Autonomy Corporation plc

Consolidated Financial Statements
for the year ended 31 December 2006
together with Directors' and Auditors' Reports
Registered Number. 3175909

Autonomy

Dear Autonomy Investor,

2006 was an extraordinary year for Autonomy in every sense, and it is my great pleasure to present to you our results from another excellent year During 2006 Autonomy firmly established itself as the market number one, outpacing all others with leading revenue growth, profits, R&D investment, customers, employees, cash generation and market position

Our growth and expansion has always been driven by the goal of establishing Autonomy as the key infrastructure for the automated handling of all forms of unstructured information such as text, audio and video Following this unwavering goal we have achieved sales success and proven our profitable business model, and have created a special software company which is leading the market

In 2006 we produced **record results** in every area, which is enabling us to build on our position In this letter let me recap for you our successes during 2006, as well as comment on some of the trends we saw in our business during the year

Financial Results In 2006 revenues, operating profits, profit before tax and EPS all soared from our previous records in 2005, driven by a combination of strong organic growth and our strategic acquisitions in 2005 Autonomy's growth continues to outperform the sector despite our ongoing significant investment in research and development for the future 2006 achievements included

- Record revenues, up 161% from 2005, with strong organic growth and full year impact of acquisitions
- Profit from operations up 529% from 2005
- Net profit up 337% from 2005
- R&D investment up 136% year-on-year
- Cemented Autonomy's position as the industry leader
- Strong positive cash flow throughout 2006, generating $46 9m of cash from operations in 2006 (2005 $17 7m)
- Cash balance of $121 1m at year end
- Received outstanding achievement award from the London Stock Exchange for our acquisition of Verity
- More than 50 OEM deals, including new and extended agreements with HP, IBM, Oracle and EMC
- Share price up 31% during 2006, outpacing the FTSE100 and FTSE250 and following a 163% rise in 2005

Accolades Throughout 2006 Autonomy was recognized by industry analysts as the unmatched market leader Accolades included

- IDC said "The clear leader in enterprise search is Autonomy" –IBD, June 27, 2006
- "Autonomy leads in security, capabilities breadth, and corporate strategy IDOL is the most complete, integrated platform" - Forrester 2006
- "[Autonomy's] vision and execution status is founded on sound financials, a strong and growing customer list, and a vigorous vision for the burgeoning role of information access" - Gartner 2006
- "Autonomy eclipses its next closest competitor" - Forrester 2006

Cambridge San Francisco Boston New York Washington DC
Amsterdam Buenos Aires Beijing Tokyo Brussels Frankfurt
Hamburg London Madrid Milan Munich Oslo Paris Rome
Shanghai Singapore Stockholm Sydney Kuala Lumpur

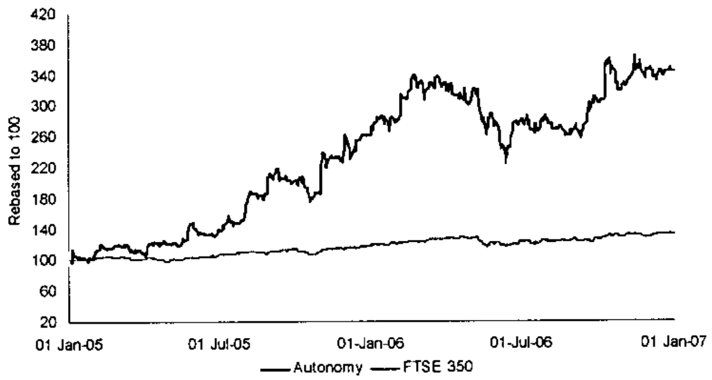
Operations We saw growth in every geographical market we're engaged, including for example growth of 206% in our German operations and 311% in China

Our strong R&D investment throughout the downturn, including an increase in R&D spend in 2006 of 136% from 2005, is seeing clear returns 2006 saw significant Autonomy product developments, with the continued development of industry-leading new technologies, including IDOL 7 0, a major upgrade of our award-winning core product, and the launch of new divisional applications

The results of our investment can also be seen in the continued success of our vertical divisions, including Aungate, Autonomy's award-winning division specializing in compliance, litigation and risk technology, etalk, a leading provider of next-generation contact center technology, Virage, a leading provider of security and surveillance software and rich media content management software, and Cardiff, a leading provider of business process management software Each of these divisions is founded on Autonomy's unique Intelligent Data Operating Layer, our core infrastructure for automating the handling of all forms of unstructured and structured information

