THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 ("FSMA").

If you have sold or otherwise transferred all of your Ordinary Shares, please forward this document, immediately to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or otherwise transferred some of your Ordinary Shares, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

A copy of this document, which comprises listing particulars of Autonomy, prepared in accordance with the listing rules made under section 74 of FSMA (the "Listing Rules"), has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of FSMA.

Application has been made to the UK Listing Authority for the Consideration Shares to be admitted to the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on its market for listed securities. It is expected that Admission of the Consideration Shares will become effective and dealings in the Consideration Shares will commence on the London Stock Exchange on or before 8:00 a.m. on 6 June 2005. It is expected that Admission of any Earnout Shares will become effective and dealings in any Earnout Shares will commence on the London Stock Exchange seven and/or ten and/or thirteen months after Completion.

AUTONOMY CORPORATION PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered no. 3175909)

LISTING PARTICULARS

relating to
the admission of up to 10,755,890 new Ordinary Shares to the Official List
in connection with the acquisition of etalk Corporation

This document does not constitute an offer to sell, or the solicitation of an offer to buy, Ordinary Shares in any jurisdiction. The Consideration Shares and any Earnout Shares are not, and will not be, registered under the applicable securities laws of Australia, Canada, Japan or the United States and, subject to certain exceptions, may not be offered or sold within Australia, Canada, Japan or the United States or to any national, resident or citizen of Australia, Canada, Japan or the United States. The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

For a discussion of certain factors that should be considered in connection with acquiring Ordinary Shares, see the section entitled "Risk Factors" set out on pages 16 to 30 of this document at Part IV of this document.

Société Générale is acting exclusively for Autonomy and no-one else in connection with the Acquisition and will not be responsible to any person other than Autonomy for providing the protections afforded to clients of Société Générale or for providing advice in relation to the Acquisition or any other matters described herein.

Jushoran Hussain

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy	11:00 a.m. on 31 May 2005
Extraordinary General Meeting of the Company	11:00 a.m. on 2 June 2005
Expected time and date that dealings will commence in the Consideration Shares on the London Stock Exchange	On or before 8:00 a.m. on 6 June 2005
Expected Completion of the Acquisition	On or before 6 June 2005

Each of the times and dates in this timetable is subject to change. References to times in this document are to London time, unless otherwise stated.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

DIRECTORS

Michael Richard Lynch, Managing Director and Chief Executive Officer
Richard Gwynne Gaunt, Technical Director
Sushovan Tareque Hussain, Finance Director and Chief Financial Officer
Barry Michael Ariko, Non-executive Director
John Phillips McMonigall, Non-executive Director
Richard Norman Perle, Non-executive Director

The business address of each of the Directors is c/o Autonomy, Cambridge Business Park, Cowley Road, Cambridge, CB4 0WZ

COMPANY SECRETARY

Andrew Kanter

REGISTERED OFFICE

Cambridge Business Park
Cowley Road
Cambridge CB4 0WZ

ADVISERS

LEGAL ADVISERS TO AUTONOMY

Wilmer Cutler Pickering Hale and Dorr LLP
Alder Castle
10 Noble Street
London EC2V 7QJ

SPONSOR AND FINANCIAL ADVISER

Société Générale
Exchange House
Primrose Street
London EC2A 2HT

AUDITORS TO AUTONOMY

Deloitte & Touche LLP
Leda House
Station Road
Cambridge CB1 2RN

INDEPENDENT AUDITORS TO ETALK

Ernst & Young
2121 San Jacinto
Suite 1500
Dallas, TX 75201, USA

REGISTRARS

Computershare Services PLC
P.O. Box 82, The Pavilions
Bridgwater Road
Bristol BS99 7NH

BROKER

UBS Warburg
1/2 Finsbury Avenue
London EC2N 2PP

PRINCIPAL BANKERS

Barclays Bank PLC
Bene'T Street
Cambridge
CB3 3PZ

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Acquisition"	the acquisition of the entire issue share capital of etalk;
"Acquisition Agreement"	the conditional agreement relating to the Acquisition dated 19 April 2005 between the Company, Merger Sub and etalk, as detailed in paragraph 10.2(b) of Part IX of this document;
"Act"	the Companies Act 1985, as amended;
"Admission"	the admission to the Official List and admission to trading on the London Stock Exchange of the Consideration Shares and/or the Earnout Shares becoming effective by the decision of the UK Listing Authority to admit such shares to listing being announced in accordance with paragraph 7.1 of the Listing Rules, and by the decision of the London Stock Exchange to admit such shares to trading being announced in accordance with the London Stock Exchange Admission Standards;
"Articles" or "Articles of Association"	the articles of association of the Company;
"Average Company Closing Share Price"	the weighted average trading prices of Ordinary Shares on the London Stock Exchange during the five consecutive trading days prior to Completion;
"Average Company Share Price"	196.04 pence, being the weighted average trading prices of Ordinary Shares on the London Stock Exchange between 8 March 2005 and 19 April 2005;
"Board" or "Directors"	the board of directors of the Company;
"Cash Consideration"	the aggregate of US$30 million in cash to be paid to the etalk Stockholders upon the terms of the Acquisition Agreement;
"Circular"	the circular to Shareholders dated the same day as this document containing, amongst other things, the notice convening the EGM;
"City Code"	means the UK City Code on Takeovers and Mergers;
"Common Stock"	common stock of US$0.01 each in etalk;
"Common Stock Per Share Cash Consideration"	the Cash Consideration minus the Preferred Stock Merger Consideration divided by the number of shares of Common Stock outstanding immediately prior to the Effective Time;
"Common Stock Share Consideration"	such fraction of an Ordinary Share that is equal to: (i)(a) the aggregate consideration at Completion payable to the etalk Stockholders by the Company minus the Cash Consideration divided by (b) the number of shares of Common Stock; (ii) divided by the Average Company Share Price;
"Company" or "Autonomy"	Autonomy Corporation plc;
"Completion"	completion of the Acquisition under the terms of the Acquisition Agreement;
"Consideration Shares"	the Ordinary Shares to be issued for the benefit of the etalk Stockholders on Completion pursuant to the terms of the Acquisition Agreement, such shares to rank *pari passu* in all respects with the Existing Shares;

"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo is the operator (as defined in the Uncertificated Securities Regulations 2001);
"CRESTCO"	CRESTCo Limited, the operator of CREST;
"Earnout Consideration"	a payment or payments to be made to the etalk Common Stockholders in the form of Ordinary Shares in an amount up to US$23 million in the event that, amongst other things, etalk's software bookings are equal to or greater than certain levels specified in the Acquisition Agreement;
"Earnout Shares"	any Ordinary Shares to be issued as Earnout Consideration;
"Effective Time"	the time of filing of a certificate of merger with the Secretary of State of the State of Nevada by the Company and etalk (or such time within 90 days after such filing as the Company and etalk shall agree);
"Enlarged Group"	the Group following Completion, including etalk and its subsidiary undertakings;
"Enlarged Share Capital"	the issued share capital of the Company on a fully diluted basis immediately following Completion;
"etalk"	etalk Corporation, a Nevada, United States corporation;
"etalk Common Stockholders"	holders of Common Stock;
"etalk Group"	etalk and its subsidiary undertakings;
"etalk Options"	options to purchase Common Stock;
"etalk Preferred Stockholders"	holders of Preferred Stock;
"etalk Stock"	Common Stock and Preferred Stock;
"etalk Stockholders"	etalk Common Stockholders and etalk Preferred Stockholders;
"Existing shares"	the issued Ordinary Shares as at the date of this document;
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of Autonomy to be convened at 11:00 a.m. on 2 June 2005 (and any adjournment thereof) for the purpose of considering and, if thought fit, approving the Acquisition and related matters;
"FSMA"	the Financial Services and Markets Act 2000;
"General Meeting"	an extraordinary general meeting or an annual general meeting of the Shareholders or any other meeting at which the Shareholders (or any class of them) are entitled to vote;
"Group"	the Company and its subsidiary undertakings;
"Listing Rules"	the listing rules made by the UK Listing Authority under FSMA;
"London Stock Exchange"	the London Stock Exchange plc;
"London Stock Exchange Admission Standards"	the rules issued by the London Stock Exchange in relation to the admission to trading of, and continuing requirements for trading of securities on the London Stock Exchange;

"Merger Consideration"	the total amount of the Cash Consideration plus the aggregate Common Stock Share Consideration paid to all etalk Common Stockholders and the Earnout Consideration (if any);
"Merger Sub"	Cowboys Acquisition Corp., a wholly owned subsidiary of the Company;
"Official List"	the official list of UK listed securities maintained by the UK Listing Authority pursuant to FSMA;
"Ordinary Shares"	the ordinary shares of ⅓p each in the capital of the Company;
"Preferred Stock"	preferred stock of US$0.01 each in etalk;
"Preferred Stock Merger Consideration"	the Series A Preferred Stock liquidation preference as set forth in etalk's Amended and Restated Articles of Incorporation;
"£" and "p"	pounds sterling and pence, the lawful currency of the UK;
"Resolutions"	the resolutions to be proposed at the EGM;
"Shareholders"	holders of Ordinary Shares immediately prior to Completion;
"UK Listing Authority"	the Financial Services Authority as the competent authority for listing in the UK;
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland;
"United States" or "US"	the United States of America including each state therein, the District of Columbia, Puerto Rico, the United States Virgin Islands and each of the other territories and possessions of the United States of America;
"US Securities Act"	the US Securities Act of 1933; and
"US$" or "$"	the lawful currency of the United States.

PART I

THE ACQUISITION

1. Introduction

On 20 April 2005, the Company announced that it had reached agreement on the terms of the proposed acquisition of etalk by the Company.

The board of directors of etalk has unanimously approved the Acquisition Agreement and the requisite majority of etalk Stockholders have entered into agreements to vote to adopt the Acquisition Agreement. The Board has also unanimously approved the Acquisition Agreement and other related matters and has recommended the Shareholders vote in favour of the resolution to approve the Acquisition and all other resolutions to be proposed at the EGM, as set out in the Notice of EGM incorporated in the Circular.

Under the Acquisition, it is anticipated that Autonomy will pay consideration consisting of US$30 million in cash and the allotment of 10,755,890 new Ordinary Shares which, based on the Average Company Share Price of 196.04 pence, values the transaction at approximately US$70 million. If based on the mid-market closing share price of Ordinary Shares on the London Stock Exchange on 17 May 2005 (being the last practicable date prior to the date of publication of this document) of 205.5 pence, the transaction would have been valued at approximately US$40.7 million. In addition, etalk Common Stockholders will have the opportunity to earn up to an additional US$23 million, payable in Ordinary Shares, contingent upon etalk meeting or exceeding pre-agreed software bookings targets or the Chief Executive Officer of etalk's employment being terminated without cause by the Company. The estimated maximum aggregate consideration, based on the Average Company Share Price of 196.04 pence, is US$93 million. The Cash Consideration will be funded using Autonomy's existing cash resources and is subject to additional adjustment based on a minimum amount of working capital of etalk at Completion.

The Acquisition is subject to a number of conditions including its approval by Shareholders. Subject to these conditions, the Acquisition is expected to be completed on or before 6 June 2005.

Immediately following Completion, etalk Stockholders will hold approximately 9.1 per cent of the Enlarged Share Capital.

2. Terms of the Acquisition

Upon the passing of the Resolutions, the Acquisition will be effected by a statutory merger under the laws of the State of Nevada, United States. Under the terms of the Acquisition Agreement, Cowboys Acquisition Corp., a wholly owned subsidiary of Autonomy, will merge with and into etalk, with etalk surviving as a wholly owned subsidiary of Autonomy.

The aggregate consideration for the Acquisition (termed the Merger Consideration) is to be up to US$93 million, made up of (i) US$30 million in cash at Completion, (ii) 10,755,890 Ordinary Shares (valued at US$40 million under the terms of the Acquisition Agreement or US$40.7 million if it had been based on the mid-market closing share price of Ordinary Shares on the London Stock Exchange on 17 May 2005 (being the last practicable date prior to the date of publication of this document)); and (iii) up to US$23 million, payable in Ordinary Shares if etalk meets or exceeds certain pre-agreed software bookings targets.

Under the terms of the Acquisition Agreement, each outstanding share of Common Stock shall be converted into and exchangeable for the right to receive (i) the Common Stock Share Consideration and (ii) the Common Stock Per Share Cash Consideration and shall thereafter be cancelled. Each outstanding share of Preferred Stock shall be converted into the right to receive cash in an amount equal to the Preferred Stock Merger Consideration and thereafter cancelled. The etalk Stockholders have agreed that an amount equal to US$9.3 million shall be subject to an escrow to provide recourse to Autonomy for any indemnity obligations of the etalk Stockholders pursuant to the Acquisition Agreement.

Up to US$23 million may be payable as an earnout payment to etalk Common Stockholders in the form of Ordinary Shares, payable in the event that etalk's cumulative software bookings are equal to or greater than certain specified levels contained in the Acquisition Agreement in the six, nine and twelve month periods following Completion or if etalk's Chief Executive Officer has his employment with etalk terminated without cause by the Company before the first anniversary of Completion. If the specified levels of software bookings are not met in the applicable periods then the Company may be required to make a partial earnout payment to etalk Common Stockholders on or around the first anniversary of Completion.

All outstanding etalk Options immediately prior to Completion shall be assumed by the Company and shall continue to have, and be subject to, the same terms and conditions as are in effect immediately prior to Completion except such assumed etalk Options shall be exercisable for that number of Ordinary Shares equal to the product of (i) the number of shares of Common Stock subject to such option and (ii) the sum of the Common Stock Share Consideration plus the fractional Ordinary Share obtained by dividing the Common Stock Per Share Cash Consideration by the Average Company Share Price. All such options have an exercise price significantly higher than the mid-market closing share price of Ordinary Shares on 17 May 2005 (being the last practicable date prior to the date of publication of this document), with an average exercise price per share of US$149,000, as converted. The maximum number of Ordinary Shares which would be issued upon exercise of all such options would be 9.5575, which would be satisfied under the Company's existing option schemes, although the Company believes it is unlikely any shares would be issued given the relative exercise prices. Any acquisition consideration with respect to each share of Common Stock which is unvested at Completion and subject to etalk's right or option to repurchase at the original price paid per share (the "**Repurchase Option**") or other forfeiture provision shall also be unvested and subject to the same Repurchase Option or other forfeiture provision. Such unvested acquisition consideration shall be held in escrow by Autonomy and shall be released to the record owner of that share of Common Stock when the share to which that acquisition consideration is attributable would have otherwise vested in accordance with the vesting schedule in effect for such share immediately prior to Completion.

Further details of the terms of the Acquisition Agreement are set out in paragraph 10.3(b) of Part IX.

3. Background to and reasons for the Acquisition

As part of Autonomy's commitment to automating the management, processing and delivery of unstructured information across the internet, the extended enterprise and other digital domains, including for example enterprise search and associated business needs, the Board has identified the ability to search phone calls by their content as a key developing market. The Board believes that development of the market will accelerate with the continued adoption of Voice Over Internet Protocol Systems. Currently one of the most strategically important uses of recorded telephony within the enterprise is in contact centres. Based on Autonomy's core technology's ability to understand the content of any form of unstructured information, the Board views adoption of this automated handling of unstructured information in the call centre software market as an interesting route to spearhead the adoption of phone call searching technologies in the enterprise and thus the continued adoption of Autonomy's IDOL platform as an enterprise standard in large enterprises.

Autonomy initially addressed this market by developing products incorporating its proprietary core technology, and releasing those products into the marketplace for development and market testing purposes. Following strong commercial interest in Autonomy's Audentify contact centre product-suite, Autonomy has continued to develop an organic growth strategy whilst closely following the market for acquisition opportunities.

However, Autonomy believes that the ability to understand the content of the call, both live and as archived through recording, can drive significant value and cost savings for enterprises. By using a software system that understands the content of the call, new functionality can be introduced. For example, a contact centre operator can automatically be given the suggested answer for a call, thereby driving quicker resolution times; a supervisor can be automatically alerted to problem calls, thereby intervening when necessary; calls can be automatically monitored for trends, thereby alerting managers for the need to proactively address new problems; and significant information for all areas of the enterprise can be extracted, such as key information relating to new product problems or matters that may expose the enterprise to liability.

To date, Autonomy's participation in the contact centre software market has been limited to its Audentify product suite. In the last twelve months sales of Autonomy's Audentify product have grown with a number of key contracts. etalk will bring to the Enlarged Group a broad suite of traditional contact centre software products that include call recording, agent evaluation, coaching and e-learning, customer surveys and agent hiring for quality monitoring and compliance. etalk also has a customer base of over 1,500 contact centre installations worldwide.

The Board believes that combining the technology, research and development resources, customer relationships and sales and marketing capabilities of the two companies will create a stronger and more competitive offering in the contact centre software market, with the breadth and scale that the market demands. The Board believes that the acquisition of etalk will increase Autonomy's long-term growth, will offer a broad set of product offerings and will mean that Autonomy will have the critical mass in the contact centre software market to compete more effectively.

The Board believes the Acquisition to be in the best interests of Shareholders for the following reasons:

- etalk is a leading provider of contact centre products that help contact centre management teams meet their business objectives. It has a wide distribution base, good intellectual property and is well regarded in the contact centre industry;
- the Acquisition represents the opportunity to strengthen Autonomy's position in the contact centre software sector through the integration of Autonomy's core technology and etalk's product, market and technical knowledge;
- the product offerings of Autonomy's Audentify suite of contact centre products and etalk are largely complementary, with only limited functionality overlap;
- the Acquisition represents the opportunity to accelerate the development of the next generation contact centre software by bringing together etalk's products and Autonomy's development team;
- the Acquisition represents the opportunity to provide expanded functionality and enhanced features for etalk's current customer base, including using Autonomy IDOL's conceptual intelligence, and voice analytics;
- the Acquisition will give etalk access to the international market through Autonomy's worldwide distribution network, therefore giving etalk the opportunity to cross sell its software and increase revenues;
- the integration of Autonomy's and etalk's operations will give the Enlarged Group the opportunity to achieve cost reductions through elimination of duplicative functions and expenses, including reductions in staffing costs, operating expenses and information technology costs; and
- the Acquisition represents the opportunity to increase Autonomy's revenues by combining etalk's deployments in more than 1,500 contact centres, including 35 Fortune 100 companies, with Autonomy's customer base and distribution infrastructure, and by cross selling each company's product set to the customers of the other company.

4. Potential risks of the Acquisition

Potential risks of the Acquisition include the following:

- the risk that Autonomy might not be successful in integrating etalk's business with its own (including any management and employee disruption associated with the Acquisition), or that the potential benefits of the Acquisition, including those outlined above, might not be realised;
- the risk that Autonomy's relationships with its customers, suppliers, and investors might be disrupted by the announcement of the proposed Acquisition;
- the fact that substantial expenses will be incurred in connection with the Acquisition, including costs of integrating the businesses and transaction expenses arising from the Acquisition amounting to US$2.4 million, US$0.8 million of which (relating mainly to legal, accounting and regulatory fees) will need to be paid whether or not the Acquisition is consummated;
- the potential dilutive effect of the issuance of Ordinary Shares for the Acquisition and the risk that, if the combined companies' revenues and costs savings from synergies are less than expected, or are achieved more slowly than expected, the transaction may not be accretive in 2005, or at all; and
- the risk that etalk's revenues might not meet the levels that the Company is anticipating in costing the Acquisition.

Your attention is drawn to the Risk Factors set out at Part IV of this document.

5. Conditions to the Acquisition

Completion of the Acquisition will be subject, amongst other things, to satisfaction of the following conditions:

- the passing at the Extraordinary General Meeting of the Resolutions;
- the approval of the etalk Stockholders;
- the representations and warranties given by etalk contained in the Acquisition Agreement (i) that are not qualified as to materiality being true and correct in all material respects as of Completion and (ii) that are qualified as to materiality being true and correct as of Completion;
- the representations and warranties given by Autonomy and Cowboys Acquisition Corp. contained in the Acquisition Agreement (i) that are not qualified as to materiality being true and correct in all material respects as of Completion and (ii) that are qualified as to materiality being true and correct as of Completion;
- each of Autonomy and Cowboys Acquisition Corp. shall have performed or complied in all material respects with all agreements and conditions contained in the Acquisition Agreement required to be performed or complied with by it prior to or at the time of Completion;
- etalk shall have performed or complied in all material respects with all agreements and conditions contained in the Acquisition Agreement required to be performed or complied with by it prior to or at the time of Completion;
- each of Autonomy and Cowboys Acquisition Corp. shall have delivered the certificates and other documents required to be delivered by it prior to or at the time of Completion;
- etalk shall have delivered the certificates and other documents required to be delivered by it prior to or at the time of Completion;
- there shall not have occurred a material adverse effect on etalk;
- certain employees of etalk shall have entered into employment agreements with Autonomy;
- the holders of no more than three (3) per cent of the capital stock of etalk shall have demanded and not lost or withdrawn, or shall be eligible to demand Appraisal rights under applicable law;
- the UKLA shall have agreed to admitting the Consideration Shares to the official list of the UKLA and the London Stock Exchange shall have admitted them to trading on its market for listed securities; and
- any necessary authorisations, consents and orders relating to competition or anti-trust in connection with the Acquisition being obtained.

In addition, if the Average Company Closing Share Price is less than 131.55p, etalk has the right to terminate the Acquisition Agreement unless the Company agrees to increase the Common Stock Share Consideration by a factor equal to 131.55p divided by the Average Company Closing Share Price. Similarly, if the Average Company Closing Share Price is greater than 273.23p, the Company has the right to terminate the Acquisition Agreement unless etalk agrees to decrease the Common Stock Share Consideration by a factor equal to 273.23p divided by the Average Company Closing Share Price.

6. Extraordinary General Meeting

An Extraordinary General Meeting is to be held at 11:00 a.m. on 2 June 2005 at Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ at which the Resolutions will be proposed to Shareholders as set out in the notice convening the Extraordinary General Meeting incorporated in the Circular.

An explanation of the resolutions to be proposed at the Extraordinary General Meeting and the action to be taken at the Extraordinary General Meeting is set out in the Circular.

7. Listing and Dealing

Application has been made to the UK Listing Authority for the Consideration Shares to be admitted to the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on its market for listed securities. The applications relating to the Earnout Shares will be made as and when they are issued. The Ordinary Shares are, and the Consideration Shares and any Earnout Shares will be, registered securities and may be held in uncertificated form. The Consideration Shares and any Earnout Shares will be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid.

Dealings on the London Stock Exchange in the Consideration Shares are expected to commence on or before 8:00 a.m. on 6 June 2005 or as soon as practicable after all other conditions of the Acquisition, including Shareholder approval, are satisfied. Dealings on the London Stock Exchange in any Earnout Shares are expected to commence at 8.00 a.m. (London time) on the first business day seven and/or ten and/or thirteen months after Completion.

8. Settlement Procedure for etalk Stockholders

Wachovia Bank N.A shall act as exchange agent under the terms of the Acquisition Agreement for the purpose of exchanging shares of Common Stock or Preferred Stock for the Merger Consideration.

At or prior to the Effective Time, the Company shall deposit with the exchange agent, in trust for the benefit of the etalk Stockholders, the Cash Consideration and the Ordinary Shares required in order to pay the Common Stock Share Consideration.

Prior to the Effective Time, etalk shall supply a letter of transmittal to each holder of Common Stock and Preferred Stock for the holder to use in surrendering to the exchange agent upon the Effective Time such holder's stock certificate, if applicable, against payment of the Merger Consideration, subject to reduction of such etalk Stockholder's pro rata portion of the escrow arrangements.

Until properly surrendered, each certificate representing Common Stock or Preferred Stock outstanding immediately prior to Completion will, after Completion, represent only the right to receive upon proper surrender, the relevant proportion of the Cash Consideration, Ordinary Shares, cash in lieu of fractional shares and any dividends or distributions payable, as described below.

After an etalk Stockholder delivers certificates for his etalk Stock and a signed transmittal letter to the exchange agent, such etalk Stockholder will be entitled to receive in exchange for his Common Stock or Preferred Stock:

- the relevant proportion of the Cash Consideration to which such etalk Stockholder is entitled pursuant to the Acquisition Agreement;
- Ordinary Shares, into which the etalk Stockholder's etalk Stock was converted in the Acquisition, excluding any fractional shares; and/or
- a cheque in the amount, after giving effect to any required tax withholdings, of:
  - (i) cash in lieu of any fractional interest in Ordinary Shares on the terms described below; plus
  - (ii) any dividends or other distributions that the holder has the right to receive, including dividends or other distributions, without interest, payable with respect to the holder's Ordinary Shares with a record date after Completion and a payment date on or before the date the holder properly delivers Common Stock or Preferred Stock certificates to the exchange agent.

The exchange agent will not deliver fractional Ordinary Shares in connection with the Acquisition. Instead, each etalk Stockholder who would otherwise have received a fraction of an Ordinary Share will receive cash (without interest) in an amount equal to such fractional part of an Ordinary Share multiplied by the Average Company Share Price.

PART II

INFORMATION ABOUT AUTONOMY

1. The Autonomy Business

Autonomy principally provides infrastructure technology for automating the management, processing and delivery of unstructured information from and to sources across the Internet, the extended enterprise and other digital domains such as third generation mobile phones. Unstructured information is electronic content, such as Web pages, e-mails, word processing documents, speech and video, that has not been organised in a relational manner. The Company's principal offering is its Intelligent Data Operating Layer (or "IDOL") software which acts as a complete infrastructure layer for all forms of unstructured information, analysing the information and then automatically performing operations on this information. IDOL serves as the infrastructure for the Company's own products and for a variety of applications developed by third party Original Equipment Manufacturers (or OEMs).

The Company's software has been licensed directly to over 1,000 companies, government agencies and software developers. The Company sells its products through value added resellers, OEMs, its direct sales force and other distributors. In September 2003, the Company completed the acquisition of Virage, Inc., a leading provider of video and rich media communication software, headquartered in San Mateo, United States to further extend the adoption of IDOL as the standard for handling all forms of unstructured information.

In September 2004, the Company acquired 100% of the equity of NHoldings Limited and its wholly-owned subsidiary NCorp Limited, providers of software for the processing of structured data. The acquisition enabled the Company to further extend adoption of its IDOL software as the key infrastructure for the automated management of all forms of information, including structured and unstructured.

The Company develops, markets and sells infrastructure technology that automatically organises unstructured information into personally-relevant content in a real-time and efficient manner. The Company's core technology combines innovative pattern-matching algorithms with sophisticated contextual analysis and concept extraction. The Company's core technology provides a platform for the automatic searching, categorising, tagging, linking, and profiling of all forms of unstructured information regardless of repository, thereby enabling the automatic delivery of large volumes of personalised information. Because the Company's technology is easily adaptable to different sources of unstructured information, the Company is able to provide fundamental capabilities in a wide range of software markets, through its own products and those of its OEM customers. In addition to automating the management of the information itself, the Company's products build an understanding of each user's interests and can therefore improve delivery of relevant information. This enables products using the Company's technology to both create cost savings, by reducing the need for manual processing of information, and to provide opportunities for increasing revenue by generating demand.

The Company's technology is able to analyse any digital document independent of its language, as well as speech and video in multiple languages, and identify and prioritise the main concepts within that piece of content. As a result, customers using products that embed Autonomy's core technology can automate a broad range of otherwise labour-intensive, iterative tasks. These tasks range from categorising information by subject matter, to inserting hypertext links to related material, to profiling users based on ideas in the text they read or write, to delivering information to those users most likely to be interested. This automation improves the efficiency of information management and enables the dynamic personalisation of content.

The fundamental capabilities of the Company's core technology allow it to be embedded in a wide range of applications, such as customer relationship management systems, enterprise portals, enterprise resource planning systems and security applications, and facilitate the management of information and decision making process.

2. Principal Developments

Over the last few years, the Company has continued to develop its core technology, increasing efficiency, easing the process of implementation and adding features, and launched new products, as well as pursued a small number of strategic acquisitions. A summary of the principal developments in these areas since 2003 follows:

New Products

In 2003 the Company launched Audentify which, using the Company's IDOL technology, offers 100% call recording and advanced call analytics by forming an understanding of call content.

In 2003 the Company also launched Aungate, a technology capable of automatically understanding the meaning and potential significance of all electronic communications. Founded on the Company's IDOL technology, Aungate aims to offer a total communications management solution to help companies meet increasingly complex legal and regulatory requirements.

In November 2004 the Company launched IDOL Enterprise Desktop Search complete with Active Folders, delivering Autonomy's IDOL technology to the corporate desktop.

In December 2004 the Company launched IDOL 5.0, a major upgrade of its core product, IDOL Server.

Further details of the new products outlined above are set out in paragraph 4 of Part II.

Material Acquisitions

In September 2003, the Company acquired the entire issued share capital of Virage, Inc., a company then based in San Mateo, United States for a consideration of approximately US$28.3 million. The net cash purchase price was approximately US$13.3 million adjusted for Virage's cash balance as of 30 September 2003.

Further details of the terms of the acquisition agreement relating to Virage, Inc are set out in paragraph 10.2 of Part IX.

3. Strategy

The Company's objective is for its technology to become established as a universal independent data operating layer, automatically performing operations on all forms of unstructured information, delivered to the end-user regardless of software application.

The Company plans to achieve this by continuing to embed its IDOL Server platform in a wide range of its own products and OEM products, such as enterprise portals, product life cycle management and content management products and employee resource systems. The Company's products are compatible with all major operating systems and therefore most known hardware platforms. The Company expects to take advantage of its technological leadership, strategic relationships, broad-based direct and indirect sales and marketing efforts and scalable business model to establish its products and technology as essential elements of information management.

4. Significant Products

Each of Autonomy's products is based on its core IDOL. Autonomy's IDOL Server product acts as a platform for the understanding of unstructured information, using sophisticated pattern matching techniques enabling computers to understand information in context, and performing automatic operations on that information. IDOL Server is also the infrastructure underlying the Company's solutions targeted at specific vertical markets. Many critical processes and tasks traditionally performed manually can now be automated by the Company's technology, such as personalisation, collaboration, classification, retrieval and linking. Autonomy's core concept technology is based on proprietary mathematical algorithms and is therefore language independent. Autonomy build its products to enable efficient, effective and secure deployment within extremely large scale enterprises and government agencies.

The IDOL Server is modular and because of this, the Company's customers usually begin by deploying a limited subset of functionality or information types and sources and can later incorporate more sophisticated operations, additional information types and sources or additional seats as their business needs expand. The Company also licenses its Autonomy Application Builder to original equipment manufacturers and end users to create products that accomplish a variety of tasks built on IDOL, such as automated customer relationship management, e-mail routing, document management, marketing and sales automation and business intelligence.

The Company's products, all built on the Company's IDOL technology, include the following:

IDOL Server, the Company's flagship product, is an off-the-shelf solution that enables enterprises to easily integrate Autonomy functionality into any application that handles unstructured information. IDOL Server's modular approach to functionality, interfaces and connectors to data allows end-users to develop their solutions based only on the modules they need. Functionality modules available for IDOL Server include:

Hyperlinking—Given any document or set of documents, Autonomy identifies related material and automatically generates hyperlinks in real-time.

Automated Query Guidance—Autonomy's Automated Query Guidance technology automatically guides unskilled users to the precise content they are looking for by providing suggested concepts related to the user's original query.

Conceptual Retrieval—Autonomy allows content to be searched by concept simultaneously in any language and any format, wherever it is stored, and presented with summaries and hyperlinks to similar information, automatically and in real-time.

Directed Navigation—Autonomy's Directed Navigation offers a way for organisations to integrate valuable information from structured and semi-structured databases with unstructured content, allowing users to search and find products quickly and easily in an e-commerce environment.

Legacy Search—IDOL Server supports all known legacy search methods, including keyword, Boolean and parametric search.

Automatic Categorisation and Channels—Autonomy's categorisation features enable users to derive precise categories through concepts found within unstructured text without the need for manual intervention. Categories can also be imported from existing XML files, legacy topics and Autonomy Agents.

Automatic Clustering—IDOL Server enables organisations to analyse large sets of information to identify inherent information clusters based on an understanding of the content. Clusters are visualised through Autonomy's Spectrograph Pane products and 2D and 3D Cluster Maps.

Agents—IDOL Server can be configured to monitor information on intranet and Internet sites, news feeds, chat streams and internal repositories and alert users to information relevant to their specific interests, deliverable through various channels, including browsers, mobile devices (phones, PDAs, etc.) and digital TV.

Automatic Profiling—Autonomy's automatic profiling enables organisations to understand individuals' interests, based on browsing, content consumption or content contribution. These profiles are then used to alert users to existing material, and where appropriate deliver highly relevant new information.

