receivables		2,548	(5,143)
(Decrease)/increase in payables		(8,890)	18,449
Cash outflow from operations		(159,187)	(126,575)
Income taxes received		14,716	15,970
Income taxes paid		(721)	-
Interest paid		9	(18)
Net cash flows used in operating activities		(145,183)	(110,623)

26. Financial commitments

Capital commitments of the Group are as follows:

	2022 $'000	2021 $'000
Contracted for but not provided for		
- tangible fixed assets	352	878

27. Controlling party

In the opinion of the Directors there is no ultimate controlling party of the Group or the Company, the controlling parties being the shareholders of Graphcore Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

28. Related party transactions

The Group determined that it did not have any related parties other than its Directors. The Key Management Personnel of the Group are materially the same as those of the Company.

Key Management compensation

The Directors have determined that Key Management in accordance with IAS 24 includes the Directors and members of senior management. These individuals have been identified due to their membership of a senior management committee which plans, directs and controls the activities of the Group as a whole.

The compensation paid or payable to Key Management for employee services is shown below:

	2022 $'000	2021 $'000
Salaries and other short-term benefits	5,554	4,181
Post-employment benefits	47	97
Share based payments	5,678	12,115
	11,279	**16,393**

Directors' remuneration and transactions

Directors' remuneration	2022 $'000	2021 $'000
Emoluments	1,854	1,631
Company contributions to money purchase pension schemes	-	39
Gains on exercise of share options	-	12,856
	1,854	**14,526**

Three Directors received share-based remuneration in 2022 (2021: three). Two Directors exercised share options in 2021. The total number of options exercised in 2022 was nil (2021: 2,288,070). The Company received total cash receipts from share options exercised by Directors in the year of nil (2021: $798).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

28. Related party transactions (continued)

	2022	2021
	Number	**Number**
The number of Directors who:		
Are members of a money purchase pension scheme	-	2

	2022	2021
	$'000	**$'000**
Remuneration of the highest paid Director:		
Emoluments	877	816
Company contributions to money purchase schemes	-	23
Gains on exercise of share options	-	6,428

29. Events after the balance sheet date

There are no post balance sheet events to report which would have a material impact on the financial statements presented.

GRAPHCORE LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Non-current assets			
Investments	7	10,675	15,464
Right of use assets	6	9,355	12,115
Property, plant and equipment	5	13,802	17,926
Other non-current assets	8	4,915	5,361
		38,747	50,866
Current assets			
Inventories	10	6,197	4,087
Trade and other receivables	8	14,359	14,290
Tax receivable		6,435	17,737
Short-term investments	10	-	187,403
Cash and bank balances		150,501	135,101
		177,492	358,618
Total assets		**216,239**	**409,484**
Non-current liabilities			
Lease liabilities	6	(4,298)	(7,095)
Provisions		(6,037)	(7,264)
Non-current liabilities	9	(443)	(944)
		(10,778)	(15,303)
Current liabilities			
Trade and other payables	9	(29,061)	(36,082)
Lease liabilities	6	(4,743)	(5,362)
		(33,804)	(41,444)
Total liabilities		**(44,582)**	**(56,747)**
Net assets		**171,657**	**352,737**
Capital and reserves			
Share capital	10	137	136
Share premium account	10	722,749	722,646
Share based payment reserve	10	83,671	66,079
Accumulated losses	10	(634,900)	(436,124)
Total equity		**171,657**	**352,737**

The loss for the financial year dealt with in the financial statements of the parent Company was $198,776,000 (2021: $165,828,000).

The financial statements of Graphcore Limited (registered number 10185006) on pages 77 to 94 were approved by the board of Directors on May 2023 and signed on its behalf by:

N Toon
Chief Executive Officer

N Bishop
Chief Financial Officer

GRAPHCORE LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Called-up share capital $'000	Share premium account $'000	Share based payment reserve $'000	Accumulated losses $'000	Total $'000
At 1 January 2021	121	486,128	43,013	(269,886)	**259,376**
Total comprehensive loss for the financial year	-	-		(165,828)	**(165,828)**
Issue of share capital (net of direct costs)	15	236,518	-	-	**236,533**
Capital contribution	-	-	3,657	-	**3,657**
Credit to equity for equity settled share-based payment	-	-	19,409	-	**19,409**
Direct impact on equity of transition to IFRS	-	-	-	(410)	**(410)**
At 31 December 2021	**136**	**722,646**	**66,079**	**(436,124)**	**352,737**

GRAPHCORE LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY (Continued)
For the year ended 31 December 2022