The business value of Autonomy's infrastructure technology and its demonstrable ROI are ultimately borne out by our average selling price, which rose throughout 2006 to reach $380,000 in the fourth quarter

The net result of all of the activity in 2006 was clearly reflected in Autonomy's share price, up 31% during 2006, following Autonomy's performance as the best performing stock in the FTSE250 in 2005 Our two year performance is in the graph below



Acquisitions I am pleased to report that our acquisitions during 2005 have delivered significant results, following rapid and successful integrations The combination of Autonomy and Verity created the unmatched leader in the space Autonomy was awarded the Achievement of the Year Award 2006 at the techMARK Awards for the success of the acquisition The techMARK Awards, organized by the London Stock Exchange, are designed to reward outstanding achievement in the technology market The acquisition of etalk Corporation in 2005 further extended the adoption of Autonomy's IDOL infrastructure into the contact center market

Trends In 2006 we saw a continuation of the trend towards corporate standardization Leading organizations continue to realize that their strategy for handling unstructured information is as fundamental as their decisions about the database Just as they may have made a decision to standardize on Oracle or SAP companies now standardize the handling of unstructured information and are choosing Autonomy to do it In this regard, I am pleased to note that a series of companies such as GlaxoSmithKline, Bloomberg and Shell have all standardized on Autonomy

The last few years have continued to see explosive growth in the use of unstructured information, which includes documents, emails, telephone conversations and multimedia More than 85% of all information inside an enterprise is now unstructured and this 'human-friendly' information has traditionally been difficult for computers to understand and use As always, our position in the market is underpinned by our unique value proposition to provide the software infrastructure that automates operations on all forms of information The unique nature of our technology delivers the only platform truly built around Meaning Based Computing, enabling computers to understand the relationships that exist between disparate pieces of information and perform sophisticated analysis operations with real business value, automatically and in real-time Through the understanding of information Autonomy empowers organizations to understand and capitalize on the information that really matters to their business by enabling computers to process human-friendly unstructured information, such as text documents, emails, voice and video, without the need for manual intervention

The net result of a strong 2006 and our continued investments in research and development and people means we remain well placed operationally and financially to drive continued growth again in 2007 I take this opportunity to thank once again our customers, shareholders, employees and partners for their continued support

Dr Michael R Lynch
Chief Executive Officer and Co-Founder
13 March 2007

The following financial review includes certain financial information extracted without adjustment from our consolidated financial statements prepared in accordance with International Financial Reporting Standards This financial information is a summary and you should read the entire Annual Report carefully

Operating Results
Revenues for 2006 totalled $250 7 million, up 161% from $96 0 million in 2005 Sales were positively impacted in 2006 by organic growth, together with the full year impact of the acquisitions of etalk in June 2005 and Verity, Inc in December 2005 These results reflect our ongoing strategy focussed on licensing of our core IDOL software and pre-configured applications

Cost of revenues (excluding amortisation of purchased intangibles) in 2006 totalled $23 6 million, up 300% from $5 9 million in 2005 The increase from 2005 to 2006 was primarily due to increased support staff and increased consulting services, each of which increased as a result of increased revenues, together with a small change in mix of revenues following 2005 acquisitions

Amortization of purchased intangibles arise in connection with acquisitions Amortization of purchased intangibles in 2006 totalled $8 0 million, up 400% from $1 6 million in 2005 The increase in amortization of purchased intangibles from 2005 to 2006 reflects the full year impact in 2006 of the etalk and Verity acquisitions, which were completed in June 2005 and December 2005 respectively

Gross profit in 2006 totalled $219 1 million, up 147% from $88 5 million in 2005, commensurate with the increase in revenues but also affected by the cost trends discussed above Gross margins increased throughout 2006 through the transition of the core etalk and Verity businesses to higher margin sales

Research and development expenses in 2006 totalled $51 7 million, up 136% from $21 9 million in 2005 The increase in research and development expenses from 2005 to 2006 was primarily due to increased headcount and associated expenses, both from increased investment in the company's core technology together with new investment arising from the etalk and Verity acquisitions

Sales and marketing expenses totalled $86 4 million in 2006, up 114% from $40 3 million in 2005 The increase in sales and marketing expenses from 2005 to 2006 was primarily due to increased advertising, additional headcount and an increase in sales commissions due to an increase in sales and a change in the geographic and size-of-transaction mix, all of which also increased with the expansion of the group in 2005

General and administrative expenses totalled $24 7 million in 2006, up 122% from $11 1 million in 2005 The increase in general and administrative expenses from 2005 to 2006 was due to an increase in headcount and legal, accounting and tax advice necessitated by the enlarged group