Collaboration—IDOL Server automatically analyses users' explicit interest agents and implicit profile agents and then creates virtual groups of experts.

Automatic Taxonomy Generation—Autonomy's Taxonomy Generation feature automatically forms a conceptual understanding of any type of data to create deep, hierarchical, contextual taxonomies.

Automatic Summarisation—IDOL Server accepts a piece of content and then automatically returns a summary of the information.

Advanced Structured Data Processing: NCorp—NCorp's Ijen technology, part of the Autonomy group, puts the database into a multidimensional space in order to enable non-specific queries, identifying the next best matches entirely automatically.

Eduction—Autonomy's Eduction module enables organisations to educe metadata, contextual meaning and relationships between data automatically, intelligently leveraging any form of information, irrelevant of file format or location.

IDOL Server Interfaces. Representing the front-end interface to IDOL Server functionality, the Company provides a range of pre-built interfaces. IDOL Server interfaces include:

Enterprise AWE™—Enterprise AWE offers a secure version of desktop search for the enterprise, making content from secure corporate networks, intranets, local data sources, the Web and users' desktops easily and readily accessible for all users in the enterprise.

Autonomy Answer™—Autonomy Answer is an e-mail management system that automatically responds to common e-mail enquiries.

Collaboration and Expertise Networks (CEN)—Autonomy seeks to eliminate duplicated effort and increases productivity through the automatic recognition of highly focused experts within knowledge communities.

Autonomy's Portal-in-a-Box™—Autonomy's Portal-in-a-Box™ is a comprehensive and fully automated Information Portal Infrastructure for content-rich Internet and Intranet sites.

Retina™—Autonomy's Retina™ provides a broad scale of retrieval methods, from standard keyword search to sophisticated conceptual matching, in one combined solution.

Voice Suite—Autonomy understands and processes multimedia content such as phone calls, video news archives, broadcast content, audio archives and voicemails in the same way as textual documents.

Industry Solutions. Applications built on IDOL Server which target specific vertical markets include:

Audentify. Launched during 2003, Audentify is a suite of software solutions aimed at contact centres. Audentify offers 100% call recording and storage, and call analytics based on an understanding of the content of the calls by IDOL Server. Audentify's solutions are intended to reduce training overheads and average call handling times, and improve agent effectiveness and customer satisfaction, by applying the functionality of IDOL Server to the content generated in the contact centre.

Aungate. Launched during 2003, Aungate is a suite of software solutions aimed at assisting companies to meet regulatory compliance and litigation requirements. Aungate's solutions, building on IDOL, form an understanding of all types of communications within an enterprise, including e-mail, mobile phone messages, computer instant messaging and telephone calls, to assist organisations in monitoring and analysing this data to avoid risk, protect against legal action and assist the advancement of pending or current legal actions.

Virage. Virage is a provider of video and rich media communication software products, professional services and application services. The Company sells these products to corporations, media and entertainment companies, government agencies and universities worldwide. Virage applications have been integrated with IDOL to enable the advanced automatic handling of video and rich media content.

New products and features released by Autonomy during the year ended 31 December 2004, include IDOL 5.0, Intelligent IVR System and Enterprise Desktop Search with Active Folders.

Autonomy's IDOL 5.0 is a major upgrade of the Company's award-winning core product, IDOL Server. IDOL 5.0 features a number of key developments such as a new major algorithm for Automatic Query Guidance which assists unskilled users in finding information; the development of a sentient architecture which delivers on the vision of autonomic computing; an extensive range of new IDOL operations; improved installation via a wizard installation facility and an enhancement of IDOL's core capabilities which extends IDOL's ability to handle information intelligently encompassing probabilistic structured information.

Autonomy's Directed Navigation module, which integrates IDOL, delivers highly accurate results by guiding users through the navigation process to provide advanced real-time information discovery. Combining structured information from databases with navigational tools and advanced concept-based search, Autonomy's Directed Navigation offers a way for companies to integrate valuable information from structured databases with unstructured content. Combining information found within structured fields such as product name, size, manufacturer and sku, with unstructured content such as product description, allows users to search and find products quickly and easily.

Audentify's Intelligent IVR System is an Interactive Voice Response system that allows organisations to effectively automate customer service operations in the contact centre. Intelligent IVR forms an accurate understanding of a caller's query in real-time and automatically acts upon this information, providing an intelligent and dynamic response.

Autonomy's Virage division launched the next generation of its VS Archive, VS Webcasting, VS News Monitoring and SmartEncode products, providing advanced security, customisation and flexibility for managing rich media content.

Autonomy's Enterprise Desktop Search with Active Folders brings Autonomy's IDOL technology to the corporate desktop by bringing together a wide variety of information ranging from office documents, email, websites, news and even multimedia content from multiple locations including corporate networks, the web, the desktop and local data sources. IDOL Enterprise Desktop Search is the first integrated tool that uses implicit query, working proactively with users on the corporate desktop to understand the information they require and bring it straight to them at the right time and in the right context.

5. Customers, Sales and Marketing

The Company sells its products through value added resellers, original equipment manufacturers, its own direct sales force and other distributors.

Strategic relationships and business affiliations with value added resellers, systems integrators, consultants, developers and OEMs are a fundamental part of the Company's overall marketing strategy. Through the Autonomy Advantage Programme, designed to enhance the Company's relationships with these entities and promote the Company's products, the Company offers training on the installation and use of the company's products to these entities, enabling them to be certified as an Autonomy-Authorised Partner. Through the Autonomy Advantage Programme the Company also works to promote its products with key value added resellers, systems integrators, consultants, developers and OEMs through collaborative marketing initiatives such as joint tradeshows and educational seminars and joint sales efforts.

A key to the Company's success is building brand awareness and commanding recognition of the Company's leadership in the marketplace. The Company employs a number of marketing vehicles to promote its brand, including advertising, its "Powered by Autonomy" co-branding programme, participation in market research studies, industry analyst product and strategy updates, trade shows and industry seminars. In addition, once the Company begins to recognise significant sales within an industry, the Company develops a marketing plan for promotion of its products within that industry using initial customers as references.

The Company is not dependent on its relationship with any one or group of partners, and its relationships with these partners are based on standard reseller and integrations agreements, rather than formal partnerships or separate entity partnerships. The Company does not receive revenue from systems integrators. Revenue from value added resellers consists of licence and support and maintenance revenue relating to the reseller's resale of the Company's products to their end users, as well as a small amount of revenue relating to annual partner fees and partner training. The Company does not enter into revenue sharing agreements with its resellers other than the ordinary resale margin retained by the reseller for resale of the Company's products.

No customer accounted for more than 10% of Autonomy's total revenues in any of the years ended 31 December 2004, 2003 or 2002. As of 31 December 2004, the Company has sold its products to over 1,000 customers for varied uses across multiple vertical markets including consulting and professional services, energy and utilities, banking and finance, government agencies and public sector, e-commerce, legal, manufacturing, media, pharmaceutical, telecommunications, food and beverage, aerospace, intelligence and defence and technology.

The main elements of seasonality Autonomy experiences are reductions in business activities in Europe in the summer months, and increases in activity in the US government sector in the third quarter of each year. Autonomy has one distinct reportable business segment.

As of 31 December 2004, Autonomy employed approximately 85 people in its sales and marketing departments. Approximately 40% of Autonomy's sales and marketing force is located in the United States, with the remainder in the UK, Europe and the rest of the world.

6. Intellectual Property

Autonomy relies on a combination of copyright, trademark, service mark, trade secret laws and contractual restrictions to protect its proprietary rights in products and services.

Autonomy has undertaken a patent programme to seek patent protection, in addition to its other forms of intellectual property protection. Autonomy has filed multiple patent applications with the United States Patent and Trademark Office, with similar applications under various international patent applications. The Company currently has sixteen issued patents, with additional applications pending. However, the Company currently does not have any granted patent on its core technology that would preclude or inhibit competitors from entering its markets. The Company's business is not reliant on the issue of any one or a group of these patents. Were any or all of these patent applications denied Autonomy may be subject to increased competition and claims on its intellectual property rights in one or multiple jurisdictions. To date Autonomy has not received any material claims on these rights.

The Company has registered its two logos, "Autonomy and circle of dots" and "A in a circle of dots" and the Company's core marks "Autonomy", "Audentify", "Aungate", "Virage", "IDOL", "DRE", "Dynamic Reasoning Engine" and "Portal-in-a-Box" in the majority of countries in which it operates, including the UK, US, Canada and the European Union via a Community application. The Company has also applied to protect additional marks with UK, US and European Union applications, including: "ACI", "Autonomy XML Engine", "AXE", "ActiveKnowledge", "Autonomy Answer", "Autonomy Application Builder", "Autonomy Commerce Application Builder", "Autonomy Content Infrastructure", "Autonomy Server", "Autonomy Update", "Autonomy Voice Suite", "VeryLite", "i-wap", "Clusteriser", "IDOL" and "Omnifetch". The Company has also registered or applied for protection for some of these marks and logos in other countries, such as South Africa, Australia, Hong Kong, Switzerland, Norway and Singapore.

7. Research and Development

The Company invests a significant amount of its resources in research and development activities. To date the Company has made substantial investments in research and development primarily through internal development. Although the Company plans to continue to evaluate externally developed technologies for integration into its product lines, the Company expects that most enhancements to existing and new products will be developed internally.

The majority of the Company's internal research and development activity has been directed towards improvements of its underlying pattern recognition algorithms, speech recognition, video recognition and the development of advanced tools for application-building on its core product set. The Company also seeks to continue to broaden the applicability of its core technology to other types of information, such as other speech patterns and images.

The Company maintains ongoing research and development efforts at its Cambridge facility, with additional product definition and development conducted in San Francisco, United States. The Company's research and development expenditures compiled under US GAAP for 2004, 2003 and 2002 which have been extracted without adjustment from the financial information in Section A of Part V of this document were approximately US$13.6 million, US$11.9 million, and US$9.2 million, respectively.

During 2004 the Company launched major product upgrades, including the next generation of the Company's core IDOL Server product, with additional launches expected during 2005. Shareholders should read the whole of this document and not just rely on the summarised information given above.

8. Competition

The principal competitive factors affecting the Company's markets are:

- ability to perform operations automatically;
- ability to handle all forms of unstructured information, including text, speech and video;
- product features;
- product performance and scalability;
- ease of integration with customers' existing enterprise systems;
- quality of support and service;

- price; and
- company reputation.

Since the Company's technology is applicable to a broad range of applications and industries, it faces different competition depending on the use and application of its products. Accordingly, its principal competitors today include developers and vendors of:

- information management software, such as IBM's Lotus Notes;
- unstructured information management applications using keyword-based technologies, such as Verity and Fast Search and Transfer;
- personalised information delivery applications, such as Broadvision; and
- document management applications, such as Documentum and PCDocs.

The Company also faces significant competition from other established software companies who from time to time announce broad software product initiatives, such as Microsoft, Oracle, SAP and IBM.

9. Employees

As of 17 May 2005 (being the last practicable date prior to the publication of this document) the Company had 205 employees, of which approximately 40% are based in the United Kingdom and 40% are based in the United States.

The numbers employed by the Company and changes therein over the last three financial years, with a breakdown of persons employed by main categories of activity are set out in the table below:

	As of 31 December		
Employee Category	**2004**	**2003**	**2002**
Technology and research and development	90	104	77
Sales	65	87	78
Marketing	20	23	20
Administrative	28	28	24
Total employees	203	242	199

10. Properties

The Company's headquarters are located at Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ, United Kingdom, where the Company leases an approximately 42,000 square foot building, for rent of approximately £935,000 per annum. The term of the lease commenced on 28 February 2001 and expires on 27 February 2015, with rent reviews on the fifth and tenth anniversaries of the completion of the building. The Company subleases approximately one-half of the building to other tenants, including Cambridge Neurodynamics Limited and Ant Limited. The Company's US headquarters are located at One Market, San Francisco, California 94104 where the Company's US subsidiary leases approximately 18,000 square feet, for rent of approximately US$0.6 million per annum. The term of the lease commenced on 1 May 2004, and expires on 30 April 2012. The Company's US subsidiary leases approximately 3,500 square feet of office space in Reston, Virginia, under a lease which commenced on 1 November 2000, and expires on 31 October 2007. The Company also uses serviced office facilities and home offices throughout North America, Europe and Asia.

11. Current Trading and Prospects for the Enlarged Group

Since 31 December 2004 the Company has performed in accordance with its budget, and announced results for the first quarter ended 31 March 2005, in accordance with International Financial Reporting Standards, ahead of market consensus expectations. In particular, revenues for the first quarter ended 31 March 2005 were US$18.5 million (compared to US$16.4 million for the quarter ended 31 March 2004). Profits before tax for the first quarter ended 31 March 2005 were US$3.8 million (compared to US$1.8 million for the quarter ended 31 March 2004); cash balances at the quarter ended 31 March 2005 were US$104.6 million. The Company has continued to pursue its growth strategy and recent trends in turnover, cost of sales and operating expenses have continued. The Board believes the Enlarged Group is well placed to take advantage of the opportunities afforded by the current market place and the growing demand for its products. The Board believes that the Enlarged Group is well placed both operationally and financially to drive continued growth during 2005.

PART III

INFORMATION ABOUT ETALK

1. The etalk Business

etalk develops and sells products that help contact centre management teams design, implement and refine their quality programme initiatives to meet their business objectives. etalk's product offerings include call recording, agent evaluation, coaching and e-learning, customer surveys and agent hiring for quality monitoring and compliance. etalk also offers a range of support and professional services.

2. Products and Technology

Proprietary Technology

The proprietary components etalk has developed, either alone or in conjunction with third party software developers, include:

Contact Centre Products

- **Qfiniti** is designed to enable contact centres to deploy integrated quality monitoring and agent evaluation programmes. Qfiniti Observe provides recording capabilities and playback via a personal computer and touch-tone phone with voice and screen annotations. Qfiniti Advise offers evaluation techniques to help improve performance quality.
- **Recorder** is designed to help customers attain the intelligence and call acquisition capabilities they need to build and manage strategic quality monitoring initiatives. Recorder provides flexible recording options, including selective recording, 100% recording, on-demand recording, and user defined recording with business rules.
- **Advisor** is a system for measuring and evaluating agent performance. Advisor provides highly automated tools designed to evaluate, analyse, and maintain the quality of customer contact centre personnel. Advisor aims to spot performance trends quickly, thereby allowing quality assurance managers to respond quickly with incentives or additional training needs.
- **Survey** operates in conjunction with a contact centre PBX/ACD switch to survey callers directly after speaking to an agent. Survey aims to provide customers with the tools needed to manage an active and reliable programme of caller surveys. Survey allows callers to provide immediate feedback on agent performance, which is much faster than traditional telephone and mail surveys.
- **Expert** is an eLearning tool that aims to automate agent education through the targeted delivery of online training programmes. Expert aims to provide the tools needed to build skills and knowledge to enhance agent performance.
- **Record Logging** is designed to meet the comprehensive recording requirements of today's contact centres. Record Logging supports a range of logging applications, from regulated compliance and liability requirements to risk management and conflict resolution.

Support and Services

- **Technical Support** is available 24 hours a day through direct service or channel partners.
- **Professional Services** is the core team responsible for implementation services, specialised solutions and training.

3. Customers

etalk licenses its products to customers chiefly in the telecommunications, information technology, insurance and financial services industries, although its customer base also includes customers from a range of other industries.

The majority of etalk's sales are in the United States. In the financial year ending 31 December 2004, approximately six per cent. of etalk's sales were to entities not based in the United States.

No customer accounted for more than 10% of etalk's total revenue in the year ended 31 December 2004.

The Company does not believe that the Enlarged Group will be reliant on any of etalk's customers following Completion.

4. Sales, Marketing and Customer Support

etalk maintains a sales force in the United States and sells its products outside the United States through certified value-added resellers. etalk markets its products and services primarily through outbound telemarketing and lead generation campaigns, direct mail and email campaigns, as well as utilising direct advertising, on-site visits, print advertising in trade journals and other publications. etalk also participates in trade shows and customer conferences.

5. Research and Development

The aggregate amount spent by etalk on research and development during the financial year ending 31 December 2004 was approximately US$8.8 million, which comprised approximately 42.1% of aggregate operating expenses of approximately US$20.9 million during the same period. During the financial year ending 31 December 2003, the aggregate amount spent by etalk on research and development was approximately US$7.8 million, which comprised approximately 36.1% of aggregate operating expenses of approximately US$21.6 million for the same period. During the financial year ending 31 December 2002, the aggregate amount spent by etalk on research and development was approximately US$8.1 million, which comprised approximately 38.0% of aggregate operating expenses of approximately US$21.3 million during the same period. etalk's research and development expenses were compiled under US GAAP and have been extracted without material adjustment from the accountant's report on etalk for the three financial years ended 31 December 2002, 31 December 2003 and 31 December 2004, contained in Section C of Part V of this document. Shareholders should read the whole of this document and not just rely on the summarised information given above.

6. Competition

In the contact centre software market, etalk faces competition from a number of companies, including Envision, Inc., NICE Systems Inc., Verint Systems Inc., Witness System, Inc. and Dictaphone, Inc.

7. Intellectual Property

etalk relies on a combination of copyright, patent, trademark, service mark and trade secret laws and contractual restrictions to establish and protect its proprietary rights in products and services. etalk's standard employment contracts include confidentiality and invention assignment provisions. etalk also has non-disclosure agreements with most of its customers, suppliers and strategic partners in order to seek to limit access to, and disclosure of, its proprietary information. etalk has a history and practice of pursuing patent registration for novel ideas, systems and methods developed by it and included in its software offerings, both via the United States Patent and Trademark Office as well as with intellectual property offices worldwide although effective trademark, service mark, copyright and trade secret protection may not be available in every country in which etalk's services are available. Additionally, etalk licenses its software in binary/object code format only in order to seek to better protect the copyright and trade secrets contained in the software code.

8. Employees

As of 17 May 2005 (being the last practicable date prior to the publication of this document), etalk had 206 employees located exclusively in the United States. These employees can be broken down into the following categories:

Category	Number
Development	69
Sales and Marketing	30
Product support (eTAC)	32
Implementation Engineering	25
Project Management/Training/Finance/Accounting/Legal	28
Other	22

9. Properties

etalk leases its headquarters building, which is located in Irving, Texas, pursuant to a long-term lease that terminates on 31 March 2010 and may be renewed for an additional five-year term at the prevailing market rate. etalk does not own or lease any other real property.

10. Information regarding adjustments to reflect UK GAAP financial information

There are no material adjustments required in order to reconcile etalk's profit before tax, tax, profit after tax and net assets to Autonomy's UK GAAP accounting policies for the three years ended 30 September 2004.

The etalk 2004 financial results are set out in full in Section A of Part VI of this document.

PART IV

RISK FACTORS

The risks described below should be carefully considered by recipients of this document before making any investment or other decision in relation to Ordinary Shares. If any of the adverse events described below actually occur, the business, financial condition or results of future operations of the Enlarged Group could be materially adversely affected. This document contains forward-looking statements that involve risks and uncertainties. The actual results of the Enlarged Group could differ materially from those anticipated in any forward-looking statements as a result of known and unknown risks, uncertainties and other important factors, including the risks faced by the Enlarged Group described below and elsewhere in this document.

RISKS RELATED TO THE ACQUISITION AND FINANCIAL MARKETS

The Acquisition could cause etalk or Autonomy to lose key personnel, which could materially affect the Enlarged Group's business and require the companies to incur substantial costs to recruit replacements for lost personnel

As a result of the announcement of the Acquisition, current and prospective etalk and Autonomy employees could experience uncertainty about their future roles within the Enlarged Group. This uncertainty may adversely affect the ability of the Enlarged Group to attract and retain key management, sales, marketing and technical personnel. etalk and Autonomy employees may be concerned about the strategic focus and direction of the Enlarged Group and seek to find employment elsewhere. Any failure to attract and retain key personnel prior to and after the consummation of the Acquisition could have a material adverse effect on the business of the Enlarged Group.

General uncertainty related to the Acquisition could harm Autonomy and etalk

Either or both of Autonomy's or etalk's current and prospective customers may, in response to the announcement of the Acquisition, delay or defer purchasing decisions. If Autonomy's or etalk's customers delay or defer purchasing decisions, the revenues of Autonomy and etalk, respectively, could materially decline or any anticipated increases in revenue could be lower than expected. Also, speculation regarding the likelihood of the closing of the Acquisition could increase the volatility of Autonomy's and etalk's share prices.

Third parties may terminate or alter existing contracts with etalk

etalk has contracts with suppliers, distributors, customers, licensors and other business partners. Various contracts require etalk to obtain consent from these other parties in connection with the Acquisition. If these third party consents cannot be obtained on favourable terms, the Enlarged Group may suffer a loss of potential future revenue and may lose rights to facilities or intellectual property that are material to the business of the Enlarged Group.

Failure to complete the Acquisition could harm the Ordinary Share price

If the Acquisition is not completed, Autonomy may be subject to the following risks:

- the trading price of Ordinary Shares may decline; and
- US$0.8 million (consisting mainly of legal, accounting and regulatory fees) of the US$2.4 million of costs relating to the Acquisition, must be paid even if the Acquisition is not completed.

The Acquisition may be completed even though material adverse changes may result from industry-wide changes and other causes subsequent to the announcement of the Acquisition

Some types of adverse changes, events, circumstances or developments will not prevent the Acquisition from going forward, even if they would have a material adverse effect on Autonomy or etalk, including adverse changes, events, circumstances or developments resulting from:

- general economic conditions;
- compliance with the express terms and conditions of the Acquisition Agreement;
- any failure to meet published revenue or earnings projections that cause a change in the share price or trading volume of Autonomy or etalk; or

- any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof.

If such adverse changes occur and the Acquisition is completed Autonomy's share price may suffer.

The prices of Ordinary Shares are likely to be highly volatile

The prices at which Ordinary Shares trade are highly volatile and may continue to fluctuate substantially. In addition, stock markets in recent periods and from time to time have experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Company's operating results and prospects from time to time may be below the expectations of market analysts and investors. Moreover, if Ordinary Shares are added to or deleted from existing third party share indices, such as the FTSE 350 Index, the Company's share price could be positively or negatively affected. Any of these events could result in a material decline in the prices of Ordinary Shares.

The Company is at risk of future securities class action litigation due to the Company's past and expected stock price volatility

In the past, securities class action litigation has often been brought against companies following a decline in the market price of their securities. Because the Company expects the prices of Ordinary Shares to continue to fluctuate significantly, the Company may be the target of litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, and could seriously harm the Company's business.

The issue of Ordinary Shares pursuant to the Acquisition and any future sale of substantial amounts of Ordinary Shares could adversely affect Autonomy's share price

Autonomy expects to issue approximately 10.8 million Ordinary Shares (approximately 9.1% of Autonomy's issued share capital as of the date of the Acquisition Agreement) to etalk Stockholders in connection with the Acquisition. Other Shareholders or groups or Shareholders also hold significant percentages of Ordinary Shares. For example the Directors collectively beneficially hold 19.7% of the Company's issued share capital as of 17 May 2005, being the last practicable date prior to publication of this document. Sales (or the anticipation of sales) by etalk Stockholders acquiring Ordinary Shares pursuant to the Acquisition, or other holders of substantial amounts of Ordinary Shares in the market could adversely affect the market price of Ordinary Shares by increasing the supply of shares available for sale compared to the demand in the capital markets to buy Ordinary Shares. These sales may also make it more difficult for Autonomy to sell equity securities in the future at a time and price that Autonomy deems appropriate.

RISKS RELATING TO THE ENLARGED GROUP

Autonomy and etalk may not realise the benefits they expect from the Acquisition

The Enlarged Group may not succeed in addressing the risks set out in this document or any other problems encountered in connection with the Acquisition. The inability to successfully integrate the operations, technology and personnel of Autonomy and etalk, or any significant delay in achieving integration, could have a material adverse effect on the Enlarged Group after the Acquisition and, as a result, on the market price of Ordinary Shares.

Autonomy reports its results in US dollars, but generates a significant portion of its revenue outside the United States in currencies other than the US dollar, and therefore Autonomy is subject to risks associated with the extent of its international operations

Autonomy's sales outside the United States constituted approximately 48.6% of Autonomy's 2002 sales, 47.3% of Autonomy's 2003 sales and 49.8% of Autonomy's 2004 sales.

As a result, Autonomy will be subject to additional risks related to operating in countries outside of the United States. These risks include:

- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue;
- greater difficulty in accounts receivable collection and longer collection periods;

- foreign taxes;
- political, legal and economic stability in foreign markets; and
- foreign regulations.

Any of these risks could materially adversely affect the Autonomy's business, financial condition and results of operations.

The Enlarged Group's business and future operating results may be adversely affected by events outside of its control

The Enlarged Group's business and operating results will be vulnerable to interruption by events outside of its control, such as earthquakes, fire, power loss, telecommunications failures, political instability, military conflict and uncertainties arising out of terrorist attacks, including a global economic slowdown, the economic consequences of additional military action or additional terrorist activities and associated political instability.

The Enlarged Group business will be adversely affected if the Enlarged Group cannot manage the significant changes in the number of its employees and the size of its operations

As a result of the Acquisition, Autonomy will acquire approximately 206 employees based at etalk's headquarters in Irving, Texas. To date, most of Autonomy's employees have been based in Cambridge, England and San Francisco, United States. These significant changes in headcount will place a significant strain on management and other resources. The Enlarged Group will face challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programmes in different jurisdictions.

If the Enlarged Group is unable to manage its headcount and the scope of its operations effectively, the cost and quality of the Enlarged Group's products may suffer and the Enlarged Group may be unable to attract and retain key personnel and develop and market new products. Further, the inability to successfully manage the substantially larger and geographically diverse organisation, or any significant delay in achieving successful management, could have a materially adverse effect on the Enlarged Group after the Acquisition and, as a result on the market price of Ordinary Shares.

Demand for the Enlarged Group's products may be adversely affected if unfavourable economic and market conditions do not improve

Adverse economic conditions worldwide have contributed to slowdowns in the software Information Technology spending environment and have impacted Autonomy's and etalk's business over the past three years, resulting in reduced demand for their respective products as a result of decreased capital spending by customers, increased price competition for their products and higher overhead costs as a percentage of revenues. These trends may continue. Decreased demand for the Enlarged Group's products would result in decreased revenues, which could harm the Enlarged Group's operating results and cause the price of Ordinary Shares to fall.

If the Enlarged Group does not expand or enhance its product offerings or respond effectively to technological change, the business may not grow

The Enlarged Group's future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address customer requirements in a cost effective manner. If the Enlarged Group does not expand or enhance its product offerings or respond effectively to technological change, its business may not grow. The Company cannot give any assurance that its technological approach will achieve broad market acceptance or that other technologies or solutions will not supplant the Enlarged Group's approach. The Enlarged Group's markets are characterised by rapid technological change, frequent introduction of new products, changes in customer requirements and evolving industry standards. The introduction of new products, market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render the Enlarged Group's existing products obsolete or make it easier for other products to compete with the Enlarged Group's products. Alternative technologies could achieve widespread market acceptance. The Enlarged Group's future success will depend in large part upon its ability to:

- develop and maintain competitive products;

- enhance its products by adding innovative features that differentiate the Enlarged Group's products from those of its competitors;
- bring products to market on a timely basis at competitive prices;
- identify and respond to emerging technological trends in the market; and
- respond effectively to new technological changes or new product announcements by others.

The Enlarged Group's software may contain undetected errors or "bugs," resulting in harm to the Enlarged Group's reputation and operating results

The Enlarged Group's products involve sophisticated hardware and software technology that perform critical functions to highly demanding standards. Software products as complex as those offered by the Enlarged Group might contain undetected errors or failures when first introduced or when new versions are released. If flaws in design, production, assembly or testing of the Enlarged Group's products (by the Enlarged Group or the Enlarged Group's suppliers) were to occur, etalk could experience a rate of failure in its products that would result in substantial repair, replacement or service costs and potential liability and damage to the Enlarged Group's reputation. The Company cannot be certain that, despite testing by the Enlarged Group and by current and prospective customers, flaws will not be found in new products or product enhancements after commercial release. Any flaws found may cause substantial harm to the Enlarged Group's reputation and result in additional unplanned expenses to remedy any defects, and liability stemming therefrom, as well as a loss in revenue.

The rapid evolution of the markets the Enlarged Group serves makes evaluating its business prospects difficult

Because of the rapid evolution of the Enlarged Group's markets, together with its limited operating history which includes only one major economic cycle, it is difficult to make predictions regarding the Enlarged Group's future operating results. Investors in Ordinary Shares should consider the risks and difficulties that both Autonomy and etalk face as relatively young companies, compared to other companies with much longer operating histories, in a new and rapidly evolving market. The Enlarged Group's ability to address these risks depends on a number of factors, which include its ability to:

- provide software that is reliable, cost-effective and able to accommodate significant increases in the number of users and amount of information;
- continue to grow its infrastructure and adapt to new developments in its markets;
- market its products and the Autonomy and etalk brand names effectively;
- attract and retain qualified OEM customers;
- develop and introduce on a timely basis new products and product enhancements;
- continue to maintain and enhance its core technology;
- hire, retain and motivate qualified personnel; and
- respond to competition.

The Enlarged Group's products are new and evolving and it is difficult to predict the future growth rates, if any, and size of these markets. Autonomy cannot provide any assurances that the markets for the Enlarged Group's products will develop or that its products will be adopted in the market. If the markets do not develop, develop more slowly than expected or become saturated with competitors, or if the Enlarged Group's products do not achieve market acceptance, the Enlarged Group's business, operating results and financial condition could be adversely affected.

If the Enlarged Group loses its key personnel or cannot recruit additional personnel the Enlarged Group's business may suffer

The Enlarged Group's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing, research and development, service and support. The Enlarged Group faces significant competition for individuals with the skills required to perform the services The Enlarged Group offers. If the Enlarged Group is unable to attract and retain qualified personnel or if etalk experiences high personnel turnover, it could be prevented from effectively managing and expanding its business.

If the Enlarged Group's growth continues, it will be required to hire and integrate new employees. Recruiting and retaining technical personnel to perform research and development and develop commercial applications to enhance the Enlarged Group's products, as well as qualified personnel to market and sell those products, are critical to the Enlarged Group's success. There can be no assurance that the Enlarged Group will be able to successfully recruit and integrate new employees. Competition for highly skilled employees, including sales, technical and management personnel, is intense in the technology industry. An inability to attract and retain highly qualified employees may have an adverse effect on the Enlarged Group's ability to develop new products and enhancements for existing products and to successfully market such products, all of which would be likely to have a material adverse effect on the Enlarged Group's results of operations and financial position.

The Enlarged Group's success also depends, to a significant extent, upon the continued service of a number of key management, sales, marketing and technical employees, the loss of whom could materially adversely affect the Enlarged Group's business, financial condition and results of operations. The Enlarged Group currently has employment agreements with and limited non-compete agreements with most of the Enlarged Group's executive officers. However, any of the Enlarged Group's executive officers and other employees could terminate his or her relationship with the Enlarged Group at any time. The loss of the services of the Enlarged Group's executive officers or other key personnel, particularly if lost to competitors, could materially and adversely affect the Enlarged Group's business.

Moreover, companies in technology industries whose employees accept positions with competitors have in the past claimed that their competitors have engaged in unfair competition or hiring practices. If the Enlarged Group received such claims in the future as the Enlarged Group seeks to hire qualified personnel, it could lead to material litigation. The Enlarged Group could incur substantial costs in defending against any such claims, regardless of their merits.

Failure to adequately protect the Enlarged Group's intellectual property would result in significant harm to its business

The Enlarged Group's future success will depend in part on its ability to protect its proprietary rights and the technologies used in the Enlarged Group's principal products. Disputes concerning the ownership or rights to use intellectual property could be costly and time consuming, may distract management from other tasks related to the Enlarged Group's business and may result in the Enlarged Group's loss of significant rights or the loss of the Enlarged Group's right to operate its business.

The Enlarged Group's means of protecting its proprietary rights in the US or abroad may not be adequate or competitors may independently develop similar technologies. Effective patent, copyright, trademark and trade secret protection may be unavailable or limited in some jurisdictions. Policing unauthorised use of the Enlarged Group's products is difficult. The steps the Enlarged Group takes to protect its intellectual property may not prevent misappropriation of the Enlarged Group's technology and its licences and other agreements may not be enforceable. Despite the Enlarged Group's efforts to protect its proprietary rights and technologies, unauthorised parties may attempt to copy aspects of the Enlarged Group's products or to obtain and use trade secrets or other information that the Enlarged Group regards as proprietary.