	Called-up share capital $'000	Share premium account $'000	Share based payment reserve $'000	Accumulated losses $'000	Total $'000
At 31 December 2021	136	722,646	66,079	(436,124)	**352,737**
Total comprehensive loss for the financial year	-	-	-	(198,776)	**(198,776)**
Issue of share capital (net of direct costs)	1	103	-	-	104
Capital contribution	-	-	3,628	-	3,628
Credit to equity for equity settled share-based payment	-	-	13,964	-	13,964
At 31 December 2022	**137**	**722,749**	**83,671**	**(634,900)**	**171,657**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

1. General Information

a. Company Information and basis of accounting

These financial statements are the separate financial statements for Graphcore Limited (the "Company"). General information about the Company, including the presentation and functional currency of USD, is set out in note 3 of the accompanying consolidated Financial Statements.

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared on the historical cost basis, which is generally based on the fair value of the consideration given in exchange for goods or services, with the exception of certain financial instruments which are measured at fair value.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent between the Group and the Company and are disclosed in note 3 of the consolidated financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101 on the basis that equivalent disclosures are included within the Consolidated Financial Statements:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment';
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows); 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cashflow statements);
  - 38B-D (additional comparative information);
  - 111 (statement of cashflows information); and
  - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

1. General Information (continued)

a. Company Information and basis of accounting (continued)

- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a Group.

New Standards, Amendments, IFRIC Interpretations and new Relevant Disclosure Requirements Adopted

Consistent with the approach taken in the consolidated Financial Statements of Graphcore Limited, there are no amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the Company financial statements. A list of the relevant standards and interpretations not yet adopted are shown in the Consolidated Financial Statements of Graphcore Limited in note 1a.

b. Going concern

These financial statements have been prepared on a going concern basis.

Graphcore Limited incurred a loss in 2022 and further losses are expected in 2023 as the business continues to invest in growing the company. On 31st December 2022, the group has net assets of $144m including a year-end cash balance of $157m. The Group has prepared a detailed cashflow forecast through to December 2027 which indicate that there will be a need for further funding into the Group before a planned cashflow break-even point is reached. The forecast indicates that the Group and Company will require further investment to finance the existing requirements over the 12 months from the date of signing these financial statements. The Group and Company are in discussions with potential investors to secure the additional funding required, but has not yet reached agreement. However, the Directors expect that appropriate funding can be secured before it is required.

On this basis, the validity of the going concern assumption depends principally on the ability of the directors to secure additional funding and the Group to achieve its forecast level of revenue and cost bases for 2023. These conditions constitute a material uncertainty in relation to going concern. The financial statements do not include any adjustments that would result if the going concern assumption were not applicable.

The directors consider than in preparing the financial statements they have taken into account all information that could reasonably be expected to be available and, on that basis, they consider that it is appropriate to prepare the financial statements on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

2. Accounting Policies

a. Investments in Subsidiaries

Investments in subsidiaries and associates are measured at cost, which is the fair value of the consideration paid, less cumulative impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

Cost of an investment includes amounts which the Company as parent incurs on behalf of the subsidiary in exchange for no consideration, such as the issue to employees of subsidiaries of share options Graphcore Limited. These are accounted for as capital contributions.

Investments are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, such as ceasing to operate.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Investments that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year. Reversals of impairment losses are limited such that the value of the asset cannot exceed the carrying amount it would have had no impairment been recognized.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. These are identified to be Cash-Generating-Units ("CGUs"). The lowest CGU is the Company as a whole.

b. Property, plant and equipment

Property, plant and equipment is recognized at cost in accordance with IAS 16 and is presented net of accumulated depreciation and any impairment in accordance with IAS 36.

Cost is measured taking into account the purchase price and the costs directly attributable to bringing the asset to the location and condition necessary to operate and an estimate of the future decommissioning, dismantling and restoration costs.

Depreciation is charged on all significant components or property, plant and equipment, based on an estimate of its useful economic life. Depreciation rates are calculated on a systematic basis to spread the cost, less estimated residual value, of each component of an asset on a straight-line basis to reflect the pattern of benefit to the Group, as follows:

Asset Class	Depreciation method and useful economic life
Leasehold land and buildings	- Straight line over period of lease
Development Equipment	- 2 years straight line
Fixtures and Fittings	- 5 years straight line
Office Equipment	- 2 years straight line
Computer Equipment	- 2 years straight line

2. Accounting Policies (continued)

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

c. Leases

The Company determines if an arrangement is or contains a lease under the definition of IFRS 16 at its inception. An arrangement is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Graphcore makes use of the following expedients in determining if a lease is in the scope of IFRS 16. The Company does not recognize right-of-use ("ROU") assets or lease liabilities for leases:

- With a term of 12 months or less; or
- With an equivalent asset value of $5,000 or less.