Post-acquisition restructuring costs were not incurred in 2006, versus costs of $5 8 million in 2005 Such costs were non-recurring costs associated with the acquisitions of etalk and Verity

Loss on foreign exchange totalled $0 4 million in 2006, compared to a gain of $0 2 million in 2005 This is a non-monetary translation of the value of our foreign currencies Movement is affected by the relative value of the U S dollar versus foreign currencies, and the mix of our foreign currency cash balances

Profit from operations totalled $55 5 million in 2006, up 529% from $8 8 million in 2005 The increase in profit from operations from 2005 to 2006 reflects an increase in revenues from 2005 to 2006 offset by cost increases discussed above 2005 results also include the one-time post-acquisition restructuring costs discussed above The operational gearing of the company is such that the increased revenues of 161% have resulted in an increase in profit from operations of 529%

Loss on disposal of investments charges totalled $nil in 2006, compared to $0 3 million in 2005 ***Fair value adjustment of investments*** during 2006 totalled $0 3m, compared to $0 5 million in 2005 In both 2006 and 2005 the company partially wrote down one investment

Interest income totalled $3 7 million in 2006, down 4% from $3 8 million in 2005 Interest income in 2006 was impacted by lower average cash balances during 2006 than 2005 ***Interest payable*** totalled $2 6 million in 2006, all relating to the bank loan drawn down as partial consideration of the Verity acquisition

Profit before tax totalled $56 3 million in 2006, up 346% from $12 6 million in 2005 The increase in profit before tax reflects an increase in revenues from 2005 to 2006 offset by increases in costs discussed above

Income tax charges totalled $17 2 million in 2006, up 369% from $3 7 million in 2005 Effective income tax rates increased slightly from an effective group tax rate of 29 1% in 2005 to an effective rate of 30 6% in 2006 During 2005 the company recognised a deferred tax asset in relation to previous trading losses which reduced the effective tax rate

Net profit totalled $39 1 million in 2006, up 337% from $9 0 million in 2005

Basic and diluted earnings per share was at a record level of $0 21 per share in 2006, an increase of 200% from $0 07 in 2005

Liquidity and Capital Resources
Cash and cash equivalents totalled $121 1 million at 31 December 2006, versus $68 6 million at 31 December 2005 During 2006 cash was primarily utilized to repay the company's bank loan and for capital investments, with no material acquisitions during the year

Net cash generated by operations totalled $46 9 million in 2006, an increase of 165% from $17 7 million in 2005 The increase in cash generation from 2005 to 2006 was primarily related to increased revenues, increased operating margins and strong cash collection during 2006

Net cash used in investing activities totalled $26 4 million in 2006, down from $352 6 million in 2005 The majority of the expenditure in 2006 relates to provisions arising in connection with the Verity acquisition in 2005, such as advisors' fees and onerous lease provisions In addition, cash was used to acquire office equipment, internally generated intangible assets and further overseas investment In 2005, net cash of $28 1 million was used for the acquisition of etalk, and net cash of $320 5 million was used for the acquisition of Verity, with the balance used to acquire office equipment and software licenses, and to invest in the company's Chinese associate

Net cash provided by financing activities totalled $31 3 million in 2006, down from $307 5 million in 2005 Net cash provided by financing activities in 2006 was primarily from the proceeds of employee share option exercises, offset by repayment of the company's bank loan Net cash provided by financing activities in 2005 was primarily from the proceeds of the company's rights issue in November 2005 and the drawdown of the company's bank loan in December 2005, offset by cash used for the company's share repurchase program, which commenced during 2002 and continued into 2005 During 2006, the company did not purchase for cancellation any shares, versus the purchase for cancellation in 2005 of 593,942 shares at an average price of approximately £1 97 per share In total the company has purchased for cancellation an aggregate of 20,997,824 shares at an average price of approximately £1 65 per share

At 31 December 2006 the company had remaining bank debt of $32 6 million, having repaid $16 3 million during 2006 versus the original debt of $48 9 million drawn in 2005 as partial consideration for the purchase of Verity, Inc The company's commitment for 2007 under operating leases is $7 9 million, as discussed in note 23 The company does not have any material financial guarantees or related covenants Substantially all of the company's cash balances are held in short-term deposits paying market interest rates The company holds material cash balances in pounds sterling, U S dollars and Euros The company does not currently undertake currency hedging transactions to cover the company's transaction or translation exposures, but the company may choose to hedge a portion of these exposures in the future