The Enlarged Group has filed patent applications with the United Kingdom Patent and Trademark Office and the United States Patent and Trademark Office, with similar applications under various international patent applications. The Enlarged Group currently does not have any granted patent on its core technology that would preclude or inhibit competitors from entering the Enlarged Group's markets. The Enlarged Group cannot be certain that any pending or future patent applications will be granted, that any patent or future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide the Enlarged Group with any competitive advantages.

The Enlarged Group enters into confidentiality and/or licence agreements with its employees, consultants, vendors and customers. The Enlarged Group cannot provide any assurances that contractual provisions the Enlarged Group put in place will prevent the misuse of the Enlarged Group's proprietary information or the infringement of the Enlarged Group's intellectual property rights.

The Company has instituted systems and procedures to control access to and distribution of the Company's software, documentation and other proprietary information. In licensing the Company's products to resellers, the Company relies on written software licence and distribution agreements. In licensing the Company's products to end-users, the Company generally relies on written software licence agreements. Otherwise, the Company relies on standard licences included with the software which are intended to be binding on the end-user upon purchase but are not signed by the end-user. The Company cannot provide any assurances that any of the Company's standard licences will be enforceable in all jurisdictions.

Legal proceedings to enforce the Enlarged Group's intellectual property rights could be burdensome and expensive and could involve a high degree of uncertainty. These legal proceedings may also divert management's attention from growing the Enlarged Group's business. In addition, the laws of some foreign countries do not protect the Enlarged Group's proprietary rights as fully as do the laws of the UK and the US. If the Enlarged Group does not enforce and protect its intellectual property, the Enlarged Group's business will suffer substantial harm.

The Company cannot provide any assurances that it will prevail in enforcing any of the Enlarged Group's registered rights such as patents or trademarks or that any of the Enlarged Group's applications or registrations will not be challenged or that the Enlarged Group will be able to continue using its relevant marks in these jurisdictions. The Company is aware of one other party using the name "Autonomy" as part of an Internet address in connection with its computer software business. The Company cannot provide any assurances that there has not been any prior use of the Enlarged Group's marks by an unrelated party with respect to the same or similar products or services as those offered by the Enlarged Group which may give rise to priority rights.

Claims by others that the Enlarged Group infringes on their intellectual property rights could be costly to defend and could harm the Enlarged Group's business

The Enlarged Group may be subject to claims by others that the Enlarged Group's products or brands infringe on or misappropriate their intellectual property or other property rights. These claims, whether or not valid, could require the Enlarged Group to spend significant sums in litigation, distract management attention from the business, pay damages, delay or cancel product shipments, re-brand or re-engineer the Enlarged Group's products or acquire licences to third-party intellectual property. In the event that the Enlarged Group needs to acquire a third party licence, the Enlarged Group may not be able to secure it on commercially reasonable terms, or at all. The Enlarged Group expects that it will increasingly be subject to infringement claims as the number of products and competitors in the Enlarged Group's markets grows and the functionality of products overlaps.

There is substantial competition in the Enlarged Group's markets which could adversely affect the Enlarged Group

While the markets for the Enlarged Group's products are comparatively new, these markets are intensely competitive, rapidly evolving and subject to rapid technological change. The Company expects competition to persist, intensify and increase in the future. There are no substantial barriers to entry into these markets.

The Company believes that Enlarged Group's ability to compete is dependent upon many factors within and beyond the Enlarged Group's control, including:

- timing and market acceptance of new solutions and enhancements to existing solutions developed by the Enlarged Group and its competitors;
- performance, ease of use and reliability of Enlarged Group's products;
- price;
- customer service and support;
- sales and marketing efforts; and
- features.

The Enlarged Group may not be able to continue to compete successfully against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other resources. If any technology that is competing with the Enlarged Group's is or becomes more reliable, higher performing, less expensive or has other advantages over the Enlarged Group's technology, then the demand for the Enlarged Group's products would decrease, which would harm the Enlarged Group's business. Competitors may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than the Enlarged Group can. The Enlarged Group has encountered, and expects to encounter, customers who are extremely confident in, and committed to, the Enlarged Group's competitors' products. Furthermore, some of the Enlarged Group's competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties to increase their ability to rapidly gain market share by addressing the needs of the Enlarged Group's prospective customers. These competitors may enter the Enlarged Group's existing or future markets with solutions that may be less expensive, provide higher performance or additional features or be introduced earlier than the Enlarged Group's solutions. Given the opportunities in the Enlarged Group's markets, the Enlarged Group also expects that other companies may enter the Enlarged Group's markets with alternative products and technologies, which could reduce the sales or market acceptance of the Enlarged Group's products, perpetuate intense price competition or make the Enlarged Group's products obsolete. Increased competition could also result in price reductions, reduced gross margins and loss of market share.

Although the Company believes that the Enlarged Group's products and technologies compete favourably with those offered by competitors, the Company cannot provide any assurances that the Enlarged Group will be able to compete successfully or that competition will not harm the Enlarged Group's business.

SPECIFIC RISKS RELATED TO AUTONOMY

The Company's business depends on its core technology

Autonomy's strategy has been, and for the foreseeable future will continue to be, to concentrate its efforts on developing and marketing software based on its proprietary technology. As a result, to date Autonomy has derived substantially all of its revenues from licensing its core technology through licences of its products. These products are expected to continue to account for substantially all of its revenues for the foreseeable future. If Autonomy is unable to maintain and enhance the competitive value of its core technology, its business will be adversely affected.

Autonomy's future revenues and operating results may not meet analysts' expectations and may vary from period to period, which could adversely affect its share price

The Company believes that period-to-period comparisons of its operating results cannot be relied upon as an indicator of its future performance. The Company's revenue and operating results have in the past and may in the future be below the expectations of some public market analysts or investors. If this occurs, the trading price of the Ordinary Shares could decrease.

The Company's revenue and operating results may fluctuate significantly in the future on both a quarterly and an annual basis due to a number of factors, many of which are outside the Company's control. As a result, the Company believes that period-to-period comparisons of its revenue and operating results are not necessarily meaningful and should not be relied upon as any indication of future performance. In addition, any adverse fluctuations in the Company's revenue and operating results could have an adverse effect on the Company's share price. Factors that could cause Autonomy's revenue and operating results to fluctuate include:

- renewed downturn in capital spending by customers as a result of the current economic environment;
- variations in type, timing and size of orders and shipments of Autonomy's products;
- changes in the budget or purchasing patterns of corporations and government agencies;
- market acceptance of Autonomy's existing and new products;
- changes in Autonomy's pricing policies or those of its competitors;
- mix of distribution channels through which products are sold;
- mix of revenues in European and North American markets;
- the integration of people, operations and products from acquired businesses and technologies;
- the timing of introductions of Autonomy's products and services or those of its competitors;
- changes in accounting principles, such as a requirement that stock options be included in compensation, as is currently being considered by various accounting bodies and, which if adopted, would increase Autonomy's compensation expenses and have a negative effect on Autonomy's earnings; and
- changes in general economic and geo-political conditions and specific economic conditions in the computer and software industries.

Any of these factors, some of which are discussed in more detail below, could materially and adversely impact the Company's operations and financial results, and consequently its share price.

The Company's expenditures are tied to anticipated revenues, and therefore rapid changes in market conditions coupled with imprecise forecasts may result in poor operating results

Predicting quarterly revenues is difficult due to the relatively low number of quarterly sales transactions and difficulties in forecasting both sales and market conditions. If specific sales are for whatever reason delayed from one quarter to the next, or if specific forecasted sales fail to occur, the Company's revenue and operating results could be adversely affected. The Company may not be able to adjust expenses to compensate for any unexpected revenue shortfall. If there is any significant shortfall of demand for the Company's products in comparison to the Company's expectations, this shortfall could have an immediate adverse impact on the Company's business. In addition, the Company expect its operating expenses to increase as a result of higher levels of research and development, increasing its sales and marketing operations, developing new distribution channels and broadening its customer support capabilities. If these expenses are not accompanied by increased revenues, the Company could incur increased operating losses which could cause its business to suffer.

The average selling prices of the Company's products could decrease rapidly, which may negatively impact revenues and gross margins

The Company may experience substantial period-to-period fluctuations in future revenues if its average selling price erodes. The average selling prices of Autonomy's products could decrease in the future in response to competitive pricing pressures, general market conditions, increased sales discounts, new product introductions by Autonomy or its competitors or other factors. Autonomy may not be able to increase sales sufficiently to prevent its operating and gross margins from declining.

The Company's reliance on sales of its products by third parties such as value added resellers makes it difficult to predict the Company's revenues, cash flow and operating results

The timing of Autonomy's revenues is difficult to predict because of its reliance on indirect sales channels and the variability of its sales cycle. If revenues forecasted in a particular quarter do not occur in that quarter, the Company's operating results for that quarter could be adversely affected. The Company's sales cycle varies substantially depending upon the size of the order, the experience of the distributor and the distribution channel through which the Company's products are sold to end users. Sales from the Company's value added resellers (or VARs) and systems integrators to end users typically take three to four months to complete. Further, the Company is likely to have difficulties in predicting revenues from OEM customers because it is unable to forecast unit sales of their products which incorporate the Company's technology.

The Company's cash flow is affected by the timing of payments, including by OEM customers. Late payments or defaults by indirect sellers, their end customers or other customers, due to factors that may be beyond the Company's control, will decrease the Company's available cash.

Furthermore, the Company's expense levels are based on its expectations as to future revenue and cash flow and to a large extent are fixed in the short term. The Company's revenues and operating results could be harmed by a substantial reduction or delay in sales of its products or the loss of any significant indirect seller, or a delay in cash collections, each of which could require the Company to reduce its operations.

Developing and maintaining strong OEM relationships is, and will continue to be, time and resource intensive and may not result in the successful deployment of the Company's technology and products

A key aspect of the Company's sales strategy is to develop relationships with OEMs that will license the Company's technology and incorporate it into their products. If Autonomy is not successful in entering into suitable OEM relationships, its ability to successfully deploy its software and build brand awareness would be harmed. The development of OEM relationships generally involves a considerable amount of management time and company resources as potential OEMs evaluate the viability of integrating the Company's technology. The Company cannot provide any assurances that potential OEMs will enter into a relationship with the Company after the Company has expended these efforts and costs.

Even if the Company is successful in entering into an OEM relationship, it cannot provide any assurances that the Company's current or future OEMs will be able to integrate the Company's technology into commercially viable products on a timely basis. The normal process of integrating technology and releasing products can often involve lengthy periods of development and preparation by the OEM after the commencement of the Company's relationship with the OEM. Furthermore, the Company's OEMs may focus on their other products or develop competitive products and decide to terminate or minimise their relationship with the Company.

Autonomy's OEM partners may not dedicate resources to developing and marketing products using Autonomy's technology and Autonomy may develop conflicts with them that could make collecting payments more difficult. If either of these occurs, Autonomy will earn less or no revenue from its agreements with them.

The Company's agreements with its OEM partners are non-exclusive; they are not required to use only the Company's technology as a basis for their products. Furthermore, they are not obliged to dedicate resources to developing and marketing products using the Company's technology. The Company's OEM partners may choose to develop or promote competitive products based on other technologies or pursue other opportunities. If the Company's OEM partners do not commit resources to developing and marketing products using the Company's technology or focus on other products and product areas, the Company will earn less or no revenue from its agreements with them.

In addition, the Company may have disagreements with its OEM partners over royalty payments due to the Company and may have difficulty in collecting these. The Company depends on its OEM partners to inform the Company when they develop products using the Company's technology and the level of sales. If the Company's OEM partners fail to keep the Company adequately informed, the Company may not learn of payments to which it would be entitled. The Company could also incur significant expenses in collecting payments or, in certain instances, the Company may not succeed in collecting payments at all.

The Company's licences of technology to OEM customers may lead to competition from those OEM customers in the Company's end-user product markets

As part of the Company's sales strategy, it licenses its technology to OEM customers for incorporation into their products. As a result, the Company expects its OEM customers to offer products that will be directly competitive with the Company's end-user products. This competition could result in price reductions, reduced gross margins and loss of market share for the Company's end-user products in the short to medium term. This competition could directly adversely impact the Company's end-user product revenues, or otherwise materially adversely effect the Company's business, operating results or financial condition. While the Company's business plan contemplates that this potentially negative impact will be offset by increased OEM sales over time, the Company cannot provide any assurances that this will occur or that any benefits obtained through the Company's OEM licensing strategy will outweigh the negative impact associated with increased competition for the Company's end-user products.

The Company's future success is dependent on its ability to expand sales through indirect sellers

The Company's distribution strategy is to pursue sales through multiple distribution channels with an emphasis on indirect sales. The Company's inability to recruit and retain resellers who can successfully penetrate their respective market segments could adversely affect the Company's business. The Company has historically sold its products through direct sales, indirect sales, including distributors, value added resellers, system integrators and OEMs. The Company cannot provide any assurances that it will be able to attract and retain resellers that will be able to sell the Company's products effectively. In addition, the Company's agreements typically do not restrict resellers from distributing competing products.

If the Company is unable to effectively manage its growth, the Company's business may suffer

The Company's anticipated expansion would place significant demands on its management, engineering, support, operations, legal, accounting, sales and marketing personnel and other resources. If the Company is unable to manage its growth effectively, the Company's business and financial results will suffer. The Company has, since its commencement of trading in July 1996, experienced growth that has placed, and continues to place, a significant strain upon the Company's management, systems and resources. Autonomy rapidly and significantly expanded its operations from 1996 through 2000, and anticipate that further significant expansion will be required to address potential growth in the Company's customer base and market opportunities. Autonomy has grown from 62 employees as of 31 December 1998, to 180 employees as of 31 December 2000, and to 205 employees as of 31 March 2005. The Company's current expansion plans call for additional staff in the UK, the US, Asia and Europe. The Company has and is planning to continue to expand its business geographically and into new market segments.

The Company will face additional operational and financial risks as the Company continues to expand its international operations, any one of which could harm the Company's international market share and revenues

Historically, the Company's foreign operations and export sales account for a significant portion of the Company's annual revenues. As the Company expands its international operations, it will face a number of additional challenges associated with the conduct of business overseas. If the Company fails to effectively meet these challenges its international market share and revenue could be reduced. For example:

- the Company may have difficulty managing and administering a globally-dispersed business;
- fluctuations in exchange rates may negatively affect the Company's operating results, particularly on a comparative basis;
- the Company may encounter greater difficulty in collecting accounts receivable resulting in longer collection periods;
- the Company may not be able to repatriate the earnings of its foreign operations;
- the Company will have to comply with a wider variety of foreign laws and regulatory environments with which it is not familiar;
- the Company may not be able to adequately protect its trademarks and other intellectual property overseas due to the uncertainty of laws and enforcement in certain countries relating to the protection of intellectual property rights;
- export controls or other regulatory restrictions could prevent the Company from shipping its products into and from some markets;
- multiple and possibly overlapping tax structures could significantly reduce the financial performance of the Company's foreign operations;
- and economic or political instability in some international markets could result in the forfeiture of some foreign assets and the loss of sums spent developing and marketing those assets.

In particular, the management of the Company's sales personnel across offices in multiple countries has presented logistical and management difficulties. This geographic dispersion has also at times resulted in inconsistent pricing and sales messages. Further, the Company has experienced significant reductions in business activities in Europe in the summer months. The Company expects that it will continue to experience these challenges and may experience the risks discussed above.

The Company's products have lengthy sales and implementation cycles, which could adversely affect the Company's business

Sales of the Company's software products often require the Company to engage in a lengthy sales effort, and these lengthy periods or delays in customer deployment of a product could materially adversely affect the Company's operating results or financial condition. The Company's sales efforts often include significant education of prospective customers regarding the use and benefits of the Company's products. As a result, the sales cycle for the Company's products varies and can be as long as two to six months. In addition, the implementation of the Company's products often involves a significant commitment of resources by customers over an extended period of time. Autonomy's sales and customer implementation cycles are subject to a number of potential delays. These include delays related to product implementation as well as delays over which Autonomy has little or no control, including:

- customers' budgetary constraints;
- internal acceptance reviews; and
- the complexity of customers' technical needs.

An increase in the average sales size of transactions would also be likely to result in a longer sales cycle as the licences of the Company's software products become more of an enterprise-wide decision by prospective customers requiring a significant commitment of resources.

The Company's operating results for a quarter could be materially and adversely affected if one or more large orders are either not received or are delayed or deferred by customers. A significant portion of the Company's revenues in recent quarters has been derived from these relatively large sales to a limited number of customers, and the Company currently anticipates that future quarters will continue to reflect this trend. Sales cycles for these customers can be up to nine months or longer. In addition, customer order deferrals in anticipation of new products may cause the Company's operating results to fluctuate. Like many software companies, the Company has generally recognised a substantial portion of its revenues in the last month of each quarter, with these revenues concentrated in the last weeks of the quarter. Accordingly, the cancellation or deferral of even a small number of purchases of the Company's products could harm the Company's business in any particular quarter. In addition, to the extent that the significant sales occur earlier than expected, operating results for subsequent quarters may fail to keep pace or even decline.

The Company grants customers lengthy credit terms, which exposes the Company to the risk of uncollected accounts as the Company's business grows

The Company grants lengthy credit terms to selected customers, and an increase in bad debts could materially adversely impact the Company's operating results. The Company's standard terms range from 30 to 90 days, but have extended as far as one year in an extremely limited number of cases. The Company also operates in an industry where some of its customers, including indirect resellers and OEMs, are relatively undercapitalised. resellers' ability to pay the Company may be dependent on their ability to collect funds from their customers. The Company cannot provide any assurances that the allowances the Company makes for bad debts will be sufficient.

The Company's September 2003 acquisition of Virage and other potential acquisitions may have unexpected consequences or impose additional costs on the Company

Autonomy continually evaluates strategic acquisitions of other businesses, with a primary goal of extending the distribution of Autonomy's core technology through other product platforms or distribution channels. The Company currently has no active commitments or agreements with respect to any material acquisition. In May 2003 Autonomy acquired all outstanding equity in Dremedia Limited; in September 2003 Autonomy acquired all outstanding equity in SoftSound Limited; in August 2004 Autonomy acquired all outstanding equity in NHoldings Limited; and most significantly in September 2003 Autonomy acquired all outstanding equity of Virage, Inc. As a result of these, and any other acquisitions, the Company may be subject to a number of risks, including the following:

- difficulty in integrating the acquired operations and retaining acquired personnel;
- the Company's relationship with current and new employees and clients could be impaired;
- the acquisition may result in litigation from terminated employees or third parties who believe a claim against the Company would be valuable to pursue;
- limitations on the Company's ability to retain acquired distribution channels and customers;
- limitations on the Company's ability to successfully incorporate acquired technology and rights into the Company's product offerings and maintain uniform standards;
- controls, procedures and policies;
- potential difficulties in completing projects associated with purchased in-process research and development;
- risks of entering markets in which the Company has no or limited direct prior experience and where competitors in these markets have stronger market positions;
- diversion of management's attention and disruption of the Company's ongoing business;
- the Company may find that the acquired company or assets do not further the Company's business strategy or that the Company paid more than the company or assets are worth;
- the Company may have product liability associated with the sale of the acquired company's products;
- the assumption of known and potentially unknown liabilities of the acquired company;

- the Company's due diligence process may fail to identify significant issues with product quality, product architecture, accounting and legal contingencies, among other matters; and
- insufficient revenues to offset increased expenses associated with acquisitions.

The Company may not successfully overcome problems encountered in connection with potential acquisitions. In addition, acquisitions may also cause the Company to:

- issue ordinary shares that would dilute the Company's current shareholders' percentage ownership;
- record goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- incur amortisation expenses related to certain intangible assets;
- or incur large and immediate write-offs.

The Company cannot provide any assurances that its recent acquisitions and future acquisitions will be successful and will not adversely affect the Company's business. The Company must also maintain its ability to manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions the Company makes could harm the Company's business.

The Company has never paid any dividends and the Company does not currently have plans to pay dividends in the foreseeable future

Companies organised under English law cannot pay dividends unless they have distributable profits as defined in the Companies Act. To date, the Company has not declared or paid any cash dividends on its shares and currently intend to retain any future earnings for funding growth. Whilst the Company examines this policy on an annual basis the Company currently does not have plans to pay dividends in the foreseeable future.

SPECIFIC RISKS RELATED TO ETALK

Government regulation of telephone and internet monitoring could cause a decline in the use of etalk software, result in increased expenses for etalk or subject etalk customers and etalk to liability

As the communications industry continues to evolve, governments may increasingly regulate products that monitor and record voice, video and data transmissions over public communications networks, such as the products etalk offers. etalk believes that increases in regulation could come in the form of a number of different kinds of regulations, including regulations regarding privacy, protection of personal information and employment. For example, the State of California recently enacted the Database Security Breach Act, which requires any business that suffers a computer security breach to immediately notify customers in California if personal information has been compromised. The adoption of new laws or regulations governing the use of etalk products or changes made to existing laws or regulations could cause a decline in the use of etalk products and could result in increased expenses for etalk, particularly if etalk is required to modify or redesign its products to accommodate these new or changing laws or regulations.

etalk faces intense competition that could adversely affect its business

If etalk is unable to maintain its market share in the intensely competitive software market its financial condition and results of operations would be harmed. etalk's competitors include companies such as:

- quality monitoring suppliers to the customer contact centre industry;
- new, larger and more established entities that may acquire interests in or form joint ventures with providers of recording or performance enhancing software;
- computer telephony platform developers;
- computer telephony applications software developers; and
- telecommunications equipment vendors.

Several of etalk's competitors have longer operating histories, significantly greater resources, greater name recognition and larger customer bases than etalk does. etalk expects to continue to encounter significant competition from these and other sources. In addition, as the market for etalk's products develops, companies with greater resources may attempt to increase their presence in the market by acquiring or forming strategic alliances with etalk competitors. If new competitors or alliances among current competitors emerge and acquire significant market share, etalk's business and results of operations could be seriously harmed.

Failure to maintain relationships with certain key strategic partners for sales of etalk products could harm etalk's business and results of operations

etalk has agreements in place with many distributors, dealers and resellers to market and sell etalk products and services in addition to etalk's direct sales force. etalk's financial results could be materially adversely affected if contracts with etalk channel partners were terminated, if etalk's relationship with channel partners were to deteriorate or if the financial condition of etalk channel partners were to weaken. etalk's competitors' ability to penetrate these strategic relationships may result in a significant reduction of sales through affected partners.

In addition, as etalk's market opportunities change, etalk may develop increased reliance on particular channel partners, which may negatively impact gross margins. There can be no assurance that etalk will be successful in maintaining or expanding these channels. If etalk is not successful, etalk may lose sales opportunities, customers and market share. In addition, there can be no assurance that etalk channel partners will not develop or market products or services in competition with etalk in the future.

Failure to develop strategic alliances or expand or implement new joint ventures could limit etalk's ability to grow

As part of its growth strategy, etalk intends to pursue new strategic alliances. etalk considers and engages in strategic transactions from time to time and may be evaluating alliances or joint ventures at any time. etalk competes with other software platform developers and customer contact centre service providers for these opportunities. etalk cannot be assured that it will be able to effect these transactions on commercially reasonable terms or at all. If etalk enters into these transactions, etalk also cannot be sure that it will realise the benefits it anticipates.

Loss of key suppliers could harm etalk's business

Certain components and subassemblies that are used in the manufacture of etalk's existing products are purchased from a single supplier or a limited number of suppliers. In the event that any of these suppliers are unable to meet etalk's requirements in a timely manner, etalk may experience an interruption in production until an alternative source of supply can be obtained. Any such interruption of a supplier's ability to provide software or hardware to etalk, could result in delays in developing products for etalk end users, which could have a material adverse effect on etalk's business, financial condition and results of operations. In addition, some of etalk's major suppliers use proprietary technology and software code. In the event of a change in supplier, a significant redesign of etalk's products may be necessitated in order to accommodate the new proprietary technology or software code. Further, if suppliers discontinue their products, or modify them in manners incompatible with etalk's current use, or use manufacturing processes and tools that could not be easily migrated to other vendors, etalk could have significant delays in product availability, which would have a significant adverse impact on its results of operations and financial condition. Although etalk believes that it and/or its distributors can obtain alternative sources of supply in the event etalk's suppliers are unable to meet its requirements in a timely manner, there are no assurances that etalk's inventory and alternative sources of supply would be sufficient to avoid a material interruption or delay in production.

Even if etalk and/or etalk's distributors are successful in locating alternative sources of supply, alternative suppliers could increase prices significantly. In addition, alternative software or hardware may malfunction or interact with existing software or hardware in unexpected ways. The use of new suppliers and the modification of etalk's products to function with new systems would require testing and may require further modifications, which may result in additional expense, diversion of management attention and other resources, inability to fulfill customer orders or delay in fulfillment, reduction in quality and reliability, customer dissatisfaction, and other adverse effects on etalk's reputation, business and operating results.

The deferral or loss of a significant customer or order could result in an unexpected near term shortfall in etalk's revenues

While etalk has no single customer that is material, it has many significant customers and receives significant orders from time to time. The deferral or loss of one or more significant orders or a delay in an expected implementation of such an order could materially and adversely affect etalk's operating results in any fiscal quarter, particularly if there are significant sales and marketing expenses associated with the deferred, lost or delayed sales. etalk bases its current and future expense levels on its internal operating plans and sales forecasts. As a result, etalk may not be able to sufficiently reduce its costs in any quarter to compensate for an unexpected near-term shortfall in revenues.

etalk relies on some technologies that it licences from software suppliers, such as Knowlagent and Business Objects

etalk relies on some technologies that it licences from software suppliers, such as Knowlagent and Business Objects. These third-party technology licences may not continue to be available to etalk on commercially reasonable terms. The loss of such technology could require etalk to obtain substitute technology of lower quality or performance standards or at greater cost, which could materially adversely affect etalk's business, results of operations and financial condition.

If etalk's products infringe on the intellectual property rights of others, etalk may be required to indemnify customers for any damages they suffer

etalk generally indemnifies its customers with respect to infringement by etalk's products of the proprietary rights of third parties. Third parties may assert infringement claims against etalk's customers who may then hold etalk responsible for these claims and any resulting harm they suffer. These claims may require etalk to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, etalk may be forced to pay damages or may be required to obtain licences for the products etalk's customers use. If etalk cannot obtain all necessary licences on commercially reasonable terms, etalk's customers may be forced to stop using etalk's products and etalk may be prevented from distributing etalk's software or required to incur significant expense and delay in developing non-infringing software. Such a result would have a material adverse effect on etalk's business, financial condition and results of operations.

Loss of third party software licensing would materially and adversely affect etalk's business, financial condition and results of operations

etalk incorporates software that it licenses from third parties in certain etalk products. If etalk loses or is unable to maintain any software licences, etalk could incur additional costs or experience unexpected delays until equivalent software can be developed or licensed and integrated into etalk's products.

Undetected problems in etalk's products could directly impair etalk's financial results

There can be no assurance that etalk's efforts to monitor, develop, modify and implement appropriate test and manufacturing quality assurance processes for etalk's products will be sufficient to permit etalk to avoid a rate of failure in its products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to etalk's reputation, any of which could have a material adverse effect on etalk's business, results of operations and financial condition.

The occurrence or perception of security breaches within etalk's company or by third parties using etalk's products could harm etalk's business, financial condition and operating results

etalk's products are often used by customers to compile and analyse highly sensitive or confidential information and data. etalk may come into contact with such information or data when it performs support or maintenance functions for its customers. While etalk has internal policies and procedures for employees performing these functions, the perception that it has improperly handled sensitive, confidential information could have a negative effect on etalk's business. If, in handling this information, etalk fails to comply with privacy or security laws, it could incur civil liability to government agencies, customers and individuals whose privacy is compromised. If personal information is received or used from sources outside the US, etalk could be subject to civil, administrative or criminal liability under the laws of other countries.

In addition, while etalk implements sophisticated security measures, third parties may attempt to breach etalk's security or inappropriately use its products through computer viruses, electronic break-ins and other disruptions. If successful, confidential information, including passwords, financial information, or other personal information may be improperly obtained and etalk may be subject to lawsuits and other liability. Even if etalk is not held liable, such security breaches could harm etalk's reputation, and even the perception of security risks, whether or not valid, could inhibit market acceptance of etalk's products with both government and commercial purchasers.

Certain provisions in agreements that etalk has entered into may expose etalk to liability for breach that is not limited in amount by the terms of the contract

Certain contract provisions, principally confidentiality and indemnification obligations in certain of etalk's licence agreements, could expose etalk to risks of loss that, in some cases, are not limited by contract to a specified maximum amount. If etalk fails to perform to the standards required by these contracts, it could be subject to additional liability and etalk's business, financial condition and results of operations could be materially and adversely affected.

etalk's liability to customers may be substantial if etalk's products fail to perform properly

etalk's software is used in a complex operating environment that requires its integration with computer and telephone networks and other business software applications. If etalk's products fail to function as required, etalk may be subject to claims for substantial damages. etalk seeks to minimise this risk by incorporating provisions into its distribution and standard sales agreements that are designed to limit its exposure to potential claims of liability. However, no assurance can be given that all claims will be covered either by these contractual provisions. Further, courts may decide not to enforce the provisions in contracts that would limit etalk's liability or otherwise protect etalk from liability for damages.

etalk carries general liability insurance. However, this coverage may not continue to be available on reasonable terms or in sufficient amounts to cover claims against etalk. In addition, etalk's insurer may disclaim coverage as to any future claim. If claims exceeding the available insurance coverage are successfully asserted against etalk, or etalk's insurer imposes premium increases, large deductibles or co-insurance requirements on etalk, etalk's business and results of operations could be adversely affected.

Lack of product integration with third-party technology may adversely affect the future of etalk's business

etalk products currently integrate with most major telephone systems and interoperate across most major computing platforms, operating systems and databases. If such systems are technologically enhanced or upgraded so that etalk's software no longer integrates well with them, etalk could be required to redesign its platforms and other products to ensure compatibility with such systems. etalk cannot guarantee that it would be able to redesign its platforms or other products or that any redesign would achieve market acceptance. Further, if etalk cannot adapt its software to changes in necessary technology, it may significantly impair its ability to compete effectively.

PART V

FINANCIAL INFORMATION ON AUTONOMY

Section A

US GAAP FINANCIAL INFORMATION ON AUTONOMY FOR THE THREE YEARS ENDED 31 DECEMBER 2004

Financial Information

This financial information is presented under United States Generally Accepted Accounting Principles (US GAAP). The financial information has been extracted as set out below, without adjustment, from the audited non-statutory consolidated financial statements of the Group for each of the three years ended 31 December 2004.

The information set out in Section A of Part V does not constitute statutory accounts within the meaning of section 240(5) of the Companies Act. The auditors for Autonomy for the financial year ended 31 December 2002 were Ernst & Young LLP. The auditors for Autonomy for the two financial years ended 31 December 2004 were Deloitte & Touche LLP. The auditors of Autonomy have made reports under section 235 of the Companies Act in respect of each of the statutory accounts and each report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Companies Act. Statutory accounts of Autonomy for the three years ended 31 December 2004 have been delivered to the Registrar of Companies in England and Wales.