Such leases are treated as 'operating leases' and are recognized in the Income Statement on a straight-line basis over the lease term.

Leases within the scope of IFRS 16 are included ROU assets and current and non-current lease liabilities on the Company's Statement of Financial Position. ROU assets represent the Company's right to use an underlying asset for the lease term. The corresponding lease liabilities represent its obligation to make lease payments arising from the lease.

Lease liabilities are calculated based on the present value of the future minimum lease payments over the lease term at commencement. The lease ROU asset is calculated based on the lease liability, adjusted for any initial direct costs incurred and/or dilapidation provision.

The Company has lease agreements which contain both lease and non-lease components and separates non-lease components in determining the lease liability to record. Relevant future minimum lease payments included in the lease liability exclude variable lease payments, such as common area maintenance, operating expenses, utilities, or other costs that are subject to fluctuation from year to year. Such payments are recognized in the Income Statement as incurred.

The Company's lease terms may include options to extend or to terminate the lease. Periods beyond the non-cancellable term of the lease are included in the measurement of the lease liability when it is reasonably certain that the Company will exercise the associated extension option or waive the termination option.

The Company reassesses the lease term if and when a significant event or change in circumstances occurs within its control.

As none of the Company's leases explicitly provide an implicit rate of borrowing, the net present value of future minimum lease payments is determined using the individual lessee's incremental borrowing rate. The Company applies the expedient to use a portfolio approach in determining the relevant incremental borrowing rate. The incremental borrowing rate for any group of assets is an estimate of the interest rate the lessee would have to pay to borrow on a collateralized basis with similar terms and payments, in the economic environment where the leased asset is located.

ROU assets are assessed for indicators of impairment on an annual basis in accordance with IAS 36.

2. Accounting Policies (continued)

d. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

All financial assets and liabilities are recognized at fair value, which normally equates to the consideration given.

Applying IFRS 9, all financial assets and liabilities are classified at initial recognition as fair value or amortized cost instruments. The Company primarily holds debt instruments. Debt instruments which are an asset are classified depending on the Company's business model for holding these instruments. All financial assets which are held by the Company are held for the collection of contractual cash flows of principal and interest, accordingly, are subsequently measured at amortized cost.

Certain financial instruments which have closely related assets and liabilities, but which do not qualify for a right of offset are irrevocably elected to be measured at fair value through profit and loss in order to manage accounting mismatch. All other financial liabilities are measured at amortized cost. Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognized only when the obligation specified in the contract is discharged, cancelled or expires.

e. Key categories of financial assets and liabilities

i) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

ii) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash within a few days and which are subject to insignificant risk of changes in value.

iii) Deposits

Deposits include rental deposits held by third parties to which the Company expects to be entitled. There are no credit losses recognized.

2. Accounting Policies (continued)

iv) Trade and other receivables

Amounts recorded as receivables are amounts expected to be received within 12 months and have no financing component. They are measured at the fair value of consideration expected to be received adjusted for expected credit losses.

v) Short-term Investments

Short-term investments represent the Company's Bond Portfolio of short duration bond whose performance is linked to that of the underlying short-term investments. The short-term investments are measured at amortized cost in accordance with the business model to hold bonds for the purpose of cashflows of principal and interest only, for the purposes of capital preservation.

vi) Trade and other payables

Amounts recorded as payables are amounts expected to be paid within 12 months and have no financing component. They are measured at the fair value of consideration expected to be paid.

vii) Provisions

Provisions are recorded in accordance with IAS 37 at the present value of the estimated expenditure required. Amounts include dilapidations provisions related to property, plant and equipment, and right-of-use-assets.

Provisions related to share-based payment payroll taxes and their related reimbursement assets are recorded at fair value through profit or loss in order to address any possible accounting mismatch.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

f. Inventory

Inventories are stated at the lower of cost and estimated selling price less costs to sell. Inventories are recognized as an expense in the period in which the related revenue is recognized.

Cost is determined using Standard Cost. Cost includes manufactured cost, plus taxes, duties and other directly attributable costs to bring the inventory to its present location and condition. At the end of the reporting year, inventories are assessed for impairment in accordance with IAS 36. If an item of inventory is impaired, the item of inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognized in the profit and loss account.