The directors believe that the company's current cash and cash equivalents and cash generated from operations will be sufficient to meet the company's anticipated cash requirements for working capital and capital expenditures for at least the next 12 months

Other Balance Sheet Items
Goodwill has increased from $398 8 million at 31 December 2005 to $415 8 million at 31 December 2006 The increase relates primarily to reclassifications from purchased intangibles following completion of the purchase accounting in relation to 2005 acquisitions

Other intangible assets fell to $44 8 million at 31 December 2005 from $64 4 at the end of 2005, as a result of adjustments of $13 6 million relating to 2005 acquisitions discussed above, and amortisation of $8 6 million also relating to those acquisitions

Property, plant and equipment is at $6 2 million at 31 December 2006 compared to $8 6 million at the end of 2005 Additions of $1 5 million were offset by depreciation charges of $4 2 million

Equity and other investments increased by $2 1 million due to increased overseas investment

Deferred tax assets increased slightly at 31 December 2006 to $7 2 million from $6 7 million at the end of 2005

Trade and other receivables increased to $85 7 million at 31 December 2006, up from $64 7 million at the end of 2005 The increase is commensurate with the increased revenues of the group

Trade and other payables fell to $21 6 million at 31 December 2006 from $33 3 million at the end of 2005 The 2005 balance was unusually high due to acquisition-related items included in trade creditors or accruals These items were settled during 2006 and the balance has returned to normal levels

Tax liabilities at $2 4 million at 31 December 2006 are down $0 9 million from the end of 2005 The group made a number of payments on account during the year which have reduced the outstanding liability at the year-end

Deferred revenue increased to $52 5 million at 31 December 2006 from $51 9 million at the end of 2005 The increase is a combination of a significant increase in license business, offset by a reduction in services business which traditionally has greater deferred revenue

Provisions decreased by $12 3 million during 2006 as provisions established for 2005 acquisitions were utilized

Key Events
During 2006 the company continued to establish its core technology as the standard for automating the handling of all forms of unstructured information Towards this end the company's investment in research and development continued to deliver returns with strong organic growth across the company together with strong growth driven by recent acquisitions, including the acquisitions of etalk Corporation in June 2005 and Verity, Inc in December 2005

Key Risks
The key risks to which the business is exposed are summarized as follows

- Our business depends on our core technology, currently marketed under the brand IDOL Server, and our strategy has been, and for the foreseeable future will continue to be, to concentrate our efforts on developing and marketing software based on our proprietary technology Technology which significantly competes with the company's technology, or material legal claims against our technology, would present a material risk to the company
- Expenditures increasing without a commensurate increase in revenues, and rapid changes in market conditions, could result in poor operating results
- The average selling prices of our products could decrease rapidly, which may negatively impact revenues and gross margins
- The return of unfavorable economic and market conditions
- Our reliance on sales of our products by third parties such as value added resellers makes it difficult to predict our revenues, cash flow and operating results
- Our ability to expand sales through indirect sellers
- The continued service of our executive directors
- The hiring and retention of qualified personnel
- Errors or defects in our products, which could negatively affect our revenues and the market acceptance of our products and increase our costs
- Problems encountered in connection with potential acquisitions
- Claims by others that we infringe on their intellectual property rights

The company's policies applicable to employees addressing key business risks, including financial, communications, whistle blowing and health and safety, are made available through policy manuals and the company's intranet site

The processes to identify and manage the key risks to the success of the company are an integral part of the internal control environment Such processes, in addition to those discussed above, include strategic planning, appointing highly skilled managers with accountability, regular monitoring of performance and setting and communicating high standards and targets for ethics, safety and health

Key Performance Indicators
The company has several key performance measures used internally to monitor and challenge performance and to assist investment decisions The most important indicators are

- Revenue
- Research and development expenditure
- Gross margins, operating margins and EPS
- Cash balances
- Headcount

Performance in the current and prior years is summarized as follows

	2006	2005	% Change
Revenue	$250 7m	$96 0m	161%
Gross margins (adjusted)*	91%	94%	
Operating margins (adjusted)*	27%	19%	44%
EPS (adjusted)* (see note 10)	$0 26	$0 12	116%
Cash balances	$121 1m	$68 6m	77%
Research and development expenditure	$51 7m	$21 9m	
Average Headcount	903	318	184%

* Adjusted results exclude post-acquisition restructuring costs, fair value adjustment on investments, loss on disposal of investments, share of loss of associates and non-cash charges, namely the amortization of purchased intangibles, share based compensation and non-cash translational foreign exchange gains and losses and associated tax effects See reconciliations on page 22