AUTONOMY CORPORATION PLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of US dollars, except per share data)

	Year Ended 31 December		
	2002	2003	2004
	$'000	$'000	$'000
Revenues	50,961	54,881	64,765
Cost of revenues	(934)	(2,261)	(2,917)
Amortisation of purchased intangibles	—	(391)	(907)
Gross profit	50,027	52,229	60,941
Operating expenses:			
Research and development expenses	(9,186)	(11,864)	(13,594)
Sales and marketing expenses	(31,166)	(28,674)	(33,967)
General and administrative expenses	(6,473)	(8,419)	(8,067)
Share-based compensation	—	(98)	(121)
Total operating expenses	(46,825)	(49,055)	(55,749)
Profit from operations	3,202	3,174	5,192
Interest income	5,120	3,759	3,613
Impairment of equity and other investments	(1,943)	—	(355)
Gain on foreign exchange	139	747	133
Profit before benefit (provision) for income taxes and share of loss of associated company and minority interest	6,518	7,680	8,583
Benefit (provision) for income taxes	243	(1,432)	(1,925)
Share of loss of associated company and minority interest	(634)	(78)	—
Net profit	6,127	6,170	6,658
Basic earnings per share	$ 0.05	$ 0.06	$ 0.06
Diluted earnings per share	$ 0.05	$ 0.06	$ 0.06
Weighted average number of ordinary shares outstanding (thousands)	126,716	110,102	109,799
Weighted average number of ordinary shares outstanding, assuming dilution (thousands)	127,610	111,542	111,532

AUTONOMY CORPORATION PLC

CONSOLIDATED BALANCE SHEET

(in thousands of US dollars, except share data)

	As of 31 December		
	2002	2003	2004
	$'000	$'000	$'000
ASSETS			
Current assets			
Cash and cash equivalents	147,472	102,250	106,793
Accounts receivable, net of allowances (note 17)	14,698	18,687	20,424
Prepaid expenses and other current assets	6,148	8,743	3,395
Deferred tax asset	626	3,311	6,077
Total current assets	168,944	132,991	136,689
Non-current assets			
Plant and equipment, net (note 5)	2,082	2,138	3,511
Goodwill, net (note 7)	4,849	28,630	31,014
Intangible assets, net (note 6)	836	4,993	4,958
Other investments, net (note 9)	1,398	2,158	2,353
Deferred tax	386	1,933	432
Total assets	178,495	172,843	178,957
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	2,933	2,639	1,954
Accrued expenses (note 8)	5,955	6,821	4,525
Deferred revenue	5,039	5,552	5,667
Total current liabilities	13,927	15,012	12,146
Shareholders' equity			
Ordinary shares: 600,000,000 ordinary shares of nominal value ⅓p authorised, 108,110,108, 110,575,160 and 122,609,095 issued and outstanding at 31 December 2004, 2003, and 2002 respectively (note 12)	637	573	557
Additional paid-in capital	96,121	71,086	63,700
Treasury stock, at cost	(1,290)	(1,775)	(1,775)
Retained earnings	60,858	67,028	73,686
Accumulated other comprehensive income	8,242	20,919	30,643
Total shareholders' equity	164,568	157,831	166,811
Total liabilities and shareholders' equity	178,495	172,843	178,957

The accompanying notes are an integral part of the consolidated financial statements.

AUTONOMY CORPORATION PLC

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of US dollars, except share data)

	Ordinary shares of ⅓p		Additional paid-in capital	Treasury shares, at cost	Retained earnings (deficit)	Accumulated other comprehensive income[1]	Total shareholders' equity	Total comprehensive income
	Number	Amount						
Balance at 1 January 2002	127,254,612	661	158,487	—	3,195	(7,576)	154,767	
Share options exercised	334,769	2	992	—	—	—	994	
Employee benefit trust	—	—	30	—	—	—	30	
Shares repurchased and cancelled	(4,980,286)	(26)	(11,852)	—	—	—	(11,878)	
Treasury shares purchased	—	—	—	(1,290)	—	—	(1,290)	
Currency translation adjustments	—	—	—	—	—	15,818	15,818	15,818
Capital restructuring	—	—	(51,536)	—	51,536	—	—	—
Net profit	—	—	—	—	6,127	—	6,127	6,127
Comprehensive income								21,945
Balance at 1 January 2003	122,609,095	637	96,121	(1,290)	60,858	8,242	164,568	
Share options exercised	298,149	2	5,700	—	—	—	5,702	
US deferred tax adjustments on share options	—	—	667	—	—	—	667	
Share-based compensation	—	—	98	—	—	—	98	
Employee benefit trust	—	—	172	—	—	—	172	
Shares repurchased and cancelled	(12,332,084)	(66)	(32,668)	—	—	—	(32,734)	
Treasury shares purchased	—	—	—	(485)	—	—	(485)	
Currency translation adjustments	—	—	—	—	—	12,677	12,677	12,677
Options assumed on acquisition	—	—	996	—	—	—	996	—
Net profit	—	—	—	—	6,170	—	6,170	6,170
Comprehensive income								18,847
Balance at 31 December 2003	110,575,160	573	71,086	(1,775)	67,028	20,919	157,831	
Share options exercised	626,460	4	1,803	—	—	—	1,807	
Share-based compensation	—	—	121	—	—	—	121	
US deferred tax adjustments on share options	—	—	1,309	—	—	—	1,309	
Shares repurchased and cancelled	(3,091,512)	(20)	(10,619)	—	—	—	(10,639)	
Currency translation adjustments	—	—	—	—	—	9,724	9,724	9,724
Net profit	—	—	—	—	6,658	—	6,658	6,658
Comprehensive income								16,382
Balance at 31 December 2004	108,110,108	557	63,700	(1,775)	73,686	30,643	166,811	

(1) Accumulated other comprehensive income consists solely of foreign exchange translation.

The accompanying notes are an integral part of the consolidated financial statements.

AUTONOMY CORPORATION PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of US dollars, except share data)

	Year Ended 31 December		
	2002	2003	2004
	$'000	$'000	$'000
Cash flows from operating activities:			
Net profit	6,127	6,170	6,658
Adjustments to reconcile net cash provided by (used in) operating activities:			
Depreciation and amortisation	1,147	1,776	2,306
Impairment of equity investments	1,943	—	328
Revenue in exchange for equity investments	(828)	—	—
Income tax benefits (provision) from exercise of non-qualified stock options	—	667	(147)
Deferred tax	(314)	(249)	588
Share-based compensation	—	98	121
Foreign currency movements	(139)	(747)	(133)
Share of loss of associated company and minority interest	634	78	—
Changes in operating assets and liabilities (net of impact of acquisitions):			
Accounts receivable	4	(2,196)	170
Prepaid expenses and other current assets	(1,783)	(1,366)	3,613
Deferred revenues	1,856	(1,583)	(1,229)
Accounts payable and taxes payable	877	(986)	944
Accrued expenses and other liabilities	(6,252)	(7,376)	(3,668)
Net cash provided by (used in) operating activities	3,272	(5,714)	9,551
Cash flows from investing activities:			
Purchase of equipment	(517)	(527)	(1,841)
Purchase of intangibles	(908)	(426)	(1,183)
Disposable of intangibles	—	—	459
Purchase of subsidiaries, net of cash acquired	—	(14,640)	—
Purchase of investments	—	(598)	(346)
Net cash used in investing activities	(1,425)	(16,191)	(2,911)
Cash flows from financing activities:			
Proceeds from issuance of shares, net of issuance costs	994	441	1,807
Purchase of company shares	(13,138)	(33,079)	(10,516)
Net cash used in financing activities	(12,144)	(32,638)	(8,709)
Effect of foreign exchange on cash and cash equivalents	14,165	9,321	6,612
Net increase (decrease) in cash and cash equivalents	3,868	(45,222)	4,543
Beginning cash and cash equivalents	143,604	147,472	102,250
Ending cash and cash equivalents	147,472	102,250	106,793
Supplemental disclosure of cash flow information:			
—Income taxes (paid) repaid	(2,144)	(1,599)	68

The accompanying notes are an integral part of the consolidated financial statements.

1. The Company

Business of the Company

The Company develops and markets software products that are used in automating the management, processing and delivery of unstructured information sources across the Internet and the extended enterprise. Unstructured information is data, such as Web pages, e-mails and word processing documents that has not been organised and stored in specific forms, such as relational databases. The Company's proprietary Dynamic Reasoning Engine, or DRE, applies sophisticated algorithms to analyse information, enabling operations to be performed automatically on this information. This provides a platform for the Company's own products aimed at applications in new media, enterprise and e-commerce markets and increasingly a variety of applications developed by third party OEMs.

The Company is a holding company which principally operates through six trading subsidiaries, Autonomy Systems Limited, SoftSound Limited and NCorp Limited, based in Cambridge, England; Autonomy Nordic AS, based in Oslo, Norway; Autonomy, Inc., a New Jersey corporation having its offices in San Francisco, United States; and Virage, Inc., a Delaware corporation having its offices in San Francisco, United States. The Company has also established wholly owned operating subsidiaries for these principal trading subsidiaries, as well as subsidiaries that have not traded to date.

Incorporation and History

The Company was incorporated in England and Wales as a public limited company on 21 March 1996.

Technological Changes

The market for the Company's products and services is characterised by rapid technological developments, frequent new product introductions and evolving industry standards. These changes require the Company to continually improve the performance, features and reliability of its products, particularly in response to competition. There can be no assurance that the Company will be successful in responding sufficiently to these developments, or that competitors will not introduce superior or more cost-effective technological improvements. In addition, new products and enhancements could entail substantial development costs and could contain design flaws or other defects that could require costly modifications or lead to loss of customer confidence. Any of these developments could have a material adverse effect on the Company's business, financial condition or operating results.

Dependence on Proprietary Technology

The Company's success is heavily dependent upon its proprietary technologies. The Company depends upon a combination of trade secrets, copyright and trademark laws, licence agreements, nondisclosure and other contractual provisions and various security measures to protect its technology rights. The Company currently has 16 issued patents, and additional patent applications pending. There can be no assurance that any necessary patents relating to any of the Company's products will be issued. There can be no assurance that the Company will be able legally to prevent others from copying its technology or producing compatible competing products. If others were to sell Autonomy-compatible products, the Company's sales and gross margins would be materially adversely affected.

Furthermore, there can be no assurance that the Company's protective efforts will prevent others from misappropriating its technology or from independently developing similar or superior technology. Any infringement of the Company's proprietary technology could have a material adverse effect on the Company.

Dependence on Key Individuals

The success of the Company depends to a significant extent upon a limited number of key employees including Dr. Michael R. Lynch, the developer of the Company's proprietary Dynamic Reasoning Engine and managing director and chief executive officer, and Richard G. Gaunt, technical director and chief technical officer. The loss of either Dr. Lynch or Mr. Gaunt or any other executive officer may have a material adverse effect on the business, operating results or financial condition of the Company.

Need for New Products

Substantially all of the Company's revenue is derived from sales of the current suite of products, which are expected to account for the majority of revenue for the foreseeable future. As a result of this dependence on a single suite of products, a decline in pricing of, or market acceptance of, the products, due to competition, technological change or otherwise, would have a material adverse effect on the Company's business, financial condition and results of operations. Because the market for information management products is characterised by changing technology and periodic new product introductions, future financial performance will depend in part on the successful development and customer acceptance of new and enhanced versions of the suite of products and other products on a timely basis. There can be no assurance that the Company will continue to be successful in marketing its current suite of products or any other new or enhanced products.

2. Basis of Financial Statements

Basis of Presentation

The accompanying financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Companies Act 1985

These financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles and do not comprise the statutory accounts of the Company within the meaning of Section 240 of the Companies Act 1985, as amended (the "Companies Act"). The Company's statutory accounts are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"), in compliance with the Companies Act and are presented in pounds sterling. Statutory accounts for the year ended 31 December 2003, have been delivered to the Registrar of Companies for England and Wales. The auditors of those statutory accounts have given unqualified audit opinions thereon which did not contain statements under Section 237(2) or (3) of the Companies Act. Statutory accounts for the year ended 31 December 2004, have been prepared and the auditors of those statutory accounts have given an unqualified audit opinion thereon which did not contain statements under Section 237(2) or (3) of the Companies Act. Those accounts will be delivered to the Registrar of Companies for England and Wales following required shareholder approval.

3. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together the "Group"). The Company's principal trading subsidiaries, all of which have been consolidated in these financial statements, are Autonomy Systems Limited, Autonomy Inc., Autonomy Nordic AS, SoftSound Limited, Virage, Inc. and NCorp Limited. All intercompany transactions and balances between the companies have been eliminated on consolidation. The Company acquired a 49% stake in Dremedia on 2 July 2001, which was accounted for in accordance with the equity method. As a result of the acquisition of the remaining 51% interest, commencing 13 May 2003, the results of Dremedia have been consolidated as a wholly-owned subsidiary of the Company. As a result of the acquisition of Virage in September 2003, commencing 2 September 2003, the results of Virage have been consolidated as a wholly-owned subsidiary of the Company. The Company acquired 100% of NCorp Limited in August 2004.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments with original maturities of less than or equal to three months from the date of purchase.

Intangible Assets

Software licences are capitalised at cost and are amortised on a straight-line basis over a period of three years, which is their estimated useful economic life. The Company follows the provisions of SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", implemented in 2002, for assessing whether an impairment has occurred.

Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalised in accordance with SFAS No. 86, Computer Software To Be Sold, Leased, or Otherwise Marketed.

Technology acquired as a result of business combinations is recorded at the valuation determined in accordance with SFAS No. 141 "Business Combinations."

After initial recognition, purchased technology is accounted for in accordance with the provisions of SFAS No. 142 "Goodwill and Other Intangible Assets." Purchased technology is amortised on a straight-line basis over the estimated useful economic life.

Goodwill

The Company capitalised goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, on the acquisitions of SoftSound Limited, Autonomy Nordic AS and Virage, Inc. (see Note 7). On 1 January 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill ceased to be amortised as of 1 January 2002, and is tested for impairment annually or whenever indicators of impairment arise using the fair value method. Prior to the adoption of SFAS No. 142, goodwill arising from these acquisitions was amortised on a straight-line basis over the estimated useful economic life, which was considered to be three years and ten years respectively.

Plant and Equipment

Plant and equipment is stated at historical cost. Depreciation is calculated using the straight-line method based on estimated useful lives of the assets, as follows:

Fixtures, fittings and equipment	4 years
Computer equipment	3 years
Leasehold improvements	3 years

The Company reviews its long-lived assets, including property and equipment for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable. The Company assesses impairment in accordance with the requirements of SFAS 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate. The impairment recognised is the amount by which the carrying amount exceeds the fair market value of the asset. No impairment was recognised in 2002, 2003 or 2004.

Other Investments

Other investments represent minority shareholdings in non-publicly traded companies and are stated at historical cost, less any provision for impairment. The investments in non-publicly traded companies are considered impaired when a review of the investee's financial status, operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable.

Equity Method of Accounting

The Company acquired a 49% stake in Dremedia on 2 July 2001, for cash consideration of approximately $450,000, and which has been accounted for in accordance with the equity method. As a result of the acquisition of the remaining 51% interest in Dremedia, commencing 13 May 2003, the results of Dremedia have been consolidated as a wholly-owned subsidiary of the Company in accordance with SFAS No. 141. There is no goodwill arising from the initial investment or subsequent acquisition.

Share-based Compensation

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." As permitted by the provisions of SFAS No. 123, the Company applies Accounting Principles Board Opinion 25 and related interpretations in accounting for its employee share option plans using the intrinsic value method. As a result compensation expense related to options granted is measured based on the intrinsic value of the underlying ordinary shares. See Note 12 for a summary of the pro-forma effects on reported net profit and earnings per share for fiscal periods 2002, 2003 and 2004 based on the fair value of options and shares granted as prescribed by SFAS No. 123.

Income Taxes

The Company follows SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognised in full subject to a valuation allowance to reduce the carrying amount of the asset to that which is more likely than not to be realised.

Revenue Recognition

The Company generates revenues from licensing the rights to use its software products directly to end-users and indirectly through resellers. The Company also generates revenues from sales of consulting, customer support and training services performed for customers that license its products. To date, revenues from consultancy, customer support and training have been less than 10% of total revenues and have not been separately analysed.

Revenues from software licence agreements are recognised where there is persuasive evidence of an arrangement with a customer, delivery of the software has taken place, collectability is probable and the fee is fixed and determinable. If an acceptance period is required, revenues are recognised upon the earlier of customer acceptance or the expiration of the acceptance period. If significant post-delivery obligations exist or if a sale is subject to customer acceptance, revenues are deferred until no significant obligations remain or acceptance has occurred. Sales through resellers are recognised only where an end user is identified.

The Company recognises licence revenues on shipment using the residual method of Statement of Position 98-9 as the Company has developed vendor specific objective evidence of fair value for the undelivered elements in its arrangements. The Company's arrangements typically consist of two elements: licence and support and maintenance. The Company has developed vendor specific objective evidence of fair value with respect to support and maintenance on the basis of transactions where support and maintenance is sold separately.

The Company also enters into reseller arrangements that typically provide for royalties payable to the Company based on agreed rates. Royalties are generally recognised as reported by the reseller in re-licensing the Company's products to end-users. In certain circumstances, advance royalties are recognised upon the initial sale if all products subject to sub-licensing are delivered in the current period, no right of return policy exists, collection is probable and the fee is fixed and determinable. If these conditions are not met, the Company does not recognise advance royalties until reported by the reseller in re-licensing the Company's products to end-users.

Revenues from customer support services are recognised ratably over the term of the support period. If customer support services are included free or at a discount in a licence agreement, these amounts are allocated out of the licence fee at their fair market value based on the value established by independent sale of the customer support services to customers. Consulting revenues are primarily related to implementation services performed on a time and materials basis under separable service arrangements related to the installation of the Company's software products. Revenues from consulting and training services are recognised as services are performed. If a transaction includes both licence and service elements, licence fee revenue is recognised upon shipment of the software, provided services do not include significant customisation or modification of the base product and the payment terms for licences are not subject to acceptance criteria. In cases where licence fee payments are contingent upon the acceptance of services, revenues from both the licence and the service elements are deferred until the acceptance criteria are met. Cost of licence revenues includes the cost of royalties due on third-party licences, cost of product media, product duplication and manuals. Deferred revenues primarily relate to customer support fees, which have been paid by the customers prior to the performance of these services. Deferred revenue is generally recognised over a period of one to three years.

If the Company cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, the Company defers revenue until all elements are delivered and all services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, the Company uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and, subject to all other criteria being met, is recognised as revenue.

Major Customers

In 2002, 2003 and 2004 no customer accounted for 10% or more of total revenues.

Geographical Analysis of Sales

A geographical analysis of sales is set out in note 16.

Research and Development

Expenditure on research is expensed to operations in the year in which it is incurred. Expenditure on development costs is expensed in the year in which it is incurred unless required to be capitalised under the provisions of SFAS No. 86, Computer Software to be Sold, Leased or Otherwise Marketed.

Advertising

Advertising costs are expensed as incurred. During the years ended 31 December 2002, 2003 and 2004 advertising expenses were approximately $3,992,000, $1,720,000 and $3,665,000 respectively.

Operating Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term even if the payments are not made on such a basis.

Foreign Currency

The functional currency of the Company and its UK subsidiaries is the pound sterling. The functional currencies of the other subsidiaries are their local currencies.

In accordance with SFAS No. 52 "Foreign Currency Translation," transactions in currencies other than the local currency are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the local currency are translated at the exchange rates prevailing at the balance sheet dates.

On consolidation, in accordance with SFAS No. 52, non-UK subsidiaries' assets and liabilities are translated to pounds sterling at the exchange rates prevailing at the balance sheet dates and the statements of operations and cash flows are translated at the average exchange rates for the relevant periods. Exchange differences arising from the retranslation of the opening net assets of non-UK subsidiaries, together with the differences arising between the statements of operations translated at the average exchange rates and the rates prevailing at the balance sheet dates for the relevant periods, are recorded in a separate component of shareholders' equity. All other exchange gains and losses are recorded in the statements of operations.

These financial statements are presented in US dollars in accordance with SFAS No. 52, using the principles set out above to translate the pounds sterling consolidated financial statements.

Comprehensive Income

The Company accounts for comprehensive income in accordance with SFAS No. 130 "Reporting Comprehensive Income" which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distribution to owners, in a financial statement for the period in which they are recognised. The Company has chosen to disclose Comprehensive Income, which encompasses net income and foreign currency translation adjustments, in the Consolidated Statement of Changes in Shareholders' Equity.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash investments and trade receivables. The Company has cash investment policies that limit investments to investment grade securities with credit worthy financial institutions. Accounts receivable are typically unsecured. The Company performs ongoing credit evaluations of its customers' financial positions and maintains provisions for potential bad debt losses.

Recently Issued Accounting Pronouncements

SFAS 145. In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("SFAS No. 145"). The principal change under SFAS 145 is that gains or losses arising from the extinguishment of debt, which are classified as extraordinary items by SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt, an Amendment of APB Opinion No. 30" will no longer be classified as such. The provisions of SFAS 145 are effective for financial years beginning after 15 May 2002. The adoption of SFAS 145 during fiscal year 2003 did not have any impact on the Company's financial position or results of operations.

SFAS 146. In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Disposal or Exit Activities" ("SFAS 146"). This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognised when the liability is incurred. Under EITF 94-3, a liability for an exit cost as defined in EITF 94-3 was recognised at the date of an entity's commitment to an exit plan. This statement provides that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. Therefore, SFAS 146 eliminates the definition and requirements for recognition of exit costs in EITF 94-3 until a liability has been incurred and establishes that fair value is the objective for initial measurement of the liability. However, this standard does not apply to costs associated with exit activities involving entities acquired under business combinations or disposal activities covered under SFAS 144. The application of SFAS 146 did not have a material impact on the Company's financial position or results of operations.

SFAS 149. On 30 April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities "("SFAS 149"). SFAS 149 amends SFAS 133 for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 149 also amends certain other existing pronouncements and will require contracts with comparable characteristics to be accounted for similarly. In particular, SFAS 149 clarifies when a contract with an initial net investment meets the characteristic of a derivative and clarifies when a derivative that contains a financing component will require special reporting in the statement of cash flows. SFAS 149 is effective for contracts entered into or modified after 30 June 2003. The application of SFAS 149 did not have any impact on the Company's financial position or results of operations.

SFAS 150. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify any financial instruments that are within the scope of SFAS 150 as a liability (or an asset in some circumstances). SFAS 150 is effective for the Company for financial instruments entered into or modified after 31 May 2003. The Company does not currently have any arrangements within the scope of this Standard.

FIN 45. In November 2002, the FASB issued Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires additional disclosure for guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognise an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognising a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The Company adopted FIN 45 effective 1 January 2003, which did not have a material impact on the Company's financial position or results of operations. The Company has agreed to indemnify its directors and officers for certain activities undertaken in connection with their employment, and from time-to-time has agreed to indemnify its customers against certain intellectual property infringement claims. To date no costs have been incurred in connection with these indemnification obligations and no related liabilities have been recorded in the balance sheet as of 31 December 2003.

FIN 46. In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires the Company to consolidate variable interest entities for which the Company are deemed to be the primary beneficiary and disclose information about variable interest entities in which the Company may have a significant variable interest. FIN 46 will become effective during financial year 2004 and the Company does not expect the adoption of this Interpretation to have any impact upon its financial position or results of operations.

EITF 00-21. In November 2002, the EITF reached a final consensus related to Revenue with Multiple Deliverables (EITF 00-21). The consensus requires that revenue recognition with multiple deliverables should be divided into separate units of accounting if (a) a delivered item has value to the customer on a standalone basis, (b) there is objective and reliable evidence of fair value of the undelivered item and (c) if the arrangement includes a general right of return, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair value and appropriate revenue recognition criteria would be applied to each separate unit of accounting. The Company has not yet determined what effect, if any, EITF 00-21 would have on revenue and net income determined in accordance with US GAAP. The EITF agreed the effective date for the consensus will be for all revenue arrangements entered into in fiscal periods beginning after 15 June 2003, with early adoption permitted. The Company continues to evaluate the impact of this EITF on its financial statements. This EITF will be effective for the Company for revenue arrangements entered into after 1 January 2004.

SFAS 123 (revised). In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payments" or SFAS 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognised over the period during which an employee is required to provide services in exchange for the award—the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective for the Company's interim periods beginning on or after 1 July 2005. The Company has not yet quantified the effect of the future adoption of SFAS 123R on a going forward basis.

SFAS 153. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after 15 June 2005. The Company does not anticipate that the adoption of this statement will have a material effect on its financial position or results of operations.

FIN 46 (revised). In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R" or the "Interpretation"). FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2003, (b) eased some implementation problems, and (c) added new scope exceptions. FIN 46R deferred the effective date of the Interpretation for public companies, to the end of the first reporting period ending after 15 March 2004, except that all public companies must at a minimum apply the provisions of the Interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after 15 December 2003. The adoption of FIN 46R did not have a material impact on the Company's financial position, cash flows and results of operations.

4. Staff costs

The following table sets forth for the year ended 31 December 2002, the elements of each director's remuneration package. Directors do not have pension, retirement or similar entitlements.

	Salary	Benefits In Kind(1)	Total 2002
	£	£	£
Executive Directors (in £)			
Dr. Michael R. Lynch	100,000	6,118	106,118
Richard G. Gaunt	90,000	4,499	94,499
Non-executive Directors (in £)			
Barry M. Ariko(1)	15,895	—	15,895
John P. McMonigall	10,000	—	10,000
Richard N. Perle	—	—	—
	215,895	10,617	226,512

(1) Mr. Ariko was paid in US dollars, and the equivalent of $25,000 has been translated into sterling in the above table.

Non-executive directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending the meetings of the Board and committees thereof.

The following table sets forth for the year ended 31 December 2003, the elements of each director's remuneration package. Directors do not have pension, retirement or similar entitlements.

	Salary	Benefits In Kind(1)	Bonuses	Total 2003
	£	£	£	£
Executive Directors (in £)				
Dr. Michael R. Lynch	100,000	20,894	—	120,894
Richard G. Gaunt	77,250	6,470	—	83,720
Sushovan Hussain(1)	78,750	3,204	10,000	91,954
Non-executive Directors (in £)				
Barry M. Ariko(2)	14,029	—	—	14,029
John P. McMonigall	10,000	—	—	10,000
Mark Opzoomer(3)	8,184	—	—	8,184
Richard N. Perle	—	—	—	—
	288,213	30,568	10,000	328,781

(1) Mr. Hussain was appointed to the Board on 1 June 2003, and details of his remuneration are given for the period from 1 June 2003 through 31 December 2003. Mr. Hussain is eligible for a bonus of up to £5,000 per calendar quarter for performance against targets.

(2) Messrs. Ariko and Opzoomer were paid in US dollars, and the amounts have been translated into sterling in the above table.

(3) For Mr. Opzoomer, from 1 June 2003, the date he joined the Board.

Non-executive directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending the meetings of the Board and committees thereof.

The following table sets forth for the year ended 31 December 2004, the elements of each director's remuneration package. Directors do not have pension, retirement or similar entitlements.

	Salary	Benefits In Kind[1]	Bonuses	Total 2004
	£	£	£	£
Executive Directors (in £)				
Dr. Michael R. Lynch	100,000	45,367	—	145,367
Richard G. Gaunt	54,000	6,479	—	60,479
Sushovan Hussain[2]	135,000	5,493	15,000	155,493
Non-executive Directors (in £)				
Barry M. Ariko[3]	13,640	—	—	13,640
John P. McMonigall	10,000	—	—	10,000
Mark Opzoomer[4]	11,367	—	—	11,367
Richard N. Perle	13,640	—	—	13,640
	337,647	57,339	15,000	409,986

(1) Executive Directors are provided with company cars and Dr. Lynch was entitled to a spousal travel allowance of up to £30,000 in 2003.

(2) Mr. Hussain was appointed to the Board on 1 June 2003, and details of his remuneration for 2003 are given for the period from 1 June 2003 through 31 December 2003. Mr. Hussain is eligible for a performance bonus of up to £5,000 per calendar quarter for meeting company revenue and earnings targets.

(3) Messrs. Ariko and Perle's fees of $25,000 per annum are payable in US dollars, and the amounts have been translated into sterling in the above table.

(4) Mr. Opzoomer served as a Non-executive Director until 20 October 2004.

Non-executive directors are entitled to be reimbursed for their reasonable out-of-pocket expenses incurred in attending the meetings of the Board and committees thereof.

Directors and their Interests

The directors who served during 2004, and their beneficial interests in Ordinary Shares at the end of the year, were as follows:

	Ordinary shares of ⅓p each as of 31 December		
	2002	2003	2004
Executive			
Dr. Michael R. Lynch	22,407,357	18,821,532	18,821,532
Richard G. Gaunt	—	2,456,240	2,456,240
Sushovan Hussain	—	—	—
Non-executive Directors			
Barry M. Ariko	—	—	—
John P. McMonigall	—	—	—
Mark Opzoomer	—	—	—
Richard N. Perle	—	—	—

No director had any non-beneficial interests in Ordinary Shares at the end of the year. There has been no change in the directors' interests between 31 December 2004, and the date of these accounts.

Details of share options granted on a performance basis and held by executive directors are set out below. No executive directors' share options were cancelled or lapsed during the year. Vesting and exercise of options is subject to continued employment. No changes were made during the year to the terms of any option.

Director	At 1 January 2003	Granted	Exercised	At 31 December 2003	Exercise Price	Value at 31 December 2003
Sushovan Hussain[1]	50,000[2]	—	—	50,000	£2.56	£ —
	10,000[3]	—	—	10,000	£2.81	£ —
	10,000[4]	—	—	10,000	£4.04	£ —
	25,000[5]	—	—	25,000	£3.42	£ —
	5,000[6]	—	—	5,000	£1.21	£ 1,844
	100,000[7]	—	—	100,000	£1.35	£32,500
	—	70,000[8]	—	70,000	£1.31	£18,900
	—	75,000[9]	—	75,000	£2.17	£ —
	200,000	145,000	—	345,000		£53,244

(1) Mr. Hussain was employed as Chief Financial Officer since June 2001, and was appointed to the Board on 1 June, 2003.

(2) Exercisable period 30 July 2002 to 29 July 2009.

(3) Exercisable period 1 November 2002 to 31 October 2009.

(4) Exercisable period 15 March 2003 to 14 March 2010.

(5) Exercisable period 2 May 2003 to 1 May 2010.

(6) Exercisable period 11 July 2003 to 10 July 2010.

(7) Exercisable period 19 July 2003 to 18 July 2010.

(8) Exercisable period 6 August 2004 to 6 February 2010.

(9) Exercisable period 21 May 2004 to 21 November 2010.

Director	At 1 January 2004	Granted	Exercised	At 31 December 2004	Exercise Price	Value at 31 December 2004
Sushovan Hussain	50,000(1)	—	—	50,000	£2.56	£ —
	10,000(2)	—	—	10,000	£2.81	£ —
	10,000(3)	—	—	10,000	£4.04	£ —
	25,000(4)	—	—	25,000	£3.42	£ —
	5,000(5)	—	—	5,000	£1.21	£ 2,350
	100,000(6)	—	—	100,000	£1.35	£33,000
	70,000(7)	—	—	70,000	£1.31	£25,900
	75,000(8)	—	—	75,000	£2.17	£ —
	—	25,000(9)	—	25,000	£2.21	£ —
	—	100,000(10)	—	100,000	£1.67	£ 1,000
	345,000	125,000	—	470,000		£62,250

(1) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 30/7/02 and 29/7/09.

(2) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 11/1/02 and 31/10/09.

(3) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 15/3/03 and 14/3/10.

(4) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 2/5/03 and 1/5/10.

(5) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 11/7/03 and 10/7/10.

(6) 4 year vesting/25% on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 19/7/03 and 18/7/10.

(7) 3 year vesting/⅙th on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 6/8/04 and 5/2/10.

(8) 3 year vesting/⅙th on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 21/5/04 and 20/11/10.

(9) 3 year vesting/⅙th on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 10/11/05 and 9/5/11.

(10) 3 year vesting/⅙th on first anniversary/balance in equal quarterly instalments. Vested options exercisable between 17/6/05 and 16/12/11.

As of the date of this report, no non-executive directors held share options. The non-executive directors have voluntarily agreed to cancel their share options to re-affirm their independence. The Company does not intend to grant further options to its non-executive directors.

Options are granted to all employees in the company on the same terms and at an exercise price equal to the fair market value on the date of grant. The fair market value of Ordinary Shares as quoted on the London Stock Exchange on 31 December 2004, was £1.68 per ordinary share, and the range during the year ended 31 December 2004, was from £1.49 to £3.20.

Long-term incentive plans

The Company does not maintain any long term incentive plans.

Pension entitlements

Directors do not have pension, retirement or similar entitlements.

5. Plant and equipment

Plant and equipment consists of the following at 31 December 2002, 2003 and 2004:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Fixtures, fittings and equipment	615	935	1,126
Computer equipment	2,963	3,578	5,769
Leasehold improvements	1,201	1,467	1,777
	4,779	5,980	8,672
Less accumulated depreciation	(2,697)	(3,842)	(5,161)
Net plant and equipment	2,082	2,138	3,511

The depreciation expense for the years ended 31 December 2002, 2003 and 2004 respectively, was $844,000, $966,000 and $799,000.

6. Intangible assets

Intangible assets consist of the following at 31 December 2002, 2003 and 2004:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Software technology	5,867	6,975	9,154
Less accumulated depreciation	(5,031)	(6,077)	(7,219)
Net software technology	836	898	1,935

Software technology costs relate to purchased software for internal use and software development costs. The amortisation of purchased software has been classified as an operating expense within the General and Administrative category. The amortisation expense of purchased software for the years ended 31 December 2002, 2003 and 2004 respectively was $303,000, $482,000 and $1,142,000.

Software development costs of $1.2 million are related to the development of the next generation of the Company's core IDOL Server product and are capitalised in accordance with SFAS No. 86, Computer Software To Be Sold, Leased, or Otherwise Marketed. Amortisation of these costs will commence, on a straight line basis from the date that these products are available for sale.