2. Accounting Policies (continued)

g. Employee benefits

Short term employee benefits including salaries, bonuses, and non-monetary benefits and which are expected to be settled within 12 months are expensed in the profit and loss in the period in which the service is rendered in accordance with IAS 19, any unpaid amounts are presented as current liabilities on the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

h. Share-based payment

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value in accordance with IFRS 2. Due to the 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 fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

i. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is recognized for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognized in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognized only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2. Accounting Policies (continued)

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognized in a business combination is less (more) than the value at which it is recognized, a deferred tax liability (asset) is recognized for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognized for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognized and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognized.

Deferred tax liabilities are recognized for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to non-depreciable property measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset. In other cases, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Where items recognized in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

3. Staff numbers and costs

The average monthly number of employees of the Company (including executive Directors) was:

	2022 Number	2021 Number
Engineering	331	303
Sales & Marketing	60	38
Administration	43	28
	434	369

Their aggregate remuneration comprised:

	2022 $'000	2021 $'000
Wages and salaries	49,320	44,264
Social security costs	6,224	4,988
Other pension costs	2,601	2,123
Employee benefits expense	**58,145**	**51,375**
Share based payment expense (note 4)	13,964	19,409
Total employment expenses	**72,109**	**70,784**

The Company operates defined contribution retirement benefit schemes for all qualifying employees of its UK Company. The total expense charged to profit or loss in the year ended 31 December 2022 was $2,601,000 (2021: $2,123,000). As at 31 December 2022, pension contributions of $505,000 (2021: $464,000 remain outstanding to be paid.

4. Share-based payments

The Company has share schemes for all employees of the Group. The Company takes part in this Group share-based payment plans and recognizes and measures its allocation of the share-based payment expense on a pro-rata basis. The Company administers and issues all share options on behalf of Companies in the Group. Options are granted under the plans for no consideration and carry no dividend or voting rights.

There are two classes of scheme, Share Option schemes and an employee share scheme. The Company recognized total expenses of $13,964,000 (2021: $19,409,000) related to equity-settled share-based payment transactions.

Details regarding the calculations of fair value of the shares and the inputs into the model are included within the note 10 of the Consolidated Financial Statements of the Group.

5. Property, plant and equipment

	Leasehold Land & Buildings	Development Equipment	Computer Equipment	Fixtures & Fittings	Office Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or valuation						
At 1 January 2022	3,099	4,043	43,366	1,902	58	52,468
Additions	106	2,363	10,470	113	3	13,055
Disposals	-	-	(146)	-	-	(146)
At 31 December 2022	**3,205**	**6,406**	**53,690**	**2,015**	**61**	**65,377**
Accumulated depreciation						
At 1 January 2022	1,981	3,868	27,461	1,179	53	34,542
Charge for the year	547	694	15,518	315	3	17,077
Impairment	-	-	(44)	-	-	(44)
At 31 December 2021	**2,528**	**4,562**	**42,935**	**1,494**	**56**	**51,575**
Net book value						
At 31 December 2022	**677**	**1,844**	**10,755**	**521**	**5**	**13,802**
At 31 December 2021	1,118	175	15,905	723	5	17,926

6. Leases

The Company are party to leases as a lessee. There are no arrangements under which the Company is a lessor. This note provides information about the Company's arrangements as a lessee, for which the following amounts are included within the Statement of Financial Position:

	2022	2021
	$'000	$'000
Right-of use-assets		
Offices	5,149	5,490
Data centers	4,206	6,625
	9,355	**12,115**
Lease liabilities		
Current	(4,743)	(5,362)
Non-current	(4,298)	(7,095)
	(9,041)	**(12,457)**

6. Leases (continued)

Movements were recorded in the right-of-use-assets were as follows:

	2022 $'000	2021 $'000
Cost		
At 1 January	15,247	7,186
Additions	1,558	12,324
Disposals	-	(4,263)
At 31 December	**16,805**	**15,247**
Accumulated depreciation		
At 1 January	(3,132)	(3,969)
Charge for the year	(4,318)	(2,758)
Disposals	-	3,595
At 31 December	**(7,450)**	**(3,132)**
Net book value		
At 31 December 2022	**9,355**	**12,115**
At 31 December 2021	12,115	3,217

The total cash outflow for leases in 2022 was $4,288,000 (2021: $5,749,000).

The total short term and variable lease charge in 2022 was $79,000 (2021: $111,000).

The total amount of depreciation for ROUA charged in 2022 was $4,318,000 (2021: $2,758,000).

The total finance charge for leases in 2022 was $606,000 (2021: $333,000).