The slight overall decrease in gross margins during 2006 reflects the impact of lower-margin services business acquired as part of 2005 acquisitions Throughout 2006 gross margins continued to rise, reflecting increased license revenues versus other revenues

The increase in operating margins is a reflection of significantly increased revenue, due to a combination of strong organic growth and the full year impact of acquisitions, versus the company's relatively fixed cost-base

Autonomy is led by a close-knit and highly experienced management team They bring together extensive expertise covering every facet of information technology and its constituent sectors and markets

Dr Michael Lynch OBE, Managing Director and Chief Executive Officer, 41, co-founded Autonomy and has served as Managing Director and Chief Executive Officer since our inception in March 1996 Dr Lynch is also a non-executive director of the BBC and 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 at Cambridge University Dr Lynch was named the Confederation of British Industry's Entrepreneur of the Year, won an IEE Award for Outstanding Achievement and was awarded an OBE for Services to Enterprise Dr Lynch is also a Lady Margaret Beaufort Fellow of Christ's College, Cambridge, and the author of a number of academic papers on the subject of Pattern Recognition and Signal Processing Dr Lynch was appointed to the Board when Autonomy was founded in 1996

Sushovan Hussain, Board Director and Chief Financial Officer, 42, has served as our Chief Financial Officer since June 2001 and was appointed a 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, 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 Mr Hussain was appointed to the Board in June 2003

Richard Gaunt, Non-Executive Director, 39, co-founded Autonomy and has served as an executive and non-executive Director at times since our inception in March 1996 Mr Gaunt holds a BSc in electronic engineering and an MSc from the University of Natal in Durban Mr Gaunt was appointed to the Board when Autonomy was founded in 1996

Barry Ariko, Board Director, 61, 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 Corp Mr Ariko also serves as a director of Incyte Mr Ariko holds a B S in Management from Golden Gate University in San Francisco and in 1992 completed the Advanced Executive Program at Northwestern University's J L Kellogg Graduate School of Management

John McMonigall, Board Director, 63, has served as a non-executive director of Autonomy since July 1998 Since April 1990, Mr McMonigall has been a partner with Apax Partners Worldwide LLP, the private equity firm, where he specializes 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

Richard N Perle, Board Director, 63, 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, and from 2001 through 2003 served as Chairman of the U S Defense Policy Board Mr Perle is a director of Tapestry Pharmaceuticals, Inc, a pharmaceutical company focused on the development of proprietary therapies for the treatment of cancer He serves as a member of Terra Incognita, a group advising Terra Firma, a U K-based private equity fund 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

The directors present their report and group audited financial statements for the year ended 31 December 2006

Principal Activity

The principal activity of the group during 2006 continued to be software development and distribution and related support, maintenance and consulting services The group has activities throughout Europe, North America, Asia and Australia, with smaller operations in Brazil and Argentina

Review of Developments and 2006 Results

Results of the company are set out beginning on page 20 Revenue for the year ended 31 December 2006 was $250 7 million, an increase of 161% from $96 0 million in 2005 Net profit was $39 1 million for 2006 compared with net profit of $9 0 million in 2005 The company solidified its industry-leading position during 2006, following two significant acquisitions in 2005 The Financial Review beginning on page 4 provides further comment on the developments and the results for the year, as well as risks and uncertainties

Enhanced Business Review

The directors are required to provide an enhanced business review The information the review is required to contain is set out in this report and in the financial results section of the letter from the CEO and the Financial Review, which also report on the business and principal issues of the past year and future prospects

Research and Development

The company remains firmly committed to research and development to maintain its position as a market leader During the year the company spent $54 9 million (2005 $21 9 million), including $3 2 million of capitalized costs, on research and development, an increase of 150% from 2005

Dividends

The Board reviews uses of cash resources on an ongoing basis In light of the company's continued need for cash for potential trade investments and expected significant investment in further research and development, the company to date has not paid or declared dividends on its shares, in common with most of its peer companies in the high technology sector The policy will be kept under continual review Accordingly the directors do not recommend the payment of a dividend (2005 - £Nil)

Authority to Purchase Own Shares

At the last Annual General Meeting, the shareholders authorized the company to make market purchases of up to 27,407,950 ordinary shares representing approximately 14 9% of its issued share capital at that time The authority will expire at the end of the next Annual General Meeting of the company unless renewed at that meeting During 2006 the company did not conduct any share repurchases In total, the company has purchased for cancellation 20,997,824 shares, representing approximately 11 2% of the company's total issued share capital at 31 December 2006, at an average price of £1 65 per share, for aggregate consideration of £34 4 million As of 31 December 2006, the company had remaining authorization to repurchase 27,407,950 of the company's ordinary shares The company's continuation of its repurchase program during 2007 will depend on market conditions