On 2 September 2003, the Company purchased 100% of Virage, Inc. A full disclosure of the Virage acquisition is provided in Note 10. On 13 May 2003, the Company acquired the remaining 51% interest in Dremedia Limited. The purchased intangible arising has been based on the Company's estimates. The amortisation expense of purchased intangibles for the years ended 31 December 2002, 2003 and 2004 respectively was $nil, $391,000 and $907,000.

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Purchased intangibles	—	4,494	4,330
Less accumulated depreciation	—	(399)	(1,307)
Net purchased intangibles	—	4,095	3,023

Estimated aggregate amortisation expense for each of the next five years is as follows:

	$'000
2005	1,798
2006	1,454
2007	1,454
2008	253
2009	—

7. Goodwill

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Goodwill, cost	4,389	4,849	28,630
Additions	—	20,581	17
Less accumulated amortisation	—	—	—
Goodwill, cost less amortisation	4,389	25,430	28,647
Foreign exchange	460	3,200	2,367
Goodwill, net	4,849	28,630	31,014

Following adoption of SFAS 142 during the year ended 31 December 2002, the net goodwill brought forward of $4,389,000 as at 31 December 2001, is no longer amortised. Goodwill was tested for impairment upon the adoption of SFAS No. 142 and subsequently on an annual basis or whenever indicators of impairment have arisen.

On 4 September 2003, the Company acquired the remaining 40% interest in SoftSound Limited for cash consideration with goodwill arising of $430,000.

On 2 September 2003, the Company acquired 100% of Virage, Inc. for aggregate cash consideration of $26.3 million. A valuation has been attributed to the purchased intangible arising in connection with the Virage acquisition. The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. The net goodwill arising was $20.2 million (see note 10—Acquisitions).

Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair values of the reporting units were estimated using a combination of the discounted cashflows and comparable transactions methodologies. No impairment was charged in 2004, 2003, and 2002.

8. Accrued expenses

Accrued expenses consisted of the following at 31 December 2004, 2003 and 2002:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Employee compensation	2,245	3,193	2,461
Amounts due to related parties	90	—	—
Sales taxes	1,188	693	(8)
Employment tax	378	448	392
Professional fees	436	688	362
General accruals	1,618	1,799	1,318
	5,955	6,821	4,525

9. Equity and other investments

Equity and other investments include investments representing minority shareholdings in non-publicly traded companies.

The Company acquired 49% of the ordinary shares of Dremedia Limited on 2 July 2001, for cash consideration of approximately $450,000. This investment has been accounted for under the equity method until 13 May 2003 when the remaining 51% of the ordinary shares were acquired by the Company and the activities were subsequently consolidated.

During the year ended 31 December 2003, the Company acquired a further minority shareholding in one non-publicly traded company for cash consideration of approximately $550,000, accounted for under the purchase method. During the year ended 31 December 2002, the Company acquired minority shareholdings in two non-publicly traded companies for non-cash consideration of approximately $975,000. The Company acquired a minority shareholding in one non-publicly traded company in November 2001 for a cash consideration of approximately $300,000. The Company's investments for the years ended 31 December 2002, 2003 and 2004, respectively, were as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Opening balance	2,312	1,398	2,158
Additions	1,077	624	356
Write-downs	(1,943)	—	(328)
Exchange/other	(48)	136	167
	1,398	2,158	2,353

10. Acquisitions

Virage, Inc.

On 2 September 2003, the Company acquired 100% of the equity of Virage, Inc., a leading provider of video and rich communication software for video production, Internet publishing and webcasting. The acquisition enabled the Company to further extend the adoption of its IDOL software as the key infrastructure for the automated management of all forms of unstructured information. The acquisition has been accounted for using the purchase method of accounting and the results of Virage have been consolidated from this date. The purchase price was determined to be $28.3 million, which included approximately $1.3 million of transaction and direct acquisition cost and approximately $1.0 million comprising the fair value of Virage employee share options converted to Autonomy share options. The purchase price was allocated to the assets acquired based on their estimated fair values on the acquisition date as follows:

	$'000
Net tangible liabilities	(7,700)
Cash and cash equivalents	12,800
Intangible assets	3,000
Goodwill	20,200
	28,300

Purchased intangibles have been attributed a valuation of $3.0 million and have a weighted average useful life of five years. The pro forma disclosures required by FASB 141 are as follows (in thousands, except per share data):

	31 December 2002			
	Autonomy	Virage	Adjustment	Total
	$'000	$'000	$'000	$'000
Revenue	50,961	13,047	—	64,008
Net profit (loss)	6,127	(22,472)	—	(16,345)
Pro forma earnings (loss) per share	$ 0.05	$ (0.18)	—	$ (0.13)

	31 December 2003			
	Autonomy	Virage	Adjustment	Total
	$'000	$'000	$'000	$'000
Revenue	54,881	7,283	—	62,164
Net profit (loss)	6,170	(12,207)	—	(6,037)
Pro forma earnings (loss) per share	$ 0.06	$ (0.11)	—	$(0.05)

NCorp Limited

On 12 August 2004, the Company acquired 100% of the equity of NHoldings Limited and its wholly owned subsidiary NCorp Limited, providers of software for the processing of structured data. The acquisition enabled the Company to further extend adoption of its IDOL software as the key infrastructure for the automated management of all forms of information, including structured and unstructured. The acquisition has been accounted for using the purchase method of accounting and the results of these companies have been consolidated from this date. The purchase price was approximately $381,000. The purchase price was allocated to the assets acquired based on their estimated fair values on the acquisition date as follows:

	$'000
Net tangible liabilities	—
Cash and cash equivalents	381
	381

11. Commitments and operating lease obligations

The Company leases its facilities, cars and certain office equipment under non-cancellable operating leases, which have expiration dates ranging from 2005 through 2015. Minimum future lease payments under non-cancellable operating leases as of 31 December 2004 are summarised as follows:

Year Ended 31 December	$'000
2005	3,279
2006	2,803
2007	2,757
2008	2,763
2009	2,513
Thereafter	11,816
	25,931

Rental expenses under operating leases totalled $3,308,000, $4,069,000 and $3,611,000 for the years ended 31 December 2002, 2003 and 2004 respectively.

The Company enters into standard indemnification agreements with many of its customers and certain other business partners in the ordinary course of business. In most cases these agreements include provisions for indemnifying the customer against any claim brought by a third-party to the extent any such claim alleges that the Company's product infringes a patent, copyright or trademark, misappropriates a trade secret, or violates any other proprietary rights of that third-party. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is not estimable, however, the Company has not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. No material claims have been received to date.

12. Shareholders' equity

Capital Restructuring

On 18 December 2002, the Company received approval for the Company to reduce the share premium account by $51,535,500. The reserve produced by the reduction of the share premium account is treated as distributable in the books of the Company.

Share Repurchases and Treasury Stock

During 2004, the Company purchased for cancellation 3,091,512 shares at an average price of approximately $3.40 per share (£1.86 per share). During 2003, the Company purchased for cancellation 12,332,084 shares at an average price of approximately $2.63 per share (£1.62 per share), and its Employee Benefit Trust purchased 180,465 shares at an average price of approximately $2.67 per share (£1.66 per share) to be held within the trust for the meeting of option exercises held by the Employee Benefit Trust. During 2002, the Company purchased for cancellation 4,980,286 shares at an average price of approximately $2.38 per share (£1.52 per share), and its Employee Benefit Trust purchased 697,073 shares at an average price of approximately $1.72 per share (£1.10 per share) to be held within the trust for the meeting of option exercises held by the Employee Benefit Trust.

Currency of Dividends

In the event that the Company was to declare a dividend, such dividend will be declared in pounds sterling. The payment of dividends is restricted to available distributable reserves as defined by the Companies Act 1985.

Share Option Plans

The Company has two unapproved option plans to provide employees and executives with the opportunity to acquire a proprietary interest in the Company as an incentive to attract and retain the services of employees. The two plans are the UK Discretionary Option Scheme 1996 (the "UK Scheme") and the 1998 US Share Option Plan (the "US Plan"). Under the terms of these plans, options are granted with exercise prices not less than the fair market value of the Company's shares, become exercisable as established by the Board of Directors (generally ratably over 4 years), and generally expire seven years from the date of grant.

The number of ordinary shares allocated under the UK Scheme may not on any date, when aggregated with the number of ordinary shares already allocated under the UK Scheme, the US Plan or any other share plan of the Company over the previous five years, exceed 10% of the issued and outstanding share capital of the Company on that date.

UK Discretionary Option Scheme 1996

Under the UK Scheme, the Board of Directors may grant to any eligible employee (which may include directors) options over ordinary shares. Such options are personal and may not be transferred.

1998 US Share Option Plan

The Company's 1998 US Share Option Plan (the "US Plan") was adopted by the Board on 23 June 1998, and a resolution adopting the US Plan was passed by shareholders at an Extraordinary General Meeting of the Company held on 2 July 1998.

Options over a maximum of 18,000,000 ordinary shares of the Company may be allocated under the US Plan. However, the number of ordinary shares allocated under the US Plan may not on any date, when aggregated with the number of ordinary shares allocated under the US Plan, the UK Scheme or any other share scheme of the Company over the previous five years, exceed 10% of the issued share capital of the Company on that date.

Virage Option Plans

In connection with the acquisition of Virage, Inc., the Company assumed obligations outstanding at the date of acquisition under the Virage, Inc. 1997 Stock Option Plan and the Virage, Inc. 2001 Non-statutory Stock Option Plan. At the effective time of the acquisition these plans were terminated and options to purchase shares under these plans were converted into options to purchase the Company's ordinary shares.

The following table summarises the share option plans activity:

	Number of Shares Under Option	Weighted Average Exercise Price
Balance at 1 January 2002	4,578,965	$17.09
Granted	1,132,500	$ 3.55
Exercised	(334,769)	$ 2.95
Forfeited	(930,766)	$18.67
Balance at 31 December 2002	4,445,930	$14.84
Granted	4,358,015	$ 4.49
Exercised	(298,149)	$ 1.43
Forfeited	(1,697,309)	$12.60
Balance at 31 December 2003	6,808,487	$ 9.79
Granted	2,858,000	$ 3.98
Exercised	(626,460)	$ 3.09
Forfeited	(2,628,445)	$11.88
Balance at 31 December 2004	6,411,582	$ 6.18

As of 31 December 2004, the Company had the authority to issue approximately 10.8 million ordinary shares upon the exercise of both outstanding and unallocated options. The range of exercise prices for all options outstanding at 31 December 2004 was $0.88 to $70.00, with a weighted average exercise price of $6.27 and a weighted average remaining contractual life of 4.89 years.

The following table summarises information about options outstanding at 31 December 2004:

Range of Exercise Price ($)	Number Outstanding as of 31 December 2004	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($)	Number Exercisable as of 31 December 2004	Weighted Average Exercise Price of Exercisable Options ($)
0.88–2.49	456,269	1.83	1.52	407,991	1.43
2.50–2.99	989,734	4.97	2.54	445,716	2.54
3.00–3.99	1,468,750	6.69	3.28	64,702	3.73
4.00–4.99	1,575,750	5.87	4.24	270,294	4.26
5.00–9.99	1,019,492	4.28	6.17	483,373	6.55
10.00–70.00	901,587	2.56	36.13	854,335	36.72
	6,411,582	4.89	8.27	2,526,411	14.73

The number of options exercisable at 31 December 2002 and 2003 was 1,997,186 and 3,387,864 respectively.

Accounting for Share-Based Compensation

In accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB No. 25") the compensation charge for the years ended 31 December 2004, 2003 and 2002 of $121,000, $98,000, and $nil respectively, were recognised for options granted under these plans.

Following the Company's admission to EASDAQ on 10 July 1998 options have been granted with an exercise price equal to current market value at the date of grant. No compensation expense is recognised with respect to such awards.

Pro-forma information regarding net profit (loss) and net profit (loss) per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee share options and the options granted by shareholders under the fair value method consistent with the method prescribed by SFAS No. 123. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 31 December 2004:

- risk free interest rate of 3.6% (31 December 2003: 2.84%, 31 December 2002: 3.89%);
- dividend yield of 0% (31 December 2003: 0%, 31 December 2002: 0%);

- volatility factor of 43% (31 December 2003: 81%, 31 December 2002: 100%); and
- an expected life of the option of four years.

The following table summarises information about the weighted average fair value of options granted, calculated using the Black-Scholes option pricing model, for the years ended 31 December 2002, 2003 and 2004:

	Year Ended 31 December 2002		Year Ended 31 December 2003		Year Ended 31 December 2004	
	Weighted average fair value ($)	Weighted average exercise price ($)	Weighted average fair value ($)	Weighted average exercise price ($)	Weighted average fair value ($)	Weighted average exercise price ($)
Exercise price to market:						
Equals	2.51	3.55	1.69	2.79	1.56	3.75
All options	2.51	3.55	1.52	4.49	1.56	3.75

For purposes of pro-forma disclosures, the estimated fair value of the options is amortised over the options' vesting period, which is generally four years. At 31 December 2004, the Company has stock-based compensation plans, which are described more fully in this note. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The following table illustrates the effect on net profits and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation (in thousands, except per share data):

	Year Ended 31 December		
	2002	2003	2004
	$'000	$'000	$'000
Net profit, as reported	6,127	6,170	6,658
Add: Stock-based employee compensation expense included in reported net profit, net of related tax effects	—	98	121
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,382)	(1,381)	(2,061)
Pro forma net (loss) profit	(255)	4,887	4,718
Earnings (loss) per share:			
Basic—as reported	$ 0.05	$ 0.06	$ 0.06
Basic—pro forma	$ (0.00)	$ 0.04	$ 0.04
Diluted—as reported	$ 0.05	$ 0.06	$ 0.06
Diluted—pro forma	$ (0.00)	$ 0.04	$ 0.04

13. Income taxes

The (benefit) provision for income taxes is as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
UK—income taxes	(453)	1,035	1,746
UK—deferred taxes	(123)	(243)	(581)
Rest of Europe—income taxes	66	—	10
Rest of Europe—deferred taxes	—	(26)	(187)
US—income taxes	431	666	1,061
US—deferred taxes	(164)	—	(125)
Total (benefit) provision	(243)	1,432	1,925

Analysis of net profits (losses) before tax provision by jurisdiction are as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
UK	(1,760)	5,697	5,558
Rest of Europe	392	(43)	173
US	7,252	1,948	2,852
	5,884	7,602	8,583

The net deferred taxes are analyzed as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Deferred tax assets:			
Losses carried forward	29,705	35,205	34,311
Excess of tax value over book value of fixed assets	386	518	126
Other short term differences	858	1,914	(1,446)
Tax credits	—	1,597	—
	30,949	39,234	32,991
Valuation allowance	(29,376)	(33,990)	(27,959)
Net deferred tax asset	1,573	5,244	5,032
Deferred tax liabilities:			
Other short term timing differences	(561)	—	1,477
Net deferred taxes	1,012	5,244	6,509

A reconciliation of the provision for income taxes with the amount computed by applying the statutory income tax rate of 30% to profit before income taxes is as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
Income tax expense computed at statutory income tax rate	1,765	2,281	2,573
Differences in statutory income tax rates	293	74	233
State tax	363	118	(14)
Interest refund	(308)	(5)	—
Losses utilised	—	(391)	(80)
Prior year adjustments	—	(603)	—
Other	(164)	(42)	(8)
Change in valuation allowance	(2,192)	—	(779)
(Benefit) provision for income taxes	(243)	1,432	1,925

A valuation allowance has been recorded for certain deferred tax assets of Autonomy, Inc., Virage, Inc. and Autonomy Nordic AS as it is more likely than not that the deferred tax assets will not be realised. The increase in group valuation allowance is due to the inclusion of $3,972,000 valuation allowance with respect to Virage and a current year charge made to APIC of $642,000.

With respect to Autonomy, Inc. and Virage, Inc., as of 31 December 2004, the Company has approximately $89.6 million of federal net operating loss carry-forwards, and $370,000 in research and development tax credits available to reduce future federal income taxes. The net operating loss carry-forwards and tax credits expire at various dates through financial year 2023. The Company also has approximately $67.0 million of state net operating loss carry-forwards, which expire at various dates through fiscal year 2013.

As of 31 December 2004, the Company has approximately $1.7 million operating loss carry-forwards for Autonomy Nordic AS, $1.4 million operating loss carry-forwards for Virage Europe Limited, $2.0 million operating loss carry-forwards for Dremedia Limited and $0.4 million operating loss carry-forwards for SoftSound Limited.

Deferred tax assets of approximately $32.5 million pertain to certain net operating loss and credit carry-forwards resulting from the exercise of stock options. When recognised, the tax benefit of these losses will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

14. Related Party Transactions

During the years ended 31 December 2002, 2003 and 2004 the Company incurred expenses of $184,000, $189,000 and $88,000 respectively for software development services from Cambridge Neurodynamics Limited and billed rent charges and recharges of other expenses to Cambridge Neurodynamics Limited of $88,000, $125,000 and $147,000 in the years ended 31 December 2002, 2003 and 2004 respectively. Cambridge Neurodynamics Limited owed the Company $nil, $37,000 and $36,000 at December 2002, 2003 and 2004 respectively. The Company owed Cambridge Neurodynamics Limited $90,000, $nil and $4,000 at December 2002, 2003 and 2004 respectively. Cambridge Neurodynamics Limited is a company controlled by Dr. Lynch.

The Company acquired 100% of the ordinary and preference shares of NHoldings Limited and its wholly-owned operating subsidiary NCorp Limited on 12 August 2004. During the years ended 31 December 2002, 2003 and the period from 1 January 2004 through 12 August 2004 the Company incurred expenses of $488,000, $176,000 and $2,000 respectively for software development services from NCorp Limited. The Company billed NCorp Limited $266,000, $175,000 and $147,000 during the years ended 31 December 2002, 2003 and the period from 1 January 2004 to 12 August 2004, respectively, primarily for rent charges, office expenses and other expense recharges. At 31 December 2002, 2003 and at 12 August 2004, NCorp Limited owed the Company $nil, $52,000 and $112,000, respectively. At 31 December 2002, 2003 and at 12 August 2004, the Company owed NCorp Limited $851,000, $69,000 and $nil, respectively. NHoldings Limited was a company controlled by Dr. Lynch prior to acquisition on 12 August 2004, although prior to acquisition Dr. Lynch donated his shares to a charitable institution and received no consideration in connection with the transaction.

Management believes that all related party transactions are conducted on a normal commercial basis.

The Company acquired 49% of the ordinary shares of Dremedia Limited on 2 July 2001, and acquired the remaining 51% interest on 13 May 2003. During the year ended 31 December 2002 the Company made sales to Dremedia of $427,000 and the Company made loans to Dremedia of $968,000. During the period from 1 January 2003 through 13 May 2003, the Company made sales to Dremedia of $31,000, and the Company made loans to Dremedia of $55,000. As of acquisition on 13 May 2003, Dremedia owed the Company $1,722,000, and the Company owed Dremedia $Nil.

15. Earnings (loss) per share

SFAS No. 128, "Earnings per Share," requires companies to compute net earnings per share under two different methods, basic and diluted, for all periods for which a statement of operations is presented. Basic earnings or loss per share is computed by dividing the net earnings or loss by the weighted average number of ordinary shares outstanding for all periods. Diluted earnings per share reflects the potential dilution that could occur if the earnings were divided by the weighted average number of ordinary and ordinary share equivalents outstanding during the period. Diluted earnings per share is computed by dividing the net income by the weighted average number of ordinary shares and ordinary share equivalents from outstanding share options unless they would have an anti-dilutive effect. Ordinary share equivalents are calculated using the treasury stock method and represent incremental shares issuable upon exercise of the Company's outstanding options.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the years ended 31 December 2004, 2003 and 2002 (in thousands except per share data):

	Year Ended 31 December		
	2002	2003	2004
	$'000	$'000	$'000
Net profit	6,127	6,170	6,658
Basic and diluted earnings per share available to ordinary shareholders:			
Profit available to ordinary shareholders	6,127	6,170	6,658
Weighted average ordinary shares outstanding	126,716	110,102	109,799
Effect of dilutive share options	894	1,440	1,733
Weighted average ordinary shares outstanding assuming dilution	127,610	111,542	111,532
Basic earnings per share	$ 0.05	$ 0.06	$ 0.06
Diluted earnings per share	$ 0.05	$ 0.06	$ 0.06

Approximately 3,552,000, 5,368,000 and 4,678,000 weighted average share options at 31 December 2002, 2003 and 2004, respectively, have been excluded from the computation of diluted earnings per share due to the options being anti-dilutive.

16. Segment information

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision-making group is the executive committee, which is comprised of the chief executive officer, the chief operating officer and various senior officers of the Company.

The Company is organised geographically but in the opinion of the directors, there is only one distinct reportable segment. Geographical operating segments have been aggregated into one reportable segment on the basis that the geographical operations have characteristics so similar that they can be expected to have essentially the same future prospects.

Analysis of sales by geographical area determined by customer location is as follows:

	31 December		
	2002	2003	2004
	$'000	$'000	$'000
UK	7,557	10,484	9,311
Rest of Europe	16,181	14,072	20,947
US	26,184	28,916	32,543
Other	1,039	1,409	1,964
	50,961	54,881	64,765

Fixed assets are geographically located as shown below:

	As of 31 December 2004			
	UK	Europe	US	Total
	$'000	$'000	$'000	$'000
Plant and equipment, net	2,219	28	1,264	3,511
Goodwill, net	662	5,688	24,664	31,014
Intangible assets, net	2,716	—	2,242	4,958
Equity and other investments	2,203	—	150	2,353
	7,800	5,716	28,320	41,836

	As of 31 December 2003			
	UK	Europe	US	Total
	$'000	$'000	$'000	$'000
Plant and equipment, net	1,740	26	372	2,138
Goodwill, net	612	5,250	22,768	28,630
Intangible assets, net	2,193	—	2,800	4,993
Equity and other investments	2,008	—	150	2,158
	6,553	5,276	26,090	37,919

	As of 31 December 2002			
	UK	Europe	US	Total
	$'000	$'000	$'000	$'000
Plant and equipment, net	1,681	37	364	2,082
Goodwill, net	113	4,736	—	4,849
Intangible assets, net	836	—	—	836
Equity and other investments	1,248	—	150	1,398
	3,878	4,773	514	9,165

17. Valuation and qualifying accounts

An analysis of the allowance for uncollectable accounts is set out below:

	Balance at beginning of period	Charged to expenses	Utilised	Balance at end of period
	$'000	$'000	$'000	$'000
Year ending 31 December				
2002	2,833	1,969	(1,584)	3,218
2003	3,218	2,811	(2,087)	3,942
2004	3,942	3,076	(3,821)	3,197

18. Fair values of financial instruments

The following information is presented in compliance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". The carrying amounts and fair values of the material financial instruments are shown below:

	31 December 2004		31 December 2003		31 December 2002	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	106,793	106,793	102,250	102,250	147,472	147,472
Other investments	2,353	2,353	2,158	2,158	1,398	1,398

The fair values of financial instruments, which principally comprise cash and cash equivalents, are considered to be equivalent to their carrying values.

19. Employee Benefit Plans

The Company sponsors a 401(k) plan that allows all US employees that have completed 30 days of service to contribute up to 15% of their compensation, limited to $11,000, $11,000 and $13,000 in 2002, 2003 and 2004 respectively. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary comparatives matching contributions to the 401(k) plan, none have been made to date.

PART V

Section B

UNAUDITED QUARTERLY RESULTS ON AUTONOMY FOR THE THREE MONTHS ENDED 31 MARCH 2005

The following is the full text of the unaudited quarterly results of the Company for the three months ended 31 March 2005, which were announced on 20 April 2005 by the Company:

"AUTONOMY CORPORATION PLC ANNOUNCES RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2005

Record Q1 Revenues up 13% and Profit Before Tax up 113% year-on-year

Autonomy's first quarter conference call will be available live on the World Wide Web at www.autonomy.com on Wednesday, April 20, 2005 at 9:30 a.m. BST/4:30 a.m. EST/1:30 a.m. PST

CAMBRIDGE, England—20 April 2005—Autonomy Corporation plc (LSE: AU. or AUTN.L), a global leader in infrastructure software for the extended enterprise, today reported financial results for the first quarter ended 31 March 2005.

Financial Highlights

Results in US$ ($'000s except per share)	Three Months Ended 31 March 2005 $'000 (unaudited)	Three Months Ended 31 March 2004 $'000
Revenues	18,529	16,364
Gross profit (adjusted)*	17,734	15,594
Gross profit margin (adjusted)*	96%	95%
Profit before tax (adjusted)*	4,404	2,692
Net profit (adjusted)*	3,204	2,241
Gross profit (IFRS)**	17,522	15,379
Gross profit margin (IFRS)	95%	94%
Profit before tax (IFRS)	3,818	1,791
Net profit (IFRS)	2,693	1,515
EPS		
—basic (adjusted)*	$ 0.03	$ 0.02
—diluted (adjusted)*	$ 0.03	$ 0.02
—basic (IFRS)	$ 0.02	$ 0.01
—diluted (IFRS)	$ 0.02	$ 0.01

* Adjusted results exclude charges not reflective of Autonomy's core ongoing operational business, namely the amortisation of purchased intangibles, share-based compensation and non-cash translational foreign exchange gains and losses and associated tax effects. See pages 3 and 5 for further details.

** See page 8 for discussion regarding required shift from US GAAP to International Financial Reporting Standards ("IFRS") and reconciliation between IFRS and US GAAP.

First Quarter 2005 Highlights

- Revenues and profits considerably ahead of consensus estimates and above the range discussed during the Company's fourth quarter 2004 conference call
- Record Q1 revenues, up 13% year-on-year, driven by strong organic growth
- Record Q1 profit before tax, up 113% year-on-year
- Twenty-first consecutive quarter of profitability

- Continued adoption of IDOL 5.0 leading to extremely high competitive win rate
- Gross margins remain high at 95%
- Blue chip first quarter wins include AOL, Nokia, Vodafone, Hutchison 3G, Associated Press, Louis Vuitton, the BBC, FranceTV 2, as well as various government, defence and intelligence agencies in the US and around the globe
- Licence revenues up 36% year-on-year
- Average selling price up slightly to $415,000
- Operating margins up 54% year-on-year
- Unveiled Autonomy's new IDOL IP Television Suite, supporting the delivery of video on demand and bringing the power of Autonomy's award-winning enterprise technology to television, video and audio assets across the Internet
- OEM revenues up approximately 7% year-on-year, with programme accounting for approximately 17% of revenue

Commenting on the results, Dr. Mike Lynch, group CEO of Autonomy said, "We are pleased to announce Autonomy's continued strong performance with record Q1 results, and revenues and profits ahead of the top-end of the market consensus range. This has been achieved despite a historic pattern of Q1 being seasonally less strong than the preceding Q4."

Dr. Lynch continued, "The success in Q1 2005 is driven by strong organic growth and follows on from a similarly strong performance in Q4 2004. Our strong sales results were underpinned by continued adoption of our IDOL 5.0 resulting in a superb win rate over competitors as the limitations of legacy keyword search technologies continue to be exposed. Q1 2005 wins included multiple sales to AOL for search and rich media processing, with Autonomy selected over previously chosen technology; Nokia replacing a legacy technology and won over other keyword technologies which could not scale security handling; and extended enterprise standard contracts with Vodafone, for new applications and thousands of new users; and Hutchison 3G, bringing the power of Autonomy to their 3G handsets in Ireland. The high operational gearing inherent in our business model has ensured that operating margins have surged as revenues have grown with the consequential beneficial effect on our bottom line performance."

Dr. Lynch concluded, "We're also quite pleased that this morning we announced an agreement to acquire etalk Corporation, a US-based leading provider of contact centre software solutions that improve the quality of customer interactions. For more details please see the accompanying press release. The transaction will further extend Autonomy's IDOL 5.0 platform into the contact centre software market, enabling etalk's customer base of over 1,500 contact centres and 35 of the Fortune 100 companies to gain access to the world's leading technology, offering them a competitive edge over any other solution, based on Autonomy's unique ability to understand the content of the call."

First Quarter 2005 Financial Highlights

Revenues for the first quarter totalled $18.5 million, up 13% from $16.4 million for the first quarter of 2004. US/Asia Pac revenues of $9.0 million were 48% of total revenues and UK/European revenues totalling $9.6 million were 52% of total revenues in the first quarter of 2005.

Gross profits (adjusted) for the quarter were $17.7 million, up 13% from $15.6 million in the first quarter of 2004. First quarter gross margins (adjusted) were 96%, compared to 95% in the first quarter of 2004. Gross profits (IFRS) for the quarter were $17.5 million, up 13% from $15.4 million in the first quarter of 2004. First quarter gross margins (IFRS) were 95%, compared to 94% in the first quarter of 2004.

Net profit (adjusted) for the first quarter of 2005 was $3.2 million, or $0.03 per diluted share, compared to net profit (adjusted) of $2.2 million, or $0.02 per diluted share, for the first quarter of 2004. Net profit (IFRS) for the first quarter of 2005 was $2.7 million, or $0.02 per diluted share, compared to net profit (IFRS) of $1.5 million, or $0.01 per diluted share, for the first quarter of 2004.

Cash balances were $104.6 million at 31 March 2005, a decrease of $2.2 million in the quarter reflecting a combination of operational cash inflow offset by share repurchases and translational foreign exchange effects. During the quarter Autonomy continued its share repurchase programme, purchasing for cancellation 326,359 shares at an average price of £1.93 per share. In total, Autonomy has purchased for cancellation 20,730,241 million shares at an average price of £1.64 per share. Accounts receivable days sales outstanding increased to 122 days for the first quarter of 2005, compared to 104 days for the first quarter of 2004. Receivables for the first quarter were $25.6 million, compared to $20.4 million for the first quarter of 2004. Deferred revenues were at $5.8 million net at 31 March 2005, compared with $6.4 million net at 31 March 2004.

Although GAAP disclosure provides investors and management with an overall view of Autonomy's financial performance, Autonomy believes that it is important for investors to also understand the performance of Autonomy's core business, such as the sale of its software products and services and operating profits without giving effect to certain specific non-cash charges. Consequently, the non-GAAP results exclude charges not reflective of Autonomy's core ongoing operational business, namely the amortisation of purchased intangibles, share-based compensation and non-cash translational foreign exchange gains and losses and associated tax effects. Management uses the adjusted results to assess the financial performance of Autonomy's core business.

Q1 Product Sales

Autonomy's infrastructure technology has been adopted by enterprises to process information across all internal and external data sources. During the quarter, major new wins included: Nokia, Associated Press, Louis Vuitton, Finmeccanica, HBO, Houston Chronicle and New York Magazine. Repeat business from existing customers accounted for approximately 30% of revenue for the quarter, and included customers such as AOL, Vodafone, Watson Wyatt, Hutchison 3G Ireland, Danske Bank, the BBC, FranceTV 2 and State Farm Insurance, as well as various governmental and intelligence agencies such as UK Royal Air Force, US Department of Energy, US Nuclear Regulatory Commission, Shanghai local government and US National Archives.

Strategic Partnerships and OEMs

Autonomy's OEM Programme was on target during the first quarter with OEM-derived revenues for the first quarter of 2005 of $3.2 million accounting for approximately 17% of revenues, compared to $3.0 million for the first quarter of 2004, and new OEM agreements with major software companies.

Q1 Corporate Developments

During the first quarter Autonomy unveiled its new IDOL IP Television Suite, supporting the delivery of video on demand and bringing the power of Autonomy's award-winning enterprise technology to television, video and audio assets across the Internet. Autonomy's new IDOL IPTV Suite allows the automatic processing and retrieval of television, video and audio content, from any source including over-the-air broadcasts and free internet content, has already been successfully implemented by internet search specialist blinkx in their internet TV service at http://www.blinkx.tv. Also during the first quarter Autonomy's Aungate division, Autonomy's award-winning division specialising in compliance, litigation and risk technology, extended its product suite with the addition of the "Ijen Module" to power fraud analysis and money laundering detection.

Also during the first quarter Autonomy was recognised in multiple ways for its market leadership and unmatched technology. Autonomy was selected as one of KM World's "Top 100 Companies that Matter in Knowledge Management" for the fifth straight year. As selected by KM World's editorial staff, the Top 100 identifies companies who are leading the way in knowledge management through their velocity of innovation and impact on the market in 2005. Finally, Autonomy's Audentify division, a leading provider of next-generation contact center technology, was awarded 2004 Product of the Year Award by Technology Marketing Corporation (TMC™)'s Customer Inter@ction Solutions Magazine, the publications' highest honour recognising exemplary contributions and innovative products that advance the call center and CRM industry.