Key sensitivities and judgements:

Information regarding key judgements and related estimation sensitivities of the lease portfolio are provided in note 13 of the consolidated financial statements.

7. Investments in subsidiaries

	2022 $'000	2021 $'000
Subsidiary undertakings	10,675	15,464

Details of the subsidiaries controlled by the Company, and their relative ownership are set out in note 14 of the consolidated Financial Statements. The interests in other entities of the Company are also the same as the Group.

The movement in the investment in subsidiaries balances is as follows:

Cost and net book value	**$'000**
At 1 January 2022	15,464
Additions	1
Capital contribution	3,631
Disposals and Impairments	(8,421)
At 31 December 2022	**10,675**

During the year the Company invested $1,000 in its Singapore subsidiary.

Investments in subsidiaries in Norway and Japan were disposed of as these entities were closed down as part of Group Restructuring. Details of this are given in the consolidated financial statements in note 4 and note 6.

Capital contributions relate to the share schemes described in note 4 are operated by the Company on behalf of subsidiaries in the Group.

8. Financial assets

Included within financial assets are the following:

Amounts falling due within one year	2022 $'000	2021 $'000
Trade receivables	1,419	2,364
Intercompany receivables	7,976	7,046
Prepayments	3,421	3,861
Corporation tax recoverable	6,435	17,737
Other receivables	1,543	1,019
Total trade and other receivables	**20,794**	**32,027**
Amounts falling due after more than one year		
National insurance receivables at fair value	3,712	4,007
Deposits	1,054	1,205
Other non-current employee receivables	149	149
Total non-current assets	**4,915**	**5,361**

The Company's receivables are presented net of expected credit losses.

The Company's trade receivables are the same as the Group's, and information about the expected credit losses of the Group are presented in note 19 of the Consolidated Financial Statements.

The Company's intercompany receivables are due immediately, repayable on demand and have a legal right of offset against intercompany payables. The Company's intercompany balances are a net payable and thus there is no expected credit loss.

The fair value asset for national insurance receivables due from employees results from share-based payment arrangements with employees of the Group that the Company grants. Disclosure of these instruments is included within note 17 of the Consolidated Financial Statements.

All other receivables are ordinary trading receivables due within one year and it is assumed that their carrying value is representative of their fair value. Other receivables are not subject the expected credit loss model.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

9. Financial liabilities

Included within financial liabilities are the following:

Amounts falling due within one year	**2022 $'000**	**2021 $'000**
Trade payables	(2,504)	(5,083)
Intercompany payables	(11,714)	(11,538)
Accruals and other payables	(11,681)	(15,671)
Other employee liabilities	(557)	(1,246)
Taxation and social security	(2,123)	(2,225)
Deferred income	(482)	(319)
Total trade and other payables	**(29,061)**	**(36,082)**
Amounts falling due after more than one year		
Deferred income	(443)	(292)
Other employee liabilities	-	(652)
Provisions	(6,037)	(7,264)
	(6,480)	**(8,208)**

The provisions of the Group and the Company are materially the same and related to product warranties and rebates, the share based payment fair value national insurance liability and dilapidations provisions. Any differences result from dilapidations provisions related to the Company's subsidiaries. These amounts are disclosed in note 23 of the Consolidated Financial Statements.

Employee liabilities relate to commitments made by Graphcore when a TUPE was completed for employees transferring from another Company. Employee liabilities of the Company and consistent with those of the Group which are disclosed in note 22 of the Consolidated Financial Statements.

Deferred income of the Group and the Company are the same. Detail of the balances and expected realisation of this and other contract assets are given in note 5 of the Consolidated Financial Statements.

The Company's intercompany payables relate to intercompany funding requirements and trading balances, they are repayable on demand and have a legal right of offset against intercompany receivables.

All other payables are ordinary trading liabilities due within one year and it is assumed that their carrying value is representative of their fair value.

10. Information included in the Notes to the Consolidated Financial Statements

Some of the information included within the notes of the consolidated Financial Statements is directly relevant to the Company and accordingly has not been reproduced. This relates to:

Note 3 - Critical accounting judgements and key sources of estimation uncertainty

Note 5 – Revenues and contract assets and liabilities

Note 7 – Auditor Remuneration

Note 9 – Tax on loss

Note 10 - Share based payments

Note 15 – Inventories

Note 17 – Financial assets and liabilities recorded at fair value

Note 19 - Trade and other receivables

Note 20 - Short-term investments

Note 24 – Called up share capital

Note 26 - Financial commitments

Note 27 – Ultimate Controlling Party

Note 28 – Related Parties and Key Management Personnel

Note 29 – Subsequent Events