Financial Instruments

In relation to the use of financial instruments, the directors' objectives are to minimize risk whilst achieving maximum return on liquid assets The directors are averse to principal loss and manage the safety and preservation of the company's invested funds by limiting default and market risks by investing with high rated financial institutions The company's investment portfolio is comprised entirely of cash and cash equivalents All short-term investments have a fixed interest rate The company does not use derivative financial instruments

The group historically has not faced material exposure to price risk, credit risk, liquidity risk or cash flow risk, outside of the ordinary course of business As the company has a bank loan, arising in connection with the Verity acquisition, the company is marginally exposed to interest rate risk

Further information about the company's financial assets and liabilities is provided in the notes to the financial statements

Future Developments

The company's stated objective is to establish its technology as the infrastructure standard for automating operations on all forms of unstructured information The directors continue to believe that to achieve this goal it is important to expand the number and range of potential customers for its technology To this end, the company intends to sign further licence agreements with new customers and to establish relationships with third-party value added resellers, services providers and OEMs to ensure that the company's products are distributed as widely as practicable The company also plans to develop new technology to license to new and existing customers As a result of its position as an emerging standard in its industry, the company is presented with opportunities from time to time to acquire complementary technology or resources

Directors and Their Interests
A list of the directors who served during the year, their interests in the ordinary share capital of the company and details of any share options over the ordinary share capital of the company, as well as details of service contracts, are set forth in the Remuneration Committee report beginning on page 14 Biographies are on page 7 No director had a material interest in any significant contract, other than a service contract or contract for services, with the company or any of its subsidiaries at any time during the year

Re-election of Directors
The company's Articles of Association require at least one third of the directors to be subject to re-election at each Annual General Meeting Dr Lynch and Mr Hussain were re-elected as directors at the company's Annual General Meeting in 2004 and are standing for re-election at the next Annual General Meeting In addition Mr McMonigall is standing for re-election in accordance with Combined Code Section A 7 2 Each individual's performance continues to be exemplary and they demonstrate commitment to their roles Biographies for all directors, including those standing for re-election, appear on page 7

Substantial Shareholdings
As at 28 February 2007, the company had been notified, in accordance with Sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company by persons other than the directors of the company

	Ordinary shares of 1/3p each (1)	
	Number	**%**
The Capital Group Companies, Inc	15,054,205	7 95
FMR Corp (2)	14,089,770	7 44
Fidelity International Limited (2)	10,957,057	5 79
Schroders plc	9,912,060	5 24
Baillie Gifford & Co	9,360,657	4 94
Legal & General Group Plc	6,220,153	3 29

(1) Based on 189,312,826 ordinary shares outstanding as of 28 February 2007
(2) Interests of FMR Corp and Fidelity International Limited were previously aggregated under "Fidelity International Limited" prior to implementation of the EU Transparency Directive, but are now reported separately

Supplier Payment Policy
The company's policy is to settle payment terms with all suppliers when agreeing a transaction, to ensure that suppliers are aware of the terms and to abide by such terms Generally the company pays suppliers at the end of the month following that in which the supplier's invoice is received Creditor days outstanding as at 31 December 2006 calculated in accordance with Schedule 7 Companies Act 1985 for the company was 25 days (2005 - 22 days) and for the principal U K subsidiary was 52 days (2005 - 50 days)

Employees
Matters relating to the company's employees are discussed on page 18

Charitable and Political Contributions
The company's charitable policies are discussed on page 19 The group made $164,420 in charitable donations during 2006 to a variety of charities including The Prince's Trust, Comic Relief and Alderburgh Music (2005 - $45,634) The group did not make any political contributions during 2006 (2005 - $Nil)

Going Concern
After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

Indemnity Provisions
At the company's Annual General Meeting in May 2006 shareholders approved an amendment to the company's Articles of Association providing for indemnification of directors, which remain in force A copy of the company's Memorandum and Articles of Association are available for inspection at the company's office and from Companies House

Annual General Meeting
The Annual General Meeting will be held at the company's offices in Cambridge, UK, on 18 April 2007, at 1 00 pm The company will convey the results of proxy votes cast at the Annual General Meeting, and the results of the meeting will be announced through the regulatory news services Notice of the Annual General Meeting is set out in the circular to shareholders accompanying this annual report The company is committed to the policy of one share one vote Deloitte & Touche LLP, the company's independent auditors, have expressed their willingness to continue in office as auditors A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable laws and regulations The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare financial statements for the company in accordance with IFRS as adopted by the European Union Company law requires the directors to prepare such financial statements in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