About Autonomy Corporation plc

Autonomy Corporation plc (LSE: AU. or AUTN.L) is a global leader in infrastructure software for the enterprise. Autonomy's technology powers applications dependent upon unstructured information including call centrer, customer relationship management, knowledge management, enterprise portals, enterprise resource planning, online publishing and security applications. Autonomy's customer base includes more than 1,000 global companies including BAE Systems, Ford, Ericsson, Royal Sun Alliance, Sun Microsystems and public sector agencies including the US Department of Defense, NASA and the US Department of Energy. Strategic reseller and OEM partners include leading companies such as ATG, BEA, Business Objects, Citrix, Computer Associates, EDS, IBM Global Services, Novell, Novient, Veritas, Vignette, Supportsoft and Sybase. The company has offices worldwide.

The Autonomy Group includes: Aungate, a leading supplier of electronic communications management technology for regulatory compliance in the enterprise; Audentify, a leading supplier of next-generation contact center technology; and Virage, a leading provider of rich media communication and content management software.

Caution Concerning Forward-Looking Statements

With the exception of historical information, the matters set forth in this news release are forward-looking statements that involve risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among others, technology risks, including dependence on core technology; fluctuations in quarterly results; dependence on new product development; rapid technological and market change; reliance on sales by others; management of growth; dependence on key personnel; rapid expansion; growth of the Internet; financial risk management; and future growth subject to risks. These factors and other factors that could cause actual results to differ materially are also discussed in the company's filings with the United States Securities and Exchange Commission, including Autonomy's latest Annual Report on Form 20-F.

AUTONOMY CORPORATION plc

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended	
	31 March 2005	31 March 2004
	$'000 (unaudited)	$'000
Revenues	18,529	16,364
Cost of revenues	(795)	(770)
Amortisation of purchased intangibles	(212)	(215)
Gross profit	17,522	15,379
Operating expenses:		
Research and development	(3,050)	(3,404)
Sales and marketing	(8,944)	(8,249)
General and administrative	(2,444)	(2,047)
Share-based compensation	(123)	(104)
Total operating expenses	(14,561)	(13,804)
Profit from operations	2,961	1,575
Interest income	1,108	798
Loss on foreign exchange	(251)	(582)
Profit before benefit for income taxes	3,818	1,791
Income taxes	(1,125)	(276)
Net profit	2,693	1,515
Basic earnings per share	$ 0.02	$ 0.01
Diluted earnings per share	$ 0.02	$ 0.01
Weighted average ordinary shares outstanding	108,043	111,008
Weighted average ordinary shares outstanding, assuming dilution	108,177	113,534

Reconciliation of Non-GAAP Financial Measures

	Three Months Ended	
	31 March 2005	31 March 2004
	$'000 (unaudited)	$'000
Profit before income taxes	3,818	1,791
Loss on foreign exchange	251	582
Amortisation of purchased intangibles	212	215
Share-based compensation	123	104
Profit before tax (adjusted)	4,404	2,692
Tax effect on loss on foreign exchange	(75)	(175)
Provision for income taxes	(1,125)	(276)
Net profit (adjusted)	3,204	2,241

AUTONOMY CORPORATION plc
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	As at	
	31 March 2005	31 Dec. 2004
	$'000 (unaudited)	$'000
ASSETS		
Non-current assets:		
Property and equipment	8,676	8,672
Less accumulated depreciation	(5,362)	(5,161)
Property and equipment, net	3,314	3,511
Goodwill	30,247	31,014
Other intangible assets	4,043	4,449
Equity and other investments	2,408	2,353
Deferred tax asset	432	911
Total non-current assets	40,444	42,238
Current assets:		
Trade receivables, net of allowances for doubtful accounts of $4,627 and $3,197 as of 31 December 2004, respectively	25,290	20,424
Other receivables	3,236	3,395
Trade and other receivables	28,526	23,819
Deferred tax asset	4,658	6,246
Cash and cash equivalents	104,608	106,793
Total current assets	137,792	136,858
TOTAL ASSETS	178,236	179,096
CURRENT LIABILITIES		
Trade payables	1,202	1,954
Other payables	5,397	4,525
Total trade and other payables	6,599	6,479
Tax liabilities	586	—
Deferred revenue	5,777	5,667
Total current liabilities	12,962	12,146
NET ASSETS	165,274	166,950
Shareholders' equity:		
Share capital(1)	557	557
Share premium account	118,156	117,778
ESPOS reserve	(1,775)	(1,775)
Share compensation reserve	774	651
Capital redemption reserve	133	131
Retained earnings	21,535	18,965
Currency translation reserves	25,894	30,643
TOTAL EQUITY	165,274	166,950

(1) At 31 March 2005, 600,000,000 ordinary shares of nominal value ⅓ pence each authorised, 107,936,515 issued and outstanding; as of 31 December 2004, 600,000,000 ordinary shares of nominal value ⅓ pence each authorised, 110,575,160 issued and outstanding.

AUTONOMY CORPORATION plc

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended 31 March 2005 $'000 (unaudited)	Three Months Ended 31 March 2004 $'000
Cash flows from operating activities:		
Profit from operations	2,961	1,575
Interest income	1,108	798
Loss on foreign exchange	(251)	(582)
Income taxes	(1,125)	(276)
Depreciation and amortisation	735	567
Income tax benefits from exercise of non-qualified stock options	—	97
Deferred tax	(108)	(91)
Share-based compensation	—	104
Foreign currency movements	20	582
Changes in operating assets and liabilities (net of impact of acquisitions):		
Accounts receivable	(5,717)	(334)
Prepaid expenses and other current assets	2,287	797
Deferred revenues	91	747
Accounts payable and taxes payable	(1,673)	376
Accrued expenses and other liabilities	2,846	(1,704)
Net cash provided by operating activities	1,174	2,656
Cash flows from investment activities:		
Purchase of equipment	(132)	(315)
Purchase of intangibles	(131)	—
Disposal of intangibles	—	459
Purchase of investments	(111)	6
Net cash (used in) provided by investing activities	(374)	150
Cash flows from financing activities:		
Proceeds from issuance of shares, net of issuance costs	257	1,365
Purchase of company shares	(1,192)	—
Net cash (used in) provided by financing activities	(935)	1,365
Effect of foreign exchange on cash and cash equivalents	(2,050)	1,651
Net (decrease) increase in cash and cash equivalents	(2,185)	5,822
Beginning cash and cash equivalents	106,793	102,250
Ending cash and cash equivalents	104,608	108,072
Supplemental disclosure of cash flow information:		
Income taxes paid	(17)	(361)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

1. Basis of presentation

The accompanying condensed consolidated financial statements of Autonomy Corporation plc have been prepared in conformity with International Financial Reporting Standards ("IFRS"). In accordance with the rules of the London Stock Exchange and applicable legislation, Autonomy is required to adopt IFRS for accounting periods beginning on 1 January 2005. Quarterly information is unaudited, but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results and the company's financial position for and as at the periods presented. The results of operations for the three months ended 31 March 2005, are not necessarily indicative of the operating results for future operating periods. The financial statements should be read in connection with the company's audited Consolidated Financial Statements and the notes thereto for the year ended 31 December 2004.

2. Reconciliation between US GAAP and IFRS GAAP

A reconciliation between IFRS GAAP and US GAAP for the three months ended 31 March 2005 and 2004, is shown below:

	Three Months Ended	
	31 March 2005	31 March 2004
	$'000 (unaudited)	$'000
Shareholders' equity (US GAAP)	165,124	164,859
Tax on vested share options	479	865
Elimination of cost from intangibles	(329)	—
Shareholders' equity (IFRS GAAP)	165,274	165,724
Profit after tax (US GAAP)	2,816	1,528
Share-based compensation	(123)	(13)
Net profit (IFRS GAAP)	2,693	1,515

With regards to the adjustments set forth above, under IFRS, all equity settled share-based payments granted after 7 November 2002, that are not vested at 31 December 2004, are measured at their fair value as determined by the Black Scholes option pricing model. Compensation cost net of tax is then recognised over the vesting period of the awards. Under US GAAP, stock options granted to employees are measured as the excess, if any, of the market value of the stock at the date of grant over the amount that has to be paid to acquire the stock.

3. Geographical information

	Three Months Ended	
	31 March 2005	31 March 2004
	$'000 (unaudited)	$'000
Revenue by country:		
US	8,672	7,946
UK/Europe	9,556	7,900
Rest of World	301	518
Total	18,529	16,364"

PART VI

FINANCIAL INFORMATION ON ETALK
FOR THE THREE YEARS ENDED 31 DECEMBER 2004

Deloitte.

Deloitte & Touche LLP
City House
126-130 Hills Road
Cambridge
CB2 1RY

The Directors
Autonomy Corporation plc
Cambridge Business Park
Cowley Road
Cambridge
CB4 0WZ

Société Générale
Exchange House
Primrose Street
London
EC2A 2HT

18 May 2005

Dear Sirs

eTalk Corporation ("etalk")

On 19 April 2005 Autonomy Corporation Plc ("Autonomy") entered into a conditional contract to acquire the whole of the issued share capital of etalk. We report on the financial information of etalk set out below. This financial information has been prepared for inclusion in the Circular and Listing Particulars dated 18 May 2005 relating to the acquisition by Autonomy of the entire issued share capital of etalk (the "Investment Circulars").

Basis of preparation

The financial information set out in this report, which has been prepared in accordance with applicable United States generally accepted accounting principles, is based on the audited financial statements for the years ended 31 December 2002, 31 December 2003 and 31 December 2004. The financial information has been prepared on a consistent basis with Autonomy's US GAAP accounting policies.

Responsibility

Such financial statements are the responsibility of the directors of etalk who approved their issue.

The directors of Autonomy are responsible for the contents of the Investment Circulars in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that obtained by us relating to the audit of the financial statements underlying the financial information for the years ended 31 December 2002, 31 December 2003 and 31 December 2004. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Investment Circulars, a true and fair view of the state of affairs of etalk as at 31 December 2002, 31 December 2003 and 31 December 2004 and its results and cashflows for each of the years ended 31 December 2002, 31 December 2003 and 31 December 2004.

etalk Corporation

BALANCE SHEETS
(In thousands, except share data)

	31 December 2002	31 December 2003	31 December 2004
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,956	$ 6,080	$ 15,422
Accounts receivable, net of allowance for doubtful accounts of $305, $385 and $473 in 2002, 2003 and 2004, respectively	3,150	4,583	2,955
Inventories, net	2,313	2,183	997
Prepaid and other current assets	344	241	369
Total current assets	10,763	13,087	19,743
Deferred debt costs	1,380	—	—
Property and equipment, net	1,844	1,122	993
Total assets	$ 13,987	$ 14,209	$ 20,736
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 2,319	$ 2,716	$ 1,844
Accrued compensation and benefits	1,014	1,705	1,335
Deferred revenue	8,125	8,001	10,921
Customer deposits	6,290	4,565	5,343
Other accrued liabilities	2,014	1,621	1,575
Income taxes payable	80	192	1,037
Current portion of debt	57,699	—	—
Accrued interest	12,955	—	—
Total current liabilities	$ 90,496	$ 18,800	$ 22,055
Commitments and contingencies			
Shareholders' deficit:			
Common Stock, $.01 par value; 47,000,000 shares authorised and 19,884,594 shares issued and outstanding at 31 December 2002	199	—	—
New Common Stock, $.01 par value, 350,000 shares authorised; 259,918 and 307,599 shares issued and outstanding at 31 December 2003 and 2004 respectively	—	3	3
Series A Convertible Preferred Stock, $.01 par value 25,000 shares authorised and 7,000 shares issued and outstanding at 31 December 2002	—	—	—
Series A Preferred Stock, $.01 par value (aggregate liquidation value of $21,400,000); 2,000 shares authorised, issued and outstanding at 31 December 2003 and 2004	—	—	—
Series B Preferred Stock, $.01 par value (aggregate liquidation value of $2,160,000); 200 shares authorised, issued and outstanding at 31 December 2003 and 2004	—	—	—
Additional paid-in capital	30,902	107,441	107,441
Accumulated deficit	(107,610)	(112,035)	(108,763)
Total shareholders' deficit	(76,509)	(4,591)	(1,319)
Total liabilities and shareholders' deficit	$ 13,987	$ 14,209	$ 20,736

The accompanying notes are an integral part of these financial statements.

etalk Corporation

STATEMENTS OF OPERATIONS
(In thousands)

	Years Ended 31 December		
	2002	2003	2004
Product revenue	$15,295	$19,786	$17,024
Service revenue	15,702	16,357	20,096
Total revenue	30,997	36,143	37,120
Cost of product revenue	4,700	5,834	4,152
Cost of service revenue	7,530	6,647	6,835
Total cost of revenue	12,230	12,481	10,987
Gross profit	18,767	23,662	26,133
Research and development expenses	8,088	7,833	8,758
Sales and marketing expenses	8,988	9,764	8,048
General and administrative expenses	4,199	3,966	4,129
Total operating expenses	21,275	21,563	20,935
Operating income (loss)	(2,508)	2,099	5,198
Interest and other income	(45)	(28)	(122)
Interest expense	6,730	6,470	—
Income (loss) before provision for income taxes	(9,193)	(4,343)	5,320
Provision for income taxes	14	82	2,048
Net income (loss)	$(9,207)	$(4,425)	$ 3,272

The accompanying notes are an integral part of these financial statements.

etalk Corporation

STATEMENT OF SHAREHOLDERS' DEFICIT
(In thousands, except share data)
Years Ended 31 December, 2002, 2003 and 2004

	Common Stock		New Common Stock		Series A Convertible Preferred Stock		New Series A Preferred Stock		New Series B Preferred Stock				
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at 31 December, 2001	19,884,594	$ 199	—	$—	7,000	$ —	—	$—	—	$—	$ 30,902	$ (98,403)	$(67,302)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(9,207)	(9,207)
Balance at 31 December 2002	19,884,594	199	—	—	7,000	—	—	—	—	—	30,902	(107,610)	(76,509)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(4,425)	(4,425)
Recapitalisation of Company	(19,884,594)	(199)	259,918	3	(7,000)	—	2,000	—	200	—	76,539	—	76,343
Balance as at 31 December 2003	—	—	259,918	3	—	—	2,000	—	200	—	107,441	(112,035)	(4,591)
Net income	—	—	—	—	—	—	—	—	—	—	—	3,272	3,272
Restricted stock Issuance	—	—	47,681	—	—	—	—	—	—	—	—	—	—
Balance as at 31 December 2004	—	$ —	307,599	$ 3	—	$ —	2,000	$—	200	$—	$107,441	$(108,763)	$ (1,319)

No other comprehensive income has arisen during any of the years ended 31 December 2002, 2003 and 2004.

The accompanying notes are an integral part of these financial statements

etalk Corporation

STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended 31 December		
	2002	2003	2004
Cash flows from operating activities:			
Net income (loss)	$(9,207)	$(4,425)	$ 3,272
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortisation	1,149	1,028	884
Amortization of debt discount and debt offering costs	583	583	—
Provision for doubtful accounts	(6)	100	80
Changes in operating assets and liabilities:			
Accounts receivable	1,569	(1,533)	1,548
Inventories, net	(317)	130	1,186
Prepaid and other current assets	132	(126)	(128)
Accrued interest	6,146	5,888	—
Accounts payable	600	397	(872)
Accrued compensation and benefits	(525)	691	(370)
Due affiliate	397	375	(87)
Deferred revenue	(717)	(124)	2,920
Customer deposits	1,415	(1,725)	778
Income taxes payable	327	112	845
Other accrued liabilities	(973)	275	161
Net cash provided by operating activities	573	1,646	10,217
Cash flows from investing activities:			
Capital expenditures	(870)	(307)	(755)
Net cash used in investing activities	(870)	(307)	(755)
Cash flows from financing activities:			
Expenses paid in recapitalisation	—	(215)	(120)
Net cash used in financing activities	—	(215)	(120)
Net increase (decrease) in cash and cash equivalents	(297)	1,124	9,342
Cash and cash equivalents at beginning of year	5,253	4,956	6,080
Cash and cash equivalents at end of year	$ 4,956	$ 6,080	$15,422
Supplemental cash flow information:			
Cash paid for interest	$ —	$ —	$ —
Cash paid (refunded) for income taxes	$ (318)	$ (40)	$ 1,191

The accompanying notes are an integral part of these financial statements.

etalk Corporation

NOTES TO FINANCIAL STATEMENTS
31 December 2004
(In thousands, except share data)

1. ORGANISATION

etalk Corporation ("etalk") was incorporated in Nevada in June 1983 as a worldwide provider of business solutions, technologies, and related services to the enterprise contact centre marketplace. Headquartered in Irving, Texas, etalk pioneered the concept of quality monitoring while providing trusted solutions for more than 20 years. Revenues are primarily derived from the license of application software and related support services including maintenance, installation, implementation, project management, consulting, and training.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires etalk to make certain estimates and judgements that affect its reported assets, liabilities, revenues and expenses, and its related disclosure of contingent assets and liabilities. etalk bases its estimates on historical experience and on various assumptions that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and financial instruments with maturities of three months or less when purchased. These investments are stated at cost plus accrued interest, which approximates market.

Accounts Receivable

Accounts receivable represent amounts due from etalk's customers for licences, hardware and related services. etalk performs ongoing evaluations of its customers, continuously monitoring collections and payments in order to estimate an allowance for doubtful accounts. This allowance is based on the aging of the underlying receivables, historical experience and any specific customer collection issues that etalk has identified. Account balances are charged off against the allowance for doubtful accounts after reasonable means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories generally consist of hardware components and third-party licences. They are valued at the lower of cost or market. The cost of license fees and hardware sold is determined on a first-in, first-out (FIFO) basis.

Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Maintenance and repairs are expensed as incurred, while improvements are capitalised. Leasehold improvements are depreciated using the straight-line method over the shorter of the estimated life of the asset or the remaining term of the lease. Property and equipment are comprised of the following:

	31 December		
	2002	2003	2004
Computer equipment	$ 4,582	$ 4,419	$ 4,508
Equipment on lease	279	278	278
Furniture and fixtures	83	90	90
Leasehold improvements	854	868	863
	5,798	5,655	5,739
Less accumulated depreciation	(3,954)	(4,533)	(4,746)
	$ 1,844	$ 1,122	$ 993

Impairment of Long-Lived Assets

etalk evaluates impairment losses on long-lived assets, excluding goodwill and other indefinite lived intangible assets, when events and circumstances indicate that such assets are not recoverable and impaired such that the estimated fair value of the asset is less than its recorded amount. Conditions that would necessitate an impairment assessment include material adverse changes in operations, significant adverse differences in actual results in comparison with initial valuation forecasts prepared at the time of acquisition, a decision to abandon acquired products, services or technologies, or other significant adverse changes that would indicate the carrying amount of the recorded asset might not be recoverable. Recoverability of assets held and used is generally measured by a comparison of the carrying amount of an asset to undiscounted pre-tax future net cash flows expected to be generated by that asset. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds the fair value of the assets estimated using discounted cash flows.

Revenue Recognition and Deferred Revenue

etalk recognises revenue in accordance with Statement of Position ("SOP") 97-2, *Software Revenue Recognition*; SOP 98-9, Modification of SOP 97-2, *Software Revenue Recognition, With Respect to Certain Transactions*; and Emerging Issues Task Force ("EITF") No. 00-21, *Revenue Arrangements With Multiple Deliverables.*

etalk earns revenue from software licences, post-contract customer support ("PCS" or maintenance), hardware, and professional services. Maintenance includes telephone support, bug fixes and rights to upgrades on a when-and-if available basis. etalk provides services consisting principally of installation services. In arrangements that include rights to specified upgrades, PCS and/or other services, etalk allocates the total arrangement fee among each deliverable based on the relative fair value of each. Fair values are estimable using vendor-specific objective evidence. If vendor-specific objective evidence of fair value does not exist for one or more delivered elements in the arrangement, revenue is recognised using the residual method, provided all other applicable revenue recognition criteria are met.

Product revenue, which includes principally software, is recognised when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable, collection is probable and acceptance has occurred. If collection is not considered probable, revenue is recognised when the fee is collected. Revenue on arrangements with customers who are not the ultimate users (distributors, other resellers, etc.) is not recognised until the software is delivered to an end user and delivery is complete, assuming all other revenue recognition criteria for product revenues have been met.

In certain arrangements, etalk has agreed to deliver software currently and to deliver unspecified additional software products in the future. Software elements of this type are accounted for as subscriptions and are recognised ratably over the related term of the agreement.

Service revenue, including maintenance and professional services, is recognised at an amount equal to its fair value as evidenced by vendor-specific objective evidence. Service revenue primarily includes maintenance services, installation, training, and consulting. Revenue from installation, training and consulting services is recognised upon performance of the related services.

etalk's customers enter into maintenance agreements when they purchase their software licences. These maintenance agreements are generally renewable every year. Revenue allocated to maintenance is recognised on a straight-line basis over the period the maintenance is provided. All significant costs and expenses associated with maintenance are expensed as incurred.

Deferred revenue primarily consists of amounts collected from customers for maintenance services that, due to timing, have not met the criteria for revenue recognition.

Customer deposits primarily represent payments received from customers upon product order where the product has not met the criteria for revenue recognition.

Research and Development Expenses

Research and development expenses consist primarily of personnel and consulting costs to support product development, and allocated overhead. These costs are generally expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalised. Because etalk believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalised to date.

Advertising

etalk expenses the costs of producing advertisements when incurred and expense the cost of communicating advertising in the period during which the advertising space is used. Advertising expense totaled $1,185, $1,466 and $1,291 for the years ended 31 December 2004, 2003 and 2002, respectively.

Income Taxes

etalk accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires companies to recognise deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income in the period that includes that enactment date. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realised. Valuation allowances against deferred tax assets are provided if they have not demonstrated a consistent history of income before taxes

Risk Concentrations

Financial instruments that potentially subject etalk to concentrations of credit risk are accounts receivable. etalk sells its products primarily to large organisations in diversified industries in North America and Europe and generally does not require etalk customers to provide collateral or other security to support accounts receivable. However, etalk attempts to mitigate its credit risk on sales by performing ongoing credit evaluations of its customers and by collecting a portion of the sales price prior to shipping the product. While etalk maintains allowances for potential bad debt losses, such losses historically have not been material.

etalk participates in a very dynamic high technology industry. etalk believes that changes in any of the following areas could have a material adverse effect on its future financial position or results of operations: changes in the overall demand for telecommunications products; changes in the technology underlying the call transaction processing market; increased competition; litigation against etalk based on securities, intellectual property or other claims; risks associated with international operations; compliance with regulatory requirements; availability of necessary components and manufacturing licences; and an ability to implement and improve operational and financial systems and attract and retain employees necessary to support growth.

Stock-Based Compensation

The Company has various stock option, stock purchase and incentive plans to reward employees and key executives of the Company. The Company applies APB Opinion 25 and related interpretations in accounting for its stock options issued to employees.

3. DEBT AND EQUITY RESTRUCTURING AND RELATED PARTY TRANSACTIONS

At 31 December 2002, etalk had senior credit facilities and subordinated debentures with outstanding principal obligations totaling $57,699 and an additional $12,955 in related accrued interest. The senior credit facilities and debentures were secured by inventories, fixed assets, accounts receivable and intangible assets and contained customary restrictive covenants, including covenants requiring etalk to maintain certain financial ratios. At 31 December 2002, the weighted average interest rate for the entire portfolio was 10.10%, of which 2.51% relates to a premium interest charge for being in default.

At 31 December 2002 and during 2003, etalk was in violation of certain covenants related to the senior credit facilities and the debentures that resulted in events of default that could have permitted the lenders to terminate the agreements. As a result, all debt related to the credit facilities and subordinated debentures is classified as current debt at 31 December 2002.

During 2002, an entity and its affiliates owning approximately 86% of etalk's Common Stock purchased $27,958 of the senior credit facility and the related accrued interest. In anticipation of a recapitalisation of etalk, the remaining $15,716 and the related interest was purchased in July 2003.

Effective 31 December 2003, etalk entered into a Recapitalization Agreement with senior lenders, subordinated lenders, existing preferred shareholders, and existing common shareholders whereby outstanding indebtedness, including accrued interest, was exchanged for equity. As at the date of recapitalisation, all of etalk's senior indebtedness was held by the majority shareholder. The Recapitalization Agreement was consummated via a series of transactions as follows:

1) The senior lender and majority shareholder exchanged indebtedness, loan and other rights, claims and obligations (including principal amounts and accrued interest) totaling $55,374 incurred under a Credit Agreement dated 30 June 1999 and $894 accrued under a management services agreement for 246,689 shares of New Common Stock and 2,000 shares of New Series A Preferred Stock.

2) Subordinated lenders exchanged indebtedness, loan and other rights, claims and obligations (including principal amounts and accrued interest) totaling $22,143 incurred under an Investment and Loan Agreement dated 30 June 1999, as amended, for 12,983 shares of New Common Stock and 200 shares of New Series B Preferred Stock.

3) Existing Common Stock, common stock equivalents and Preferred Stock underwent a 1-to-100,000 reverse stock split and were converted into 260 shares of New Common Stock.

Due to the related party nature of the transaction, the recapitalisation was accounted for at historical cost, whereby the debt outstanding prior to the recapitalisation was eliminated. Preferred stock and common stock were issued at par value, with the remaining $76,539 recorded as additional paid-in-capital, net of transaction-related expenses of $335.

During 2002, 2003, and 2004, an affiliate provided certain management services totaling $401, $375 and $358, respectively, which are included in selling, development, and general and administrative expenses in the accompanying statements of operations. Accounts payable (prepaid) to the affiliate were $606, $87 and $87 at 31 December 2002, 2003 and 2004 respectively. etalk paid $4 in 2002, and there were no payments made for these expenses in 2003 prior to the recapitalisation. The related outstanding balances were considered in the recapitalisation transaction. At the close of the transaction, there remained $87 payable.

4. INCOME TAXES

The income tax provision for the years ended 31 December consisted of the following:

	31 December		
	2002	2003	2004
Current:			
Federal	$—	$70	$1,799
State	14	12	249
	$14	$82	$2,048

The income tax effects of temporary differences that give rise to significant portions of etalk's deferred income tax assets and liabilities are presented below:

	31 December 2002	2003	2004
Current deferred tax assets (liabilities):			
Allowance for doubtful accounts	$ 113	$ 142	$ 180
Inventory reserves	636	1,066	995
Other assets	208	247	182
Accrued compensation and benefits	(13)	89	178
Other accrued liabilities	615	422	432
	1,559	1,966	1,967
Non current deferred tax assets:			
Net operating loss and credit carryforwards	3,729	—	—
Depreciation	42	115	130
Intangibles	5,864	—	—
	9,635	115	130
Total deferred tax asset	11,194	2,081	2,097
Less valuation allowance	(11,194)	(2,081)	(2,097)
	$ —	$ —	$ —

Income tax expense differed from the amounts computed by applying the statutory U.S. federal income tax rate of 34% to income (loss) before provision for income taxes as a result of the following:

	31 December 2002	2003	2004
Current:			
Computed tax at statutory rate	$(3,126)	$(1,477)	$1,809
Increase (decrease) in income taxes resulting from:			
Nondeductible items	57	9,851	50
State, local and foreign income taxes, net	(257)	751	202
Increase (decrease) in valuation allowance	3,335	(9,113)	16
Other	5	70	(29)
	$ 14	$ 82	$2,048

etalk provided a valuation allowance against its deferred tax assets at 31 December 2002, 2003 and 2004, as it has not demonstrated a consistent history of income before taxes.

etalk's net operating loss carry forwards were reduced to $0 at 31 December 2003 from approximately $9,485 at 31 December 2002. This reduction occurred due to the attribute reduction rules of Internal Revenue Code Section 108 related to the recapitalisation. A corresponding reduction to the valuation allowance previously recorded against these amounts was also recorded.

5. STOCK

Common Stock

etalk's Certificate of Incorporation, as amended 31 December 2003, authorises the issue of 350,000 shares of Common Stock. At 31 December 2002, there were 19.9 million shares of existing Common Stock outstanding. In connection with the 31 December 2003 recapitalisation (see Note 3), 259,672 shares of New Common Stock were issued while the existing common stock, along with 1.4 million common stock equivalent shares and 4.7 million shares resulting from the conversion of preferred shares, was converted into 260 shares of New Common Stock.

In 2004, etalk issued 47,681 shares of restricted common stock to its senior management team and outside directors. etalk recorded this as compensation at the fair value of the shares at the date of grant. The fair value was determined to be the value of etalk at the time of issuance, less the cumulative preferred stock and related dividends. The fair value approximated par value of the stock at that time. The shares vest over various periods through 31 December 2008. As of 31 December 2004, 16,609 shares were vested. There were no such issuances in 2002 or 2003.

As of 31 December 2004 and 2003, there were 14 shares of common stock reserved for issuance as a result of outstanding warrants or options.

Under the terms of these plans, options are granted with exercise prices not less than the fair market value of the Company's shares, become exercisable as established by the Board of Directors (generally rateably over four years), and generally expire after between 4.5 and 10 years.

The following table summarises share option and warrant activity:

	Number of shares under option	Weighted average exercise price	Number of warrants under option	Weighted average exercise
Balance at 1 January 2002	11.12	$149,000	14.26	$156,477
Grants	5.59	$149,000	—	—
Exercised	—	$149,000	—	—
Forfeitures	(3.13)	$149,000	—	—
Balance at 31 December 2002	13.59	$149,000	14.26	$156,477
Grants	0.10	$149,000	—	—
Exercised	—	$149,000	—	—
Forfeitures	(2.59)	$149,000	(11.58)	$158,195
Balance at 31 December 2003	11.10	$149,000	2.68	$149,000
Grants	—	$149,000	—	—
Exercised	—	$149,000	—	—
Forfeitures	(1.55)	$149,000	—	—
Balance at 31 December 2004	9.56	$149,000	2.68	$149,000

The exercise price of all remaining share options is $149,000, the weighted average remaining life of those options is 2.0 years and the number exercisable at 31 December 2004 was 9.56.

The exercise price of all remaining warrants is $149,000, the weighted average remaining life of those warrant is 4.5 years and the number exercisable at 31 December 2004 was 2.68.

SFAS 123 requires pro forma information regarding net income and earnings per share to be disclosed as if compensation cost for stock options had been determined based on the fair value of the options on the grant date.

The Company has determined that the fair value of stock options and warrants at the grant date using the Black Scholes option pricing model was not material for any of the years presented.

Preferred Stock

At 31 December 2002, there were 7,000 shares of Series A Convertible Preferred Stock outstanding. These shares were convertible into Common Stock upon an election of a majority of holders at a predefined adjustable conversion rate. In connection with the 31 December 2003 recapitalisation (see Note 3), these shares were converted into shares of New Common Stock, and two new series were issued: Series A Preferred Stock, 2,000 shares authorized and outstanding, and Series B Preferred Stock, 200 shares authorised and outstanding. Series A Preferred Stock accrues dividends at 7% of the $10,000 Series A Preferred Stock issue price. Series B Preferred Stock accrues dividends at 8% of the $10,000 Series A Preferred Stock issue price. Dividends not declared or paid accumulate on both series. Series A and Series B Preferred Stock have liquidation preferences equal to the issue price plus accumulated and unpaid dividends through the date of payment. Preferred shares do not have voting rights. Series A Preferred Stock may be redeemed (at the issue price plus accumulated and unpaid dividends through the redemption date) at any time, from time to time, in whole or in part. Once Series A Preferred Stock has been fully redeemed, Series B Preferred Stock may be redeemed (at the issue price plus accumulated and unpaid dividends) at any time, in whole or in part. etalk did not declare dividends on either series in 2004.

6. EMPLOYEE BENEFIT PLANS

etalk has a savings plan which qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 15% of their annual salary, but not more than statutory limits. etalk matches 25% of the first 4% of employee contributions. Matching contributions totaled $86, $66 and $69 for the years ending 31 December 2004, 2003 and 2002, respectively.

7. COMMITMENTS AND CONTINGENCIES

Leases

etalk leases office and warehouse facilities under non-cancelable operating leases expiring in 2010. Rent expense for the years ended 31 December 2004, 2003 and 2002 was $496, $642 and $664, respectively. Future minimum lease payments related to non-cancelable operating leases with initial terms in excess of one year at 31 December 2004, consist of the following:

Year ending 31 December	
2005	$ 496
2006	499
2007	568
2008	568
2009	568
Thereafter	142
	$2,841

Other

etalk has certain contingent liabilities resulting from litigation, claims, commitments, and other matters incident to the ordinary course of business. etalk believes that the ultimate resolution of any contingencies will not have a material adverse effect on its financial position or results of its operations.

8. SUBSEQUENT EVENTS

On 20 April 2005, etalk entered into a definitive agreement to be acquired by Autonomy Corporation plc ("Autonomy"), a global leader on infrastructure software for the enterprise, for a purchase price of $70 million, payable in a combination of cash and Autonomy ordinary shares, with an opportunity to earn additional consideration payable in Autonomy ordinary shares upon meeting and exceeding certain future performance-related targets. The Boards of Directors of Autonomy and etalk, and the requisite majority of the shareholders of etalk, have approved the transaction. The completion of the transaction is expected to occur in the second quarter of 2005 and is subject to Autonomy shareholder and regulatory approval and other customary closing conditions.

9. SUPPLEMENTARY INFORMATION REGARDING ADJUSTMENTS TO REFLECT UK GAAP FINANCIAL INFORMATION

There are no material adjustments required in order to reconcile etalk's profit before tax, tax, profit after tax and net assets to Autonomy's UK GAAP accounting policies for the three years ended 31 December 2004.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

PART VII

DIRECTORS

The following table sets forth information with respect to each of the Directors and their respective ages, as at the date of this document.

Name	Age	Position
Directors:		
Michael Richard Lynch	39	Managing Director and Chief Executive Officer
Richard Gwynne Gaunt	38	Technical Director
Sushovan Tareque Hussain	41	Finance Director and Chief Financial Officer
Barry Michael Ariko(1)(2)(3)	59	Non-executive Director
John Phillips McMonigall(2)(3)	61	Non-executive Director
Richard N. Perle(1)(3)	63	Non-executive Director

(1) Member of the Nominations Committee.

(2) Member of the Remuneration Committee.

(3) Member of the Audit Committee.

Directors

Michael Richard Lynch Ph.D, co-founder of Autonomy, has served as Managing Director and Chief Executive Officer since inception in March 1996. Prior to founding Autonomy, Dr. Lynch founded Neurodynamics Limited in 1990. Dr. Lynch is also a non-executive director of Neurodynamics Limited and its wholly owned subsidiary, Cambridge Neurodynamics Limited, and a non-executive director of Isabel Healthcare Limited. Dr. Lynch holds an M.A. in electrical and information sciences, a Ph.D in adaptive techniques in signal processing and connectionist models and held a research fellowship in adaptive pattern recognition from Cambridge University.

Richard Gwynne Gaunt co-founder of Autonomy, has served as Technical Director of Autonomy since inception in March 1996. Prior to co-founding Autonomy, Mr. Gaunt served as Technical Director of Cambridge Neurodynamics Limited since 1991. He also serves as a non-executive director of Neurodynamics Limited and its wholly-owned subsidiary, Cambridge Neurodynamics Limited. Mr. Gaunt holds a BSc in electronic engineering and an MSc from the University of Natal in Durban.

Sushovan Tareque Hussain has served as Chief Financial Officer since June 2001 and was appointed as Finance Director in June 2003. Prior to joining Autonomy, Mr. Hussain worked for LASMO plc, one of the world's largest independent oil and gas exploration companies which was acquired by Eni in early 2001, where he held a number of senior international financial positions, including three years in the Corporate Development department, charged with acquisitions and divestments. Mr. Hussain received his BA in Economics from Cambridge University, England, and became a qualified Chartered Accountant while employed at Ernst & Young in London.

Barry Michael Ariko has served as a non-executive director of Autonomy since January 2000. From November 2003, Mr. Ariko has served as CEO and President of Mirapoint, Inc., a leader in messaging networks. From January 2000, until it was acquired by Peregrine Systems in May 2001, he was Chairman, CEO and President of Extricity, Inc., a provider of software for the management of inter-company transactions and workflow. Prior to Extricity he was Senior Vice President of AOL, which had acquired Netscape Communications Corp., where he was Executive Vice President and Chief Operating Officer with primary responsibility for the enterprise software business since August 1998. From April 1994 to August 1998, Mr. Ariko was Executive Vice President in charge of the Americas operations for Oracle Corporation. Mr. Ariko also serves as a director of Incyte and Aspect Communications. Mr. Ariko holds a B.S. in Management from Golden Gate University in San Francisco and in 1992 completed the Advanced Executive Programme at Northwestern University's J. L. Kellogg Graduate School of Management.

John Phillips McMonigall has served as a non-executive director of Autonomy since July 1998. Since April 1990, Mr. McMonigall has worked for Apax Partners Worldwide LLP, a private equity firm, where he is responsible for Apax' investments in private companies in telecommunications, software and related fields. From 1986 to 1990, Mr. McMonigall held a variety of positions at British Telecom where he served as a member of the Management Board. He currently serves on the board of Dialog Semiconductor plc.

Mr. McMonigall also serves on the boards of several privately owned companies as a non-executive director, including Neurodynamics Limited.

Richard N. Perle has served as a non-executive director of Autonomy since February 2000. Mr. Perle has served as Resident Fellow of the American Enterprise Institute for Public Policy Research since 1987. From 1981 to 1987 he was the United States Assistant Secretary of Defense for International Security Policy. Mr. Perle is a director of Hollinger International, Inc., a publicly traded company that publishes English language newspapers in the United States, the United Kingdom, Canada and Israel, and Tapestry Pharmaceuticals, Inc., a pharmaceutical company focused on the development of proprietary therapies for the treatment of cancer. Mr. Perle attended the London School of Economics with Honors Examinations, received an M.A. in politics from Princeton University and a B.A.. from the University of Southern California in international relations, and completed various fellowships at Princeton University, the Ford Foundation and the American Council of Learned Societies. Mr. Perle was appointed to the Board in February 2000.

Directors' Service Agreements and Letters of Engagement

Michael Richard Lynch

The Company entered into a service agreement with Dr. Lynch on 9 July 1998, which provides for his employment as Managing Director and Chief Executive Officer. Dr. Lynch's employment can be terminated by either party in writing on not less than six months' notice, subject to the Company having the right to terminate earlier in certain usual circumstances, including misconduct. Dr. Lynch's salary is £150,000 per annum and he is entitled to receive current benefits generally made available to all employees in addition to a company car benefit (having a value of £5,746 for the period from 1 January 2005 to 11 May 2005) and any fees or remuneration he is entitled to as a director of the Company. For 12 months following the termination of employment, Dr. Lynch is prohibited from soliciting any of the Company's clients, customers and employees and from competing with the Company in a similar geographic area. Dr. Lynch may provide services on a part-time basis to Cambridge Neurodynamics Limited, a company controlled by Dr. Lynch and Apax, or any companies affiliated with Neurodynamics, at such times as are agreed to by Dr. Lynch, Neurodynamics and the Company after good-faith consultation. Such good faith consultations occur with the Company's non-executive directors from time to time as and when services are requested by Cambridge Neurodynamics Limited or any companies affiliated with Neurodynamics. Such services performed for all Neurodynamics companies may not exceed 25% of Dr. Lynch's total working time in any month, and to date in practice have been immaterial. As compensation for such services, Neurodynamics pays the Company a monthly fee of up to 25% of Dr. Lynch's salary, plus applicable taxes.

Richard Gwynne Gaunt

The Company entered into a service agreement with Mr. Gaunt on 9 July 1998, which provides for his employment as Technical Director. Mr. Gaunt's employment can be terminated by either party in writing on not less than six months' notice, subject to the Company having the right to terminate earlier in certain usual circumstances, including misconduct. Mr. Gaunt's salary is £90,000 per annum and he is entitled to receive current benefits generally made available to all employees in addition to a company car benefit (having a value of £2,402 for the period from 1 January 2005 to 11 May 2005) and any fees or remuneration he is entitled to as a director of the Company. For 12 months following the termination of employment, Mr. Gaunt is prohibited from soliciting any of the Company's clients, customers and employees and from competing with the Company in a similar geographic area. Mr. Gaunt may provide services on a part-time basis to Cambridge Neurodynamics Limited, a company controlled by Dr. Lynch and Apax, or any companies affiliated with Neurodynamics, at such times as are agreed to by Mr. Gaunt, Neurodynamics and the Company after good-faith consultation. Such good faith consultations occur with the Company's non-executive directors from time to time as and when services are requested by Cambridge Neurodynamics Limited or any companies affiliated with Neurodynamics. Such services performed for all Neurodynamics companies may not exceed 25% of Mr. Gaunt's total working time in any month, and to date in practice have been immaterial. As compensation for such services, Neurodynamics pays the Company a monthly fee of up to 25% of Mr. Gaunt's salary, plus applicable taxes.

Sushovan Tareque Hussain

The Company entered into a service agreement with Mr. Hussain on 27 June 2001, which provides for his employment as Chief Financial Officer. Mr. Hussain's employment can be terminated by either party in writing on not less than six months' notice, subject to the Company having the right to terminate earlier in certain usual circumstances, including misconduct. Mr. Hussain's salary is £150,000 per annum and Mr. Hussain is entitled to a bonus of up to £5,000 per quarter, together with current benefits generally made available to all employees in addition to a company car benefit (having a value of £1,980 from 1 January 2005 to 11 May 2005). For six months following the termination of employment, Mr. Hussain is prohibited from competing with the Company, and soliciting the Company's clients, customers and employees.

Barry Michael Ariko

The Company entered into a letter of engagement with Mr. Ariko on 7 January 2000, which provides for the appointment of him as a non-executive Director. Mr. Ariko's appointment can be terminated by either party in writing on not less than three months' notice or payment of three months' fees in lieu of notice, subject to the right of the Company to terminate earlier in certain usual circumstances. Mr. Ariko's fees are US$50,000 per annum and Mr. Ariko is also entitled to reimbursement of all reasonable out of pocket expenses incurred on company business.

John Phillips McMonigall

The Company entered into a letter of engagement with Mr. McMonigall on 2 July 1998, which provides for the appointment of him as a non-executive Director. Mr. McMonigall's appointment can be terminated by either party in writing on not less than three months' notice or payment of three month's fees in lieu of notice, subject to the right of the Company to terminate earlier in certain usual circumstances. Apax Partners & Co. Ventures Ltd., on behalf of Mr. McMonigall, is paid an annual fee of £10,000 for Mr. McMonigall's services as a director and Mr. McMonigall is also entitled to reimbursement of all reasonable out of pocket expenses incurred on company business.

Richard N. Perle

The Company entered into a letter of engagement with Mr. Perle on 23 February 2000, which provides for the appointment of him as a non-executive Director. Mr. Perle's appointment can be terminated by either party in writing on not less than three months' notice or payment of three months' fees in lieu of notice, subject to the right of the Company to terminate earlier in certain usual circumstances. Mr. Perle's fees are US$50,000 per annum and Mr. Perle is also entitled to reimbursement of all reasonable out of pocket expenses incurred on company business.

General

There are no arrangements under which any of the Directors has waived or agreed to waive future emoluments or under which the total emoluments of any Director will be varied in consequence of the Acquisition.

The total aggregate amount of remuneration paid and benefits in kind granted to the Directors by any member of the Group during the last completed financial year was £409,986. The total estimated aggregate amount of remuneration to be paid (excluding bonuses) and benefits in kind to be granted to the Directors and by any member of the Group during the current financial year is £400,000.

Save as disclosed above, there are no existing or proposed service contracts or letters of engagement between any Director and Autonomy or any of its subsidiaries.

Save as disclosed in paragraph 6 of Part IX of this document, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by Autonomy during the current or immediately preceding financial year or which was effected during an earlier financial year and which remains in any respect outstanding or unperformed.

PART VIII

UK TAXATION

The comments set out below summarise the UK taxation treatment of holding Ordinary Shares. They are based on existing UK law and Inland Revenue published practice. They are intended as a general guide only and apply only to persons resident (and, in the case of individuals, ordinarily resident) for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold those shares as an investment (and not as trading stock) and who are the absolute beneficial owners thereof. Certain categories of shareholder (including, but not limited to, dealers, brokers, insurance companies, and collective investment schemes) may be subject to special rules and this summary does not apply to such shareholders. **Any persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers immediately.**

Dividends

No tax will be withheld from dividend payments made by Autonomy but dividends will carry a tax credit at a rate of one-ninth of the net cash dividend (or 10 per cent. of the aggregate of the net cash dividend and the tax credit). UK resident individual shareholders who are not liable to income tax in respect of the dividend will not be entitled to a repayment of the tax credit. In the case of UK resident individual shareholders liable to income tax at the starting, lower or the basic rate, the tax credit will satisfy in full such shareholders' liability to income tax on the dividend. UK resident individual shareholders liable to income tax at the higher rate will be subject to income tax on the gross dividend (i.e. the net cash dividend plus the tax credit) at 32.5 per cent., but will be able to set the tax credit off against part of this liability so that a higher rate taxpayer will generally have an additional liability to income tax of 25 per cent. on the net cash dividend.

UK resident corporate shareholders will not generally be subject to corporation tax in respect of dividends paid by Autonomy. Those shareholders will not be able to claim repayment of tax credits attaching to dividends.

UK resident shareholders who are not liable to UK tax on dividends, including certain pension funds and charities and individuals holding shares through a personal equity plan or individual savings account, are not entitled to reclaim the tax credits on dividends paid by Autonomy.

In general, the right of non-UK residents to reclaim tax credits attaching to dividend payments by Autonomy will depend upon the existence and the terms of an applicable double tax treaty between their jurisdiction of residence and the UK. In most cases the amount that can be claimed by non-UK resident shareholders will be nil as a result of the terms of the relevant treaty. They may also be liable to tax on the dividend income in their jurisdiction of residence. Non-UK resident shareholders should consult with their own tax advisers in respect of their liabilities on dividend payments.

Capital Gains

A disposal of Ordinary Shares by a UK resident or ordinarily resident shareholder or by a shareholder who holds his Ordinary Shares through a permanent establishment (in the case of a corporate shareholder) or branch or agency (in the case of an individual shareholder) in the UK may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains.

An individual shareholder who is neither resident nor ordinarily resident for tax purposes in the UK will not normally be liable for UK capital gains tax on gains realised on the disposal of his Ordinary Shares unless, at the time of the disposal, such shareholder carries on a trade (which for this purpose includes a profession or vocation) in the UK through a branch or agency and such Ordinary Shares are or have been used, held or acquired for the purposes of such trade or branch or agency. A non-resident individual shareholder who has ceased to be resident and ordinarily resident for tax purposes in the UK and then becomes resident or ordinarily resident for tax purposes in the UK before 5 full years of assessment have elapsed, may be liable to UK capital gains tax on disposals of Ordinary Shares while he was not resident or ordinarily resident (subject to any available exemption or relief). Any such tax liability will arise only in respect of shares acquired whilst resident in the UK, and will be treated as arising in the year of return to the UK.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

In relation to a new issue of shares, no liability to stamp duty or SDRT will arise on the issue of, or on the issue of definitive share certificates in respect of, such shares by Autonomy other than in circumstances involving depository receipts or clearances services referred to below.

Stamp duty will generally arise on the execution of an instrument of transfer of Ordinary Shares and SDRT will arise on the entry into an unconditional agreement to transfer Ordinary Shares. Both taxes are normally a liability of the purchaser. The amount of stamp duty payable is generally calculated at the rate of 0.5 per cent. of the amount of the consideration payable for the transfer of the Ordinary Shares, rounded up to the nearest multiple of £5. The amount of SDRT payable is calculated at the rate of 0.5 per cent. of the amount or value of the consideration. Any SDRT paid on an agreement to transfer is refundable or, if not yet paid, the liability is cancelled if a duly stamped transfer is executed within six years of the date of the entry into the agreement or, where the agreement was conditional, within six years of the agreement becoming unconditional.

Paperless transfers of Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Ordinary Shares into CREST generally will not be subject to SDRT, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5% of the value of the consideration.

Where Ordinary Shares are issued or transferred: (i) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at a rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares, or in the case of an issue to such persons, the issue price of the Ordinary Shares.

Special rules apply to transfers or issues of shares to certain categories of persons, including intermediaries, market makers, brokers and dealers, and persons connected with providers of clearance services and issuers of depositary receipts.

Inheritance Tax

Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of Ordinary Shares by, or on the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit or interest in the assets being transferred. Special rules also apply to close companies and trustees of certain settlements holding Ordinary Shares bringing them within the charge to inheritance tax.

Individual Savings Accounts ("ISAs")

The Ordinary Shares should be qualifying investments for a stocks and shares component of an ISA under current applicable regulations.

PART IX

ADDITIONAL INFORMATION

1. Responsibility

The Directors whose names appear on page iii of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation

The Company was incorporated under the Companies Act 1985 and registered in England and Wales on 21 March 1996 as a public company limited by shares with the name YPCS 44 plc and with registered number 03175909. By a special resolution passed on 2 July 1998 the Company's name was changed to Autonomy Corporation plc. The principal legislation under which the Company operates is the Act.

3. Share Capital

3.1 The following table sets forth the share capital of Autonomy:

- as at the close of business on 17 May 2005 (the latest practicable date prior to the publication of this document); and
- immediately following Completion.

	Authorised		Issued and Fully Paid	
	Number	Amount (£)	Number	Amount (£)
Before the Acquisition:				
Ordinary Shares of ⅓p each	600,000,000	£2,000,000	107,880,276	£359,601
Immediately following Completion:				
Ordinary Shares of ⅓p each	600,000,000	£2,000,000	118,636,166	£395,454

Details of the outstanding options over Ordinary Shares are set out in paragraph 5.2 of this Part VIII.

3.2 The following alterations in the Company's issued share capital have occurred between 17 May 2002 and 17 May 2005 (the latest practicable date prior to the publication of this document):

(a) during 2002, the Company issued 334,769 Ordinary Shares upon the exercise of options under the 1996 UK Share Option Scheme and the 1998 US Share Option Plan at exercise prices ranging from ⅓p to £3.01;

(b) on 2 December 2002, the Shareholders approved a reduction of the share premium by £32,250,000;

(c) during 2002, the Company bought back and cancelled 4,980,286 Ordinary Shares for a total consideration (including duties and commission) of £7,554,000;

(d) during 2003, the Company issued 298,149 Ordinary Shares upon the exercise of options under the 1996 UK Share Option Scheme and the 1998 US Share Option Plan at exercise prices ranging from £1.66 to £2.05;

(e) during 2003 the Company bought back and cancelled 12,332,084 Ordinary Shares for a total consideration (including duties and commission) of £20,248,000;

(f) during 2004, the Company issued 626,460 Ordinary Shares upon the exercise of options under the 1996 UK Share Option Scheme and the 1998 US Share Option Plan at exercise prices ranging from £1.64 to £3.17;

(g) during 2004 the Company bought back and cancelled 3,091,512 Ordinary Shares for a total consideration (including duties and commission) of £5,727,492;

(h) on 17 May 2005 (being the latest practicable date before the publication of this document) the Company had issued 274,204 Ordinary Shares in the year 2005 following the exercise of options under the 1996 and 1998 Employee Share Option Scheme at exercise prices ranging from £1.90 to £2.02; and

(i) by 17 May 2005 (being the last practicable date before the publication of this document) the Company had bought back 504,036 Ordinary Shares during 2005 for a total consideration (including duties and commissions) of £985,223.

3.3 By a special resolution passed by Shareholders on 26 May 2004 the Directors were generally empowered to purchase Ordinary Shares by way of market purchases on such terms and in such manner as the Directors determine, provided that:

(a) the maximum number of shares which may be purchased is 16,640,000;

(b) the minimum price to be paid for each Ordinary Share (exclusive of expenses) is ⅓p; and

(c) the maximum price (exclusive of expenses), which may be paid for any Ordinary Shares is an amount equal to 105% of the average of the middle-market quotations for the Ordinary Shares taken from the Official List for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased.

3.4 Save as disclosed in paragraph 3.2 of this Part IX:

(a) no share or loan capital of the Company has, within three years before the date of this document, been issued or agreed to be issued or is now proposed to be issued fully or partly paid either for cash or for a consideration other than cash to any person not being a subsidiary undertaking of the Company;

(b) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option; and

(c) no commissions, discounts, brokerages or other special terms have, within three years preceding the date of this document, been granted by the Company or any of its subsidiary undertakings in connection with the issue or sale of any share or loan capital of any such company.

3.5 Save as disclosed in this document in paragraphs 3.2 of this Part IX between 17 May 2002 to 17 May 2005 (the latest practicable date prior to the publication of this document), no share capital of Autonomy or any subsidiary undertaking which is material (other than intra-group issues by wholly-owned subsidiaries) has been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is proposed.

3.6 The provisions of section 89(1) of the Act (which to the extent not misapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of "equity securities" (as defined in section 94 of the Act) which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of Autonomy. The Listing Rules require that, unless the approval of Shareholders in general meeting is obtained, the Company must offer Ordinary Shares to be issued for cash to existing shareholders on a pro rata basis.

3.7 An Extraordinary General Meeting of Autonomy will be held on 2 June 2005 at 11:00 a.m., at which the Directors will be seeking Shareholder approval:

(i) to approve the terms of the Acquisition; and

(ii) to authorise the allotment of the Consideration Shares and any Earnout Shares, such authority to expire on the date on which the last of any Ordinary Shares to be issued as Earnout Consideration are issued or, if no such shares are required to be issued, on the first anniversary of Completion.

3.8 Save as disclosed in paragraph 5.2 of this Part IX and save for the allotment of Consideration Shares and any Earnout Shares to the shareholders and/or optionholders of etalk pursuant to the Acquisition Agreement, and the exercise of options granted under the Autonomy share option schemes, the Directors have no present intention to allot any shares in the Company.

3.9 Save as disclosed in paragraphs 5 and 6.1 of this Part IX, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

3.10 The Company does not hold any treasury shares (within the definition of the Act) as at 18 May 2005 (being the date of this document).

3.11 No Ordinary Shares have been or will be marketed or made available to the public in whole or in part in conjunction with the application for listing and trading of those securities.

4. Memorandum and Articles of Association of Autonomy

4.1 Memorandum of Association

The memorandum of association of the Company provides, among other things, that its objects are to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its memorandum of association which is available for inspection as described in paragraph 21 below.

4.2 Articles of Association

The Articles of Association contain, amongst other things, (and subject to relevant provisions of general English law and of the Listing Rules)

Rights in a winding-up

Except as the Company's shareholders have agreed or may otherwise agree, upon the winding up of the Company, the balance of assets available for distribution:

- after the payment of all of the Company's creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors; and
- subject to any special rights attaching to any class of shares,

is to be distributed among the holders of Ordinary Shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in cash. A liquidator may, however, upon the adoption of an extraordinary resolution of the shareholders, divide among the shareholders the whole or any part of the Company's assets in kind.

Alteration of share capital; Allotment of shares

The Company may occasionally, by ordinary resolution:

- increase the Company's capital by a sum to be divided into shares of such amounts as the resolution prescribes;
- consolidate and divide all or any of the Company's share capital into shares of a larger nominal amount than the Company's existing shares;
- cancel any shares that, at the date of the resolution, have not been issued, or agreed to be issued, to any person and reduce the Company's share capital by the amount of the shares so cancelled; and
- subdivide the Company's shares into shares of a smaller nominal amount than is fixed by the Company's memorandum of association, subject to English law. Any shares so subdivided may, as compared with the others, have any preferred, deferred or other special rights or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

Subject to the provisions of applicable English law, the Company may purchase, or may enter into a contract under which the Company will or may purchase, any of he Company's own shares of any class, including any redeemable shares. The Company may not purchase any shares or other securities admitted to the Official List of the UK Listing Authority that are convertible into the Company's equity share capital, unless either:

- the terms of issue of such convertible shares or other securities include provisions permitting the Company to purchase the Company's own equity shares or providing for adjustment to the conversion terms upon such a purchase; or
- the purchase has been approved by an extraordinary resolution passed at a separate meeting of the holders of such convertible shares or other securities.

Subject to the rights of the holders of shares set out in the Articles of Association, and the provisions of the Act, the Company may, by special resolution of the Shareholders, reduce the Company's share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner.

Meetings of shareholders

The Articles of Association require that an annual general meeting be held once in every year, within not more than 15 months after the preceding annual general meeting at a time and place determined by the Board. All other general meetings are deemed extraordinary general meetings. Extraordinary general meetings are held at the request of the Board or Shareholders representing at least one tenth of the Company's share capital entitled to vote at general meetings or, if the Board is not capable and willing to do so, any two members of the Board.

Voting rights

Voting at any general meeting of Shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every Shareholder who is present in person at a general meeting has one vote regardless of the number of shares held. On a poll, every Shareholder who is present in person or by proxy has one vote per share held by that Shareholder. A poll may be demanded by any of the following:

- the chairman of the meeting;
- at least five Shareholders entitled to vote at the meeting;
- any Shareholder or Shareholders representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders entitled to vote at the meeting; or
- any Shareholder or Shareholders holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid on all the shares conferring that right.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

The necessary quorum for the Company's general meetings is two persons holding or representing by proxy issued shares carrying a right to vote upon the business to be transacted.

Matters are transacted at the Company's general meetings by the proposing and passing of resolutions, of which there are three kinds:

- an ordinary resolution, which includes resolutions for the election of directors, the approval of financial statements, the cumulative annual payment of dividends, the appointment of auditors, the increase of authorised share capital or the grant of authority to allot shares;
- a special resolution, which includes resolutions amending the Company's memorandum or Association or its Articles or changing the Company's name; and
- an extraordinary resolution, which includes resolutions modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the liquidation of Autonomy.

An ordinary resolution requires the affirmative vote of a majority in the votes of those persons voting at a meeting at which there is a quorum. Special and extraordinary resolutions require the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is not entitled to cast the deciding vote in addition to any other vote he or she may have. Meetings are generally convened upon advance notice of 21 days for the passing of a special resolution and 14 days for any other resolution, depending on the nature of the business to be transacted. The days of delivery or receipt of the notice itself are not included.

Board action and powers

Under the Articles of Association the Board must comprise at least two Directors. The Directors can decide when to have meetings and how many of their number represent a quorum of the Board. Unless the Directors decide otherwise, two Directors are required for a quorum.

The Directors are given the power to manage the Company's business and to use all of the powers stated in its memorandum of association and the Articles of Association.

A Director cannot vote on any contract, any arrangement or any other kind of proposal in which he or a person connected with him has a material interest. This restriction does not apply in the following circumstances:

- on any proposal concerning an offer of shares or debentures or other securities of the Company or any of its subsidiary undertakings in which the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-writing of which the Director is to participate;
- on a resolution on giving of any security, guarantee or indemnity to such Director or any other person, for any money which he or that other person has lent or for any liability which he or that other person has incurred at the request, or for the benefit, of the Company or any of its subsidiaries;
- on a resolution relating to the giving of any security, guarantee or indemnity to any other person for a debt or obligation owed by the Company, or any of its subsidiaries, to that person, if the Director has taken responsibility for some or all of that debt or those obligations;
- on a resolution about any proposal relating to another company in which he and persons connected with him have a direct or indirect interest of any kind, including holding any position in that company or being a shareholder of that company, unless the Director and persons connected with him hold an interest in shares representing 1 per cent. or more of the equity share capital or voting rights in that company;
- in relation to any arrangement for the benefit of the employees of the Company or of any of its subsidiaries, which gives the Director only privileges or benefits which are also generally given to the employees to whom the arrangement relates; and
- on a resolution about any proposal relating to any insurance which the Company proposes to maintain or purchase for the benefit of the Directors or for the benefit of a group of people which includes the Directors.

Pre-emptive rights

The Act confers upon shareholders, to the extent not disapplied, rights of pre-emption in respect of the allotment of equity securities (which term includes Ordinary Shares) that are or are to be paid up wholly in cash. These provisions may, be disapplied by special resolutions of the Shareholders, either generally or specifically, for periods not exceeding fifteen months thereafter.

Dividends

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, provided that no dividend shall exceed the amount recommended by the Board.

The Board may pay Shareholders such interim dividends as appear to them to be justified by the Company's financial position. If authorised by an ordinary resolution of the Shareholders, the Board may also offer Shareholders the right to elect to receive share dividends by way of scrip dividend instead of cash.

The Company has not paid dividends on its shares since incorporation. It is the Company's present policy to retain all earnings for use in its business.

The Board may, with the sanction of an ordinary resolution of the Shareholders, capitalise any sum standing to the credit of any of the Company's reserve accounts or its profit and loss account. Such capitalisation shall be effected in accordance with the rights attached to any share, either by appropriating such sum to pay up in full any of the Company's share capital which has not been issued and distributing the same to the Shareholders in proportion to the number of shares which they hold, or by using it to pay some, or all, of any amount on any issued shares held by holders of shares which has not already been called up or paid in advance, if the Act and other laws and regulations relating to the Company allow. The Company may also retain any dividends payable on any shares on which it has a lien, and may apply such amount to the satisfaction of the debts or liabilities in respect of which the lien exists.

Any dividend unclaimed after 12 years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

Variation of rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, upon either the written consent of three-fourths of the outstanding shares of the class or upon the adoption of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class.

Transfer of shares

The Ordinary Shares can be transferred in a writing of any usual form or any form approved by the Directors. The transfer document must then be delivered to the Company's registered office (or any other place decided upon by the directors) together with the share certificate and any other evidence which the Directors require from the transferor confirming its title for the shares to be transferred. There is no fee payable to the Company for transferring shares. A share transfer form must be signed by the transferor and, in the case of shares which are not fully paid, by the transferee. The transferor shall be treated as continuing to be the shareholder until the name of the transferee is put on the register for that share.

The Directors can refuse to register a transfer of any shares which are not fully paid or on which the Company has a lien without giving any reason for so refusing. The directors may not refuse to register the transfer of any shares listed on the Official List if this would stop dealings in the shares from taking place on an open and proper basis.

Under the UK City Code on Takeovers and Mergers a general offer for all of the Company's equity and voting non-equity share capital must be made by any person or persons acting in concert who:

- acquire shares which, together with shares already held by them, carry 30 per cent. or more of the Company's voting rights; or
- hold 30 per cent. to 50 per cent. of the Company's voting rights and acquire shares provided that if such person or persons sell shares without reducing the holding to less than 30 per cent. subsequent acquisitions will be permitted provided that the shares acquired do not in any 12 month period exceed one per cent. of the Company's voting share capital and the percentage holding of such person or persons resulting from such acquisitions does not exceed the highest percentage holding of such person or persons in the previous 12 months.

The offer must be made in cash, at not less than the highest price paid by the offeror or persons acting in concert with it in the previous 12 months. The City Code does not have the force of law. Compliance with it, however, is in practice required by any person wishing to use the facilities of the UK securities markets.

Disclosure of interests

Section 198 of the Act requires that if a Shareholder becomes directly or indirectly interested in three per cent. or more of any class of the Company's issued shares, that carry the right to vote at the Company's general meetings, that Shareholder must notify the Company of this interest within two business days. After the three per cent. threshold is exceeded, the Shareholder must notify the Company in respect of increases or decreases of one per cent. or more.

For the purpose of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares:

- in which a spouse or child or stepchild under the age of 18 is interested; or
- in which a corporate body in interested; and, either
- that corporate body or its directors generally act in accordance with that person's directions or instructions; or
- that person controls one-third or more of the voting power of that corporate body; or
- in which another party is interested and the person and that other party are parties to a "concert party" agreement under Section 204 of the Act.

A concert party agreement is one that:

- provides for one or more parties to acquire interests in shares of a particular company;
- imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired pursuant to such agreement; and
- any interest in the company's shares is in fact acquired by any of the parties pursuant to the agreement.

Certain interests defined in the Act, such as those held by investment fund managers may be disregarded for the purposes of calculating the three per cent. threshold. However, the disclosure obligation will still apply where these interests exceed ten per cent. or more of any class of the Company's relevant share capital and to increases or decreases of one per cent. or more thereafter.

In addition, Section 212 of the Act gives the Company the power to require persons who:

- the Company knows have an interest in the Company's shares;
- the Company has reasonable cause to believe have an interest in the Company's shares; or
- have had an interest in the Company's shares at any time during the three years immediately preceding the date on which the notice is issued, to confirm that fact or to indicate whether or not that is the case. Where that person holds or during the relevant time, held any interest in the Company's shares, the Company can require that person to give such further information as may be required relating to that interest and any other interest in the shares of which that person is aware.

Where notice is served by the Company under the foregoing provisions on a person that is or was interested in shares of the Company and that person fails to give the Company any information required by the notice within the time specified in the notice, the Company may apply to the English courts for an order. This order may direct that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, any exercise of voting rights and any other rights in respect of such shares. These rights include, other than in liquidation, payments in respect of such shares such as dividends otherwise payable on the shares.

A person who fails to fulfil the obligations imposed by Section 198 and 212 of the Act described above is subject to criminal penalties.