The directors are responsible for the maintenance and integrity of the company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Audit

Each of the persons who were a director at the date of approval of this annual report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

On behalf of the Board,

Dr Michael R Lynch
Chief Executive Officer and Co-Founder

13 March 2007

Registered Office Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ
Registered Number 3175909

The company is committed to high standards of corporate governance The Board is accountable to the company's shareholders for good corporate governance This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Combined Code for Corporate Governance appended to the Listing Rules of the UK Listing Authority

Compliance with the Combined Code

Throughout the year ended 31 December 2006, and through to the date of approval of the financial statements, the Board considers that the company has complied with Section 1 of the 2003 Combined Code with the sole compliance exception (B 2 1) relating to the composition of the Remuneration Committee of the Board, which in 2007 is composed of three independent non-executives but during 2006 was composed of two which the Board considered appropriate at the time The company has applied the Principles of Good Governance set out in Section 1 of the Combined Code by complying with the Code of Best Practice as set forth below and in the Remuneration Report below Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report

Composition and Operation of the Board

The Board comprises four non-executive directors, three of whom are independent, and two executive directors The Board has been established in order to give a balance of knowledge, experience and objective overview The executive directors provide the necessary skills in commercial, operational and financial management The executive directors on the Board are the Chief Executive Officer and the Chief Financial Officer

The four non-executive directors provide a blend of experience to enable them to bring strong independent judgement and considerable knowledge and experience to the Board's deliberations Mr McMonigall is the senior independent non-executive director The Board has considered the independence of the non-executive directors and believes that all of the non-executive directors are currently independent of management and free from any material business or other relationships that could materially interfere with the exercise of their independent judgement, with the exception of Mr Gaunt who previously served as an executive director Mr McMonigall's service to the Board has been extraordinary since the company's founding and his continued service is of high benefit not withstanding his tenure of ten years

The directors' biographies appear on page 7 These demonstrate that the directors have a range of experience and are of sufficient calibre to bring independent judgement on issues of strategy, performance, resources, finance, controls and standards of conduct The Board does not sit with a permanent chairman, but rather the chair rotates amongst the senior non-executive members present at the meeting excluding the CEO, with the meeting's chair sitting until the next meeting This arrangement has been in place whilst the Board continues to search for an appropriate chairman The Board is structured to ensure that there is no undue dominance by the executive directors, with controls over compensation and all other material matters reserved for the Board rather than individual executives, as discussed below The Board is satisfied that the appropriate balance has been consistently achieved The terms and conditions of employment of the non-executives are available for inspection at any time at the registered office

The Board is responsible to shareholders for the proper management of the company A statement of the directors' responsibilities in respect of the financial statements is set out on pages 9 and 10

Training is made available to the directors where it is considered appropriate New members of the Board are expected to receive induction training in accordance with the recommendations of the Combined Code

Schedule of Matters

The Board has a schedule of matters specifically reserved to it for decision, which includes approval of financial statements, dividends, Board appointments and removals, long term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the company's position, lies with the Board

Board Meetings

The Board meets at least once a quarter, meeting four times during 2006 and acting by unanimous written consent three times All directors attended all meetings, except for Mr McMonigall who attended 75% of the meetings missing one for personal reasons Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance

Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with The Company Secretary ensures that the directors take independent professional advice as required Committees are provided with sufficient financial and informational resources to undertake their duties

Re-Election

All directors are subject to re-election by shareholders every three years, and at each annual general meeting one third must retire by rotation Directors who are appointed by the Board must retire at the next annual general meeting so that they may be re-elected by the shareholders

Committees
The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee to deal with specific aspects of the company's affairs

- Audit Committee The members of the audit committee are John McMonigall, Barry Ariko and Richard Perle Each of Messrs McMonigall and Ariko have significant material financial expertise, and each have served as the chair at times during 2006 The committee's terms of reference include, among other things, monitoring the scope and results of the external audit, the review of interim and annual results, the involvement of the external auditors in those processes, review of whistle blowing procedures, considering compliance with legal requirements, accounting standards and the Listing Rules of the Financial Services Authority, and for advising the Board on the requirement to maintain an effective system of internal controls The committee also keeps under review the independence and objectivity of the group's external auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors The committee has authority over the appointment, remuneration and resignation or dismissal of the company's auditors

  The committee has discussed with the external auditors their independence, and has received and reviewed written disclosures from the external auditors regarding independence Non-audit work is generally put out to tender In most cases, the company engages another independent firm of accountants to perform tax consulting work to avoid the possibility that the auditors' objectivity and independence could be compromised, work is only carried out by the auditors in cases where they are best suited to perform the work, for example, tax compliance The company does not award general consulting work to the auditors However, from time to time, the company will engage the auditors on matters relating to acquisition accounting and due diligence In these circumstances, the Chief Financial Officer seeks approval from the committee

  The committee meets at least four times a year, and always prior to the announcement of interim or annual results The external auditors and Chief Financial Officer attend all meetings in order to ensure that all the information required by the committee is available for it to operate effectively The entire committee also meets at least once a year with the external auditors without any executive directors present The committee met four times during 2006 Mr Ariko attended 100% of the meetings, Mr McMonigall attended 75%, and Mr Perle attended 50%, each missing meetings only for extraordinary personal reasons

- Remuneration Committee A description of the composition, responsibility and operation of the remuneration committee is set out in the remuneration report beginning on page 14

- Nominations Committee The Nominations Committee has responsibility for proposing to the Board new appointments of executive and non-executive directors and makes recommendations to the Board on board composition and balance The committee identifies and nominates for approval candidates for new Board positions and to fill Board vacancies as and when they arise Nominations are based on the balance of skills, knowledge and experience on the Board The committee also reviews the time required from a non-executive director The committee strives to consider candidates from a wide range of backgrounds, also taking into account what skills and expertise are needed on the Board in the future In conducting its duties the committee may seek external advice Whilst a broad range of candidates was considered during 2006, no formal nominations were appropriate Thus whilst the committee discussed matters in 2006 it did not convene formally The committee currently consists of Messrs Ariko and Perle, with Mr Perle in the chair

The Company Secretary is secretary to all committees Terms of references of the committees of the Board are available from the company secretary upon request

Performance Evaluations
The members of the Board evaluate the performance of the Board, its committees and individual members at meetings, at the first meeting following the end of the year The non-executive directors, led by the senior independent director, are responsible for the scope of the evaluation, taking into account the views of executive directors

Relations with Shareholders
Communication with shareholders is given high priority The quarterly and annual results are intended to give a detailed review of the business and developments A full Annual Report is sent to all shareholders The company's website (www autonomy com) contains up to date information on the company's activities and published financial results The company holds regular investor conference calls and webcasts (archived on the website), and solicits regular dialogue with institutional shareholders (other than during closed periods) The Board also uses the Annual General Meeting to communicate with all shareholders and welcomes their participation

Significant Risks
The company has an ongoing process for identifying, evaluating and managing the significant risks faced by the company that has been in place for 2006 and up to the date of approval of the annual report and financial statements Principal controls are managed by the executive directors and key employees, including regular review by management and the Board of the operations and the financial statements of the company

Internal Control
The Board is responsible for the company's system of internal control and for reviewing its effectiveness with regard to achieving the company's business objectives and enhancing shareholder value Such a system is designed to manage the risk of failure, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss The system has been in place throughout the year and up to the date of these financial statements The Board regularly reviews the effectiveness of the company's internal control systems, including financial, operational and compliance controls and risk management, and believes the system is in accordance with the Turnbull guidance These reviews are principally based on reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring The Board has also performed a specific assessment for purposes of this Annual Report using the standard of care applicable to directors in the exercise of their duties The directors consider that its internal controls, particularly given the company's size and the nature of the company's business operations, provide reasonable but not absolute assurance against material misstatement or loss

The main elements of internal control currently include

- Operating Controls The identification and mitigation of major business risks on a daily basis is the responsibility of the executive directors and senior management Each business function within the company maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the company's standards and guidelines These include procedures and guidelines to identify, evaluate the likelihood and mitigate all types of risks on an ongoing basis

- Information and Communication The company's operating procedures include a comprehensive system for reporting financial and non-financial information to the directors Financial projections, including revenue and profit forecasts, are reported on a regular basis to senior management against corresponding figures for previous periods The central process for evaluating and managing non-financial risks is weekly meetings of business functions, each involving at least one director, together with periodic meetings of executive directors and senior management

- Finance Management The finance department operates within policies approved by the directors and the Chief Financial Officer Expenditures are tightly controlled with stringent approvals required based on amount Duties such as legal, finance, sales and operations are also strictly segregated to minimize risk

- Insurance Insurance