Retirement of Directors

There is no limit on the number of years any Director may serve as a Director. At every annual general meeting, any Director who was elected or last re-elected at or before the annual general meeting held in the third calendar year before is subject to retirement by rotation. A Director retiring by rotation may be re-elected at any general meeting. Furthermore, the Act provides that a Director can be removed from office at any time by a majority vote of the Shareholders. The Articles of Association do not require Directors to retire at a specific age.

5. Autonomy Share Schemes

5.1 Employee Plans

The Board and, where appropriate, Shareholders have approved two schemes under which those employees and directors who are eligible may obtain share options ("Autonomy Share Schemes"). The main features of the Autonomy Share Schemes are summarised below.

UK Scheme

The 1996 UK Option Scheme was adopted by the Board on 4 December 1996. The Board has complete discretion to determine which eligible individuals receive option grants, the time or times when the grants are to be made, the number of Ordinary Shares subject to each grant, the vesting schedule to be in effect for the grant and the maximum term for which each option grant may remain outstanding. The number of Ordinary Shares allocated under the UK Scheme may not on any date, when aggregated with the number of Ordinary Shares allocated under the UK Scheme, the US Plan or any other scheme of the Company over the previous 5 years, exceed 10% of the issued share capital of the Company on that date. As of 17 May 2005 (being the last practicable date prior to publication of this document), options under the UK Scheme to purchase an aggregate of 3,700,000 Ordinary Shares were outstanding.

The exercise price for each granted option is determined by the Board at the time of the grant. No option grant may have a term in excess of seven years. The option vests in one or more instalments over the optionholder's period of employment and will be subject to earlier termination in connection with the optionee's cessation of employment. The exercise price for Ordinary Shares purchased under the UK Scheme may be paid in cash or by cheque. The option may also be exercised through the same day sale of a portion of the purchased shares, with the proceeds applied to the payment of the exercise price, or through the delivery of a full recourse, interest bearing promissory note.

In the event the Company is acquired or undergoes a change in control, each outstanding option may be exercised or, with the acquirer's agreement, be exchanged for a new option which is the economic equivalent of the exchange option but which relates to shares of the successor corporation or other affiliated entity. Any options which are not so exercised or exchanged will terminate after the consummation of the transaction.

The Board may amend or modify the UK Scheme at any time subject to any required Shareholder approval. The Board may also terminate the UK Scheme at any time, provided such termination does not adversely affect the rights of outstanding option holders.

US Plan

The US Plan was adopted by the Board in June 1998 and was approved by the Shareholders in July 1998 in order to provide equity incentives through option grants to employees residing in the United States. 18,000,600 Ordinary Shares have been authorised for issuance under the US Plan. However, the number of Ordinary Shares allocated under the US Plan may not on any date, when aggregated with the number of Ordinary Shares allocated under the US Plan, the UK Scheme or any other share option plan of the Company over the previous 5 years, exceed 10% of the issued share capital of the Company on that date. As of 17 May 2005 (being the last practicable date prior to publication of this document), options to purchase an aggregate of 2,170,000 Ordinary Shares were outstanding.

The US Plan currently is administered by the Board, but the Board may delegate its role as plan administrator to a committee of the Board. The plan administrator determines which eligible individuals are to receive option grants, the time or times when the grants are to be made, the number of shares subject to each grant, the status of any granted option as either an incentive stock option or a non-statutory stock option under the US tax laws, the vesting schedule to be in effect for the option grant or stock issuance and the maximum term for which any granted option is to remain outstanding.

Options granted under the US Plan may have a term of up to ten years and must have an exercise price of at least 85% of the fair market value of the Ordinary Shares on the date of grant. Options are exercisable in one or more instalments over the optionholder's period of employment and are subject to earlier termination in connection with the optionholder's cessation of employment. The exercise price for Ordinary Shares purchased under the US Plan may be paid in cash, by cheque or in Ordinary

Shares valued at the fair market value on the exercise date. The options may also be exercised through the same day sale of a portion of the purchased shares, with the proceeds applied to the payment of the exercise price, or through the delivery of a full recourse, interest bearing promissory note.

The plan administrator has the authority, with the consent of affected optionholders, to cancel outstanding options under the US Plan in return for the grant of new options for the same or a different number of option shares with an exercise price per share based upon the fair market value of the Ordinary Shares on the new grant date.

In the event that the Company is acquired or undergoes a change in control, each outstanding option may be exchanged for a new option which is the economic equivalent of the exchanged option but which relates to shares of the successor corporation or other affiliated entity. Options which are not so exchanged will terminate. The Board has the discretion to accelerate the vesting of outstanding options under the US Plan in connection with changes in control, whether or not those options are to be exchanged in the transaction. The plan administrator has discretion to accelerate options in the event of a change of control.

The Board may amend or modify the US Plan at any time, subject to Shareholder approval. The US Plan will terminate no later than June 2008.

5.2 Outstanding Options

(a) The table below shows details of the options that were outstanding to Directors under Autonomy Share Schemes on 17 May 2005 (the latest practicable date prior to the publication of this document). No consideration was paid for the grant of the options:

Name	Date Option Granted	Exercise Period	Option Exercise Price per Ordinary Share (£)	Number of Ordinary Shares
Michael R. Lynch	—	—	—	—
Richard G. Gaunt	—	—	—	—
Sushovan T. Hussain	30/07/2001	30/07/2002–29/07/2009	2.56	50,000
	01/11/2001	01/11/2002–31/10/2009	2.81	10,000
	15/03/2002	15/03/2003–14/03/2010	4.04	10,000
	02/05/2002	02/05/2003–01/05/2010	3.42	25,000
	11/07/2002	11/07/2003–10//07/2010	1.21	5,000
	19/07/2002	19/07/2003–18/07/2010	1.35	100,000
	06/02/2003	06/08/2004–05/02/2010	1.31	70,000
	21/11/2003	21/05/2004–20/11/2010	2.17	75,000
	10/05/2004	10/11/2005–16/12/2011	2.21	25,000
	17/12/2004	17/06/2005–16/12/2011	1.67	100,000
Barry M. Ariko	—	—	—	—
John P. McMonigall	—	—	—	—
Richard N. Perle	—	—	—	—

Options vest on either a three or four year vesting schedule, with equal portions vesting on the three month anniversaries of the dates of grants, subject to an initial cliff vesting period of either six or twelve months.

None of the share options detailed above have lapsed during the last year.

(b) In addition to those options detailed in paragraph 5.2(a) above, there were options over 5,400,000 Ordinary Shares outstanding on 17 May 2005 (the latest practicable date prior to publication of this document). No consideration was paid for the grant of the options.

6. Directors' and Principal Shareholders' Interests in Autonomy

6.1 As at 17 May 2005 (the latest practicable date prior to the publication of this document) the interests of the Directors and persons connected with them within the meaning of section 346 of the Act in the issued share capital of Autonomy (all of which, unless otherwise stated, are beneficial) which (i) have been notified by each Director to the Company pursuant to sections 324 or 328 of the Act; or (ii) are required pursuant to section 325 of the Act to be entered in the register referred to therein; or (iii) are interests of a connected person of the Director and which would, if the connected person were a Director, be required to be disclosed under (i) and (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by the Director were as follows:

			Percentage of Ordinary Shares Beneficially Owned	
Name of Beneficial Owner	Number of Ordinary Shares	Number of Options/ Warrants	Prior to the Acquisition	Immediately after Completion
Directors:				
Michael R. Lynch	18,821,532	—	17.44%	15.86%
Richard G. Gaunt	2,456,240	—	2.28%	2.07%
Sushovan T. Hussain	—	470,000	—	—
Barry M. Ariko	—	—	—	—
John P. McMonigall	—	—	—	—
Richard N. Perle	—	—	—	—

6.2 Save as disclosed below, no Director has had any interest, direct or indirect, in any transaction which is unusual in its nature or conditions or significant in relation to the business of Autonomy and which was effected during the current or immediately preceding financial year or which was effected during any earlier financial year and which remains in any respect outstanding or unperformed:

(a) Dr. Lynch owns approximately 51% of the shares of Neurodynamics Limited and Apax Partners owns the balance of shares of this company.

Neurodynamics Limited owns Cambridge Neurodynamics Limited, a company engaged in the application of pattern recognition concepts to biometrics, video surveillance and images.

During the years ended 31 December 2003 and 31 December 2004, the Company incurred expenses of US$189,000 and US$88,000 respectively for software development services from Cambridge Neurodynamics Limited and billed rent charges and recharges of other expenses to Cambridge Neurodynamics Limited of US$125,000 and US$147,000. Cambridge Neurodynamics Limited owed the Company US$37,000 and US$36,000 at 31 December 2003 and 31 December 2004 respectively. The Company owed Cambridge Neurodynamics Limited US$nil and US$4,000 at 31 December 2003 and 31 December 2004 respectively.

(b) In September 2004, the Company acquired 100% of the equity of NHoldings Limited and its wholly-owned subsidiary NCorp Limited, providers of software for the processing of structured data. At the time of the acquisition Apax Partners (of which Mr McMonigall is a Director) was one of the selling shareholders in NHoldings Limited.

6.3 There are no arrangements under which any of the Directors has waived or agreed to waive future emoluments or under which the total emoluments of any Directors will be varied in consequence of the Acquisition.

7. Substantial Shareholdings

7.1 Save as disclosed below or in paragraph 6.1 above, as at 17 May 2005 (the latest practicable date prior to the date of publication of this document), so far as is known to the Company, no person is, directly or indirectly, interested in 3 per cent. or more of its issued share capital; nor of any persons who directly or indirectly, jointly or severally, will exercise or could exercise control over the Company:

	Number of Ordinary Shares	Percentage of Ordinary Shares Beneficially owned — Prior to the Acquistion	Percentage of Ordinary Shares Beneficially owned — Immediately after Completion
Three Per Cent. Shareholders (other than Directors):			
The Capital Group Companies, Inc.	10,652,429	9.87%	8.98%
Fidelity International Limited	11,351,193	10.52%	9.57%
Bluecrest Equity Master Fund Limited	5,466,171	5.07%	4.61%
Oppenheimer Funds	5,036,276	4.67%	4.25%
Prudential plc	3,752,682	3.48%	3.16%
Legal and General plc	3,349,779	3.11%	2.82%

8. Directors' other directorships

8.1 The names of all other companies (other than subsidiaries of Autonomy) in which the Directors are or were directors and/or in relation to partnerships the names of all partnerships in which the Directors are or were partners, at any time in the previous five years as set out below:

Name	Company/partnership	Continuing directorship/ partnership
Michael R. Lynch	Cambridge Neurodynamics Limited	Yes
	Neurodynamics Limited	Yes
	Tobyview Limited	Yes
	Paradigm Media Investments plc	No
	Talkcast Corporation plc	No
	Avocet Capital Limited	No
	Name Swap Job Limited	No
	Brumaire Limited	No
Richard G. Gaunt	Cambridge Neurodynamics Limited	Yes
	Neurodynamics Limited	Yes
	Neurascript Holdings Limited	No
Sushovan T. Hussain	Zynap Limited	Yes
Barry M. Ariko	Extricity Limited	No
	Extricity, Inc.	No
	Peregrine Systems, Inc.	No
	Mirapoint, Inc.	Yes
	Aspect Communications, Inc.	Yes
	Incyte, Inc.	Yes
	Instranet, Inc.	Yes
John P. McMonigall	Crane Telecommunications Group Ltd	Yes
	Apax Partners Strategic Investors Ltd	No
	Apax Partners Holdings Ltd	No
	Apax Scotland Ventures IV Co. Limited	No
	Filtronic Reorganisation Limited	No
	Portland Place S.I. Limited	No
	Neurodynamics Limited	Yes
	Apax Scotland VI Co. Limited	No
	Dialog Semiconductor plc	Yes
	Highwayone Corporation Limited	No
	Jazztel P.L.C.	No
	Argo Interactive Group plc	No
	O S C Residents Association (HW) Limited	Yes
	Connaught Commercial Services Limited	No
	Xpedite Systems Limited	No
	Apax Partners Limited	No

Name	Company/partnership	Continuing directorship/ partnership
	Neurascript Holdings Limited	No
	Baltimore Technologies plc	No
	Telefficiency Limited	No
	Zergo Holdings Limited	No
	Designbrick Limited	Yes
	Highwayone Group Limited	No
	Synetrix (Holdings) Limited	Yes
	Starthere	Yes
	Chalkfree Limited	Yes
	Apax Partners Europe Managers Limited	Yes
	Apax PP Nominees Limited	No
	Apax Partners WW Nominees Limited	No
Richard N. Perle	Napro Biotherapeutics, Inc.	Yes
	The Morgan Crucible Company plc	No
	Hollinger International, Inc.	Yes
	Hollinger Digital, Inc.	Yes
	The Jerusalem Post	Yes
	New Boston Select Group, Inc.	Yes
	E-Certify, Corp.	Yes
	Onset Technologies, Inc.	Yes
	FNNS Savunma Sanayii S.A.	Yes

8.2 None of the Directors have:

(a) been a director of any company or partner in any partnership at any time in the five years prior to the date of this document, other than as disclosed in paragraph 8.1 above;

(b) any unspent convictions in relation to indictable offences;

(c) been declared bankrupt or entered into any individual voluntary arrangement;

(d) whilst a director with an executive function of any company, entered into, or been a director in any company in the twelve months prior to any such company entering into, any receiverships, compulsory liquidations, creditors voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with any such company's creditors generally or any class of any such company's creditors;

(e) whilst a partner of any partnership entered into, or been a partner in the twelve months prior to such partnership entering into, any compulsory liquidations, administrations or partnership voluntary arrangements;

(f) entered into any receivership of any asset or of a partnership of which they were a partner at the time of or within the 12 months preceding such event; or

(g) been publicly criticised by any statutory or regulatory authority including any designated professional body and has never been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

8.3 No loans or guarantees have been granted or provided to, or for the benefit of, the Directors by any company within the Group.

9. Subsidiary Undertakings

The Company is the ultimate parent company of the Group and has the following subsidiary undertakings, being those considered by Autonomy to be likely to have a significant effect on the assessment of the assets and liabilities, financial position and/or profits and losses of Autonomy. Each subsidiary undertaking is wholly owned and included in the consolidated accounts of the Company. Each of the subsidiaries operates in its country of incorporation.

Name	Country of Incorporation	Principal Activities	Registered Office

Agentworld Inc.	USA	Dormant	One Market, Spear Tower, 19th Floor, San Francisco, CA 94105, USA
Autonomy, Inc.	USA	Software development and distribution	One Market, Spear Tower, 19th Floor, San Francisco, CA 94105, USA
Autonomy Systems Limited	England and Wales	Software development and distribution	Cambridge Business Park, Cambridge, Cambridgeshire, CB4 0WZ
Autonomy Nordic AS	Norway	Software distribution	Fridtjof Nansens Plass 4, 0160 Oslo, Norway
Autonomy Belgium BVBA	Belgium	Software distribution	Bessenveldstraat 25, 1831 Diegem, Belgium
Autonomy Germany GmbH	Germany	Software distribution	Leopoldstrasse 244, Munich D-80807, Germany
Autonomy France Sarl	France	Software distribution	112 Avenue Kleber, 75116 Paris, France
Autonomy Italy Srl	Italy	Software distribution	Via Vittor Pisani 16, 20124 Milan, Italy
Autonomy Netherlands BV	Netherlands	Software distribution	Teleport Towers, Kingsfordweg 151, 1043 Amsterdam, Netherlands
Autonomy Spain SL	Spain	Software distribution	Paseo de la Castellana, 28046 Madrid, Spain
Autonomy Systems Singapore Pte Ltd	Singapore	Software distribution	8 Cross Street, #11-00 PWC Building, Singapore 048424
Autonomy Sweden AB	Sweden	Software distribution	Brunnsgaten 9, 11138 Stockholm, Sweden
Dremedia Limited	England and Wales	Software development	Cambridge Business Park, Cowley Road, Cambridge, Cambridgeshire, CB4 0WZ
NHoldings Limited	England and Wales	Holding company	Cambridge Business Park, Cowley Road, Cambridge, Cambridgeshire, CB4 0WZ
Softsound Limited	England and Wales	Software development	Cambridge Business Park, Cowley Road, Cambridge, Cambridgeshire, CB4 0WZ
Virage, Inc.	USA	Software development	One Market, Spear Tower, 19th Floor, San Francisco, CA 94105, USA
Virage Europe Limited	England and Wales	Software distribution	Cambridge Business Park, Cowley Road, Cambridge, Cambridgeshire, CB4 0WZ
Virage GmbH	Germany	Software distribution	Leopoldstrasse 244, Munich D-80807, Germany

10. Material Contracts relating to Autonomy

10.1 Except as disclosed or referred to in paragraphs 10.2 below:

(a) no contracts other than contracts entered into in the ordinary course of business have been entered into by any member of the Group within the two years immediately preceding the date of this document which are, or may be, material; and

(b) no contracts have been entered into by any member of the Group, not being contracts entered into in the ordinary course of business, which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

10.2 The following agreements have been entered into by a member of the Group in the two years immediately prior to the publication of this document and are otherwise than in the ordinary course of business:

(a) On 9 July 2003, the Company and Violet Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of the Company entered into an Agreement and Plan of Merger with Virage, Inc., a Delaware corporation. Pursuant to the terms of the agreement, which completed on 2 September 2003, Violet Merger Sub, Inc. merged with and into Virage, Inc., with Virage, Inc. surviving the merger as a wholly owned subsidiary of the Company. The aggregate consideration paid by the Company was approximately US$28.3 million The net cash purchase price was approximately US$13.3 million adjusted for Virage's cash balance as of 30 September 2003. In the merger each issued and outstanding share of Virage, Inc. common stock, par value US$0.001 per share was converted automatically into the right to receive US$1.10 in cash.

(b) On 19 April 2005, the Company, Cowboys Acquisition Corp. (a wholly owned subsidiary of the Company) and etalk entered into the Acquisition Agreement, which is governed by the laws of the State of New York, whereby the Company has agreed, subject to the satisfaction of certain conditions, including Shareholder and etalk Stockholder approval to acquire the entire issued share capital of etalk from the etalk Stockholders.

Under the terms of the Acquisition Agreement, Cowboys Acquisition Corp. will merge with and into etalk, with etalk surviving as a wholly owned subsidiary of Autonomy.

The aggregate consideration for the Acquisition (termed the Merger Consideration) is to be up to US$93 million, made up of (i) US$30 million in cash at Completion, (ii) 10,755,890 Ordinary Shares (valued at US$40 million under the terms of the Acquisition Agreement or US$40.7 million if it had been based on the mid-market closing share price of Ordinary Shares on the London Stock Exchange on 17 May 2005 (being the last practicable date prior to the date of publication of this document); and (iii) up to US$23 million, payable in Ordinary Shares if etalk meets or exceeds certain pre-agreed software bookings targets.

Under the terms of the Acquisition Agreement, each outstanding share of Common Stock shall be converted into and exchangeable for the right to receive (i) the Common Stock Share Consideration and (ii) the Common Stock Per Share Cash Consideration and shall thereafter be cancelled. Each outstanding share of Preferred Stock shall be converted into the right to receive cash in an amount equal to the Preferred Stock Merger Consideration and thereafter cancelled.

Up to US$23 million may be payable as an earnout payment to etalk Common Stockholders in the form of Ordinary Shares, contingent, amongst other things, upon etalk meeting or exceeding pre-agreed software bookings targets or if etalk's Chief Executive Officer has his employment with etalk terminated without cause by the Company before the first anniversary of Completion. These targets are broadly as follows: if, during the six month period after Completion, etalk's cumulative software bookings are equal to or greater than US$9.2 million, then an earnout payment of US$11.5 million shall be made; and if, during the nine or twelve month periods after Completion, etalk's cumulative software bookings are equal to or greater than US$13.8 million and US$18.4 million respectively, then a cumulative earnout payment of US$23 million shall be made. In the event that none of the etalk management upside projections are met but etalk achieves the base projections, the Company shall make a partial earnout payment to etalk Stockholders equal to the product of US$3.60 multiplied by each incremental US$1.00 of aggregate software bookings in excess of US$12 million for the period ending 12 months after Completion.

If the Average Company Closing Share Price is less than 131.55p, etalk has the right to terminate the Acquisition Agreement unless the Company agrees to increase the Common Stock Share Consideration by a factor equal to 131.55p divided by the Average Company Closing Share Price. Similarly, if the Average Company Closing Share Price is greater than 273.23p, the Company has the right to terminate the Acquisition Agreement unless etalk agrees to decrease the Common Stock Share Consideration by a factor equal to 273.23p divided by the Average Company Closing Share Price.

All outstanding etalk Options immediately prior to Completion shall be assumed by the Company and shall continue to have, and be subject to, the same terms and conditions as are in effect immediately prior to Completion except such assumed etalk Options shall be exercisable for that number of Ordinary Shares equal to the product of (i) the number of shares of Common Stock subject to such option and (ii) the sum of the Common Stock Share Consideration plus the fractional Ordinary Share obtained by dividing the Common Stock Per Share Cash Consideration by the Average Company Share Price. All such options have an exercise price significantly higher than the mid-market closing share price of Ordinary Shares on 17 May 2005 (being the last practicable date prior to the date of publication of this document), with an average exercise price per share of US$149,000, as converted. The maximum number of Ordinary Shares which would be issued upon exercise of all such options would be 9.5575, which would be satisfied under the Company's existing option schemes, although the Company believes it is unlikely any shares would be issued given the relative exercise prices. Any acquisition consideration with respect to each share of Common Stock which is unvested at Completion and subject to etalk's right or option to repurchase at the original price paid per share (the "Repurchase Option") or other forfeiture provision shall also be unvested and subject to the same Repurchase Option or other forfeiture provision. Such unvested acquisition consideration shall be held in escrow by Autonomy and shall be released to the record owner of that share of Common Stock when the share to which that acquisition consideration is attributable would have otherwise vested in accordance with the vesting schedule in effect for such share immediately prior to Completion.

The Acquisition Agreement contains a number of customary representations and warranties made by etalk, Autonomy and Cowboys Acquisition Corp. The representations and warranties of etalk shall (subject to certain exceptions) survive for a period of 12 months. The etalk Stockholders have agreed that an amount equal to US$9.3 million shall be subject to an escrow to provide recourse to Autonomy for any indemnity obligations of the etalk Stockholders as a result of a breach of an etalk representation or warranty.

etalk has agreed that, unless approved by Autonomy, during the period between the signing of the Acquisition Agreement and Completion it will act and carry on its business in the ordinary course in substantially the same manner as previously conducted and use its reasonable best efforts, consistent with past practices, to maintain and preserve its present business organisation, keep available the services of its present executive employees and preserve its relationships with customers, suppliers, distributors and others having business dealings with it.

etalk has also agreed that during the period between the signing of the Acquisition Agreement and Completion it will not: (a) initiate, solicit or seek, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including any proposal or offer to its stockholders or any of them) with respect to a merger, acquisition, consolidation, recapitalisation, liquidation, dissolution, equity investment or similar transaction involving, or any purchase of all or any material portion of the assets or any securities of, etalk (any such proposal or offer being hereinafter referred to as a "Proposal"); (b) engage in any negotiations concerning, or provide any confidential information or data to, or have any substantive discussions with, any person relating to a Proposal; (c) otherwise cooperate in any effort or attempt to make, implement or accept a Proposal; or (d) enter into an agreement with any person relating to a Proposal.

Pursuant to the terms of the Acquisition Agreement, after Completion for a period of six years to the extent permitted by law, Autonomy will indemnify and will cause the Enlarged Group to indemnify the individuals who are or were directors or officers of etalk as of or before Completion for any claims, losses and damages they incur arising out of or pertaining to matters existing or occurring at or prior to Completion, whether asserted or claimed prior to or after Completion, to the extent that such obligations to indemnify and hold harmless existed on the date of the Acquisition Agreement. The indemnity is uncapped as is customary in this type of agreement in the United States.

Additionally, for a period of six years after Completion, Autonomy will cause the Enlarged Group to maintain (to the extent available in the market) in effect a directors' and officers' liability insurance policy covering those persons who were covered by etalk's directors' and officers' liability insurance policy on the date of the Acquisition Agreement, with coverage in amount and scope at least as favourable to such persons as etalk's existing coverage on the date of the Acquisition Agreement.

11. Material contracts relating to etalk

11.1 Except as disclosed or referred to in paragraph 11.2 below:

(a) no contracts other than contracts entered into in the ordinary course of business, have been entered into by any member of the etalk Group within the two years immediately preceding the date of this document which are, or may be, material; and

(b) no contracts have been entered into by any member of the etalk Group, not being contracts entered into in the ordinary course of business, which contain any provision under which any member of the etalk Group has any obligation or entitlement which is material to the etalk Group as at the date of this document.

11.2 The following agreements have been entered into by a member of the etalk Group in the two years immediately prior to the publication of this document and are otherwise than in the ordinary course of business:

(a) On 19 April 2005, etalk entered into the Acquisition Agreement, as detailed in paragraph 9.3 of this Part IX, above; and

(b) On 11 December 2003, etalk, certain lenders of etalk and certain stockholders entered into a Recapitalization Agreement, pursuant to which (i) the senior lenders exchanged approximately US$55.37 million in outstanding debt under the existing senior credit agreement for approximately 100% of the Series A Preferred Stock and Class A Common Stock, (ii) subordinated lenders exchanged approximately US$22.14 million in outstanding debt under the subordinated investment and loan agreement for 100% of the Series B Preferred Stock and Class B Common Stock and (iii) all shares of the common stock existing prior to the effective date of the Recapitalization Agreement were combined and re-designated as Class C Common Stock effective on 31 December 2003 so that after the recapitalisation every 100,000 shares of existing common stock were converted into one share of Class C Common Stock. In addition, the exercise prices for options, warrants and other common stock equivalents were appropriately increased. After the effective date of the Recapitalization Agreement, on 31 December 2003, the senior lenders held approximately 90% of the outstanding preferred stock and approximately 95% of the outstanding common stock, the subordinated lenders held approximately 10% of the outstanding preferred stock and approximately 5% of the outstanding common stock and the holders of common stock prior to the effective held approximately .01% of the outstanding common stock immediately following the effective date.

12. Consent

12.1 Deloitte & Touche LLP has given and has not withdrawn its written consent to the inclusion in this document of its reports and references to it in the form and context in which they are included and has authorised the contents of its reports and the letters for the purposes of Regulations 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

12.2 Société Générale has given and has not withdrawn its written consent to the inclusion in this document of its name and references to it in the form and context in which they appear.

13. Working Capital

In the opinion of the Company, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's present requirements, that is for at least the next 12 months from the date of publication of this document.

14. Significant Changes relating to Autonomy

There has been no significant change in the financial or trading position of the Group since 31 March 2005, being the date to which its most recent unaudited quarterly results, set out in Section B of Part V, were published.

15. Significant Change relating to etalk

There has been no significant change in the financial or trading position of the etalk Group since 31 December 2004, being the date to which its most recent audited financial results were published, and for which an accountant's report is given in Part VI of this document.

16. Litigation relating to Autonomy

Neither the Company nor any of its subsidiaries is, or has been, engaged in any legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company is aware, which may have or has had during the twelve months prior to the date hereof, a significant effect on the Group's financial position.

17. Litigation relating to etalk

etalk is not, and has not been, engaged in any legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company is aware, which may have or has had during the twelve months prior to the date hereof, a significant effect on etalk's financial position.

18. Settlement and listing and dealings

18.1 Settlement

The Consideration Shares and any Earnout Shares will be in registered form and will be capable of being held in certificated or uncertificated form. Upon Completion, the Company will (subject to etalk complying with all its obligations under the Acquisition Agreement) through its exchange agent allot and issue for the benefit of the etalk Stockholders the Consideration Shares in the form of Ordinary Shares, credited as fully paid. The Consideration Shares will rank *pari passu* in all respects with the Existing Shares, including the right to all dividends and other distributions declared thereon after the date on which they are issued.

No temporary documents of title will be issued in respect of the Consideration Shares.

18.2 Listing and dealings

The Ordinary Shares are currently listed on the Official List and traded on the London Stock Exchange's market for listed securities.

Application has been made to the UK Listing Authority for the Consideration Shares to be admitted to the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on its market for listed securities. The applications relating to the Earnout Shares will be made as and when they are issued. The Ordinary Shares are, and the Consideration Shares and any Earnout Shares will be, registered securities and may be held in uncertificated form. The Consideration Shares and any Earnout Shares will be credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid.

No Ordinary Shares have been or will be marketed or made available to the public in whole or in part in conjunction with the application for listing and trading of those securities.

Dealings on the London Stock Exchange in the Consideration Shares are expected to commence on or before 8:00 a.m. on 6 June 2005 or as soon as practicable following the Extraordinary General Meeting. Dealings on the London Stock Exchange in any Earnout Shares are expected to commence at 8.00 a.m. (London time) on the first business day seven and/or ten and/or thirteen months after Completion.

19. General

19.1 There are currently no foreign exchange control restrictions on the Company's ability to pay dividends on the Ordinary Shares or on the conduct of the Company's operations imposed by English law.

19.2 The issue price for each Consideration Share is 205.5p (with a nominal value of ⅓p), the mid-market closing price of the Ordinary Shares, as derived from the Official List, on the last business day before the posting of this document and therefore they will not be issued at a premium to market value.

19.3 The total expenses of or incidental to the Acquisition which are payable by the Company are estimated to amount to approximately US$2.4 million (including VAT, if any).

20. Forward-Looking Statements

This document contains forward-looking statements. These forward-looking statements are not historical facts, but rather are based on the Company's current expectations, estimates and projections about its industry, its beliefs and assumptions. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the Company's control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. These factors include, amongst others, the ability to consummate the transaction; the ability of Autonomy to successfully integrate etalk's operations and employees; the ability to realise anticipated synergies and cost savings; technology risks, including dependence on core technology; fluctuations in quarterly results; dependence on new product development; rapid technological and market change; reliance on sales by others; management of growth; dependence on key personnel; rapid expansion; growth of the internet; financial risk management; and future growth subject to risks. A number of principal risks and uncertainties known at this time are described at Part IV of this document, entitled "Risk Factors", and elsewhere in this document. The Company cautions Shareholders and prospective Shareholders not to place undue reliance on these forward-looking statements, which reflect the view of the Company only as of the date of this document. The forward-looking statements made in this document relate only to events as of the date on which the statements are made.

21. Documents Available for Inspection

Copies of the following documents may be inspected at the offices of: (i) the Company, Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ; and (ii) Wilmer Cutler Pickering Hale and Dorr LLP, Alder Castle, 10 Noble Street, London EC2V 7QJ, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the earlier of Completion or termination of the Acquisition Agreement:

21.1 the memorandum of association of Autonomy and the Articles;

21.2 the audited consolidated accounts of Autonomy for the periods ended 31 December 2002, 31 December 2003 and 31 December 2004;

21.3 the audited consolidated accounts of etalk for the periods ended 31 December 2002, 31 December 2003 and 31 December 2004;

21.4 the unaudited quarterly accounts of Autonomy for the three month period ended 31 March 2005;

21.5 the accountants' report set out in Part VI of this document;

21.6 the unaudited pro-forma statement of net assets and the associated letter from Deloitte & Touche LLP;

21.7 the reconciliation of etalk's financial information to conform with Autonomy's accounting policies and the associated letter from Deloitte & Touche LLP as set out in section B of Part VI of this document;

21.8 the Circular;

21.9 the written consents referred to in paragraph 12 of this Part IX of this document;

21.10 the service agreements and letters of engagement referred to in Part VII of this document;

21.11 the material contracts referred to in paragraphs 10 and 11 of this Part IX of this document; and

21.12 this document.

18 May 2005

PART X

GLOSSARY OF TECHNICAL TERMS

"algorithms"	the calculations made by search engine software that determine how a website is ranked within a search result list. Each search engine will use a different set of algorithms and factors such as a website's title, body copy, meta-tags and link popularity may be important in achieving a high search engine ranking
"Boolean search"	a search formed by joining simple terms with AND, OR and NOT for the purpose of limiting or qualifying the search
"IDOL"	Intelligent Data Operating Layer software which acts as a complete infrastructure layer for all forms of unstructured information, analysing the information and then automatically performing operations on this information. IDOL serves as the infrastructure for the Company's own products and for a variety of applications developed by OEMs
"OEMs"	third party Original Equipment Manufacturers
"parametric search"	a type of search that looks for objects that contain a numeric value or attribute, such as dates, integers, or other numeric data types
"PBX/ACD switch"	private branch exchange/automatic call distribution
"unstructured information"	electronic content, such as Web pages, e-mails, word processing documents, speech and video, that has not been organised in a relational manner
"Voice Over Internet Protocol Systems"	systems that allow the sending of voice information in inconspicuous digital form rather than in the traditional circuit-committed protocols of the public switched telephone network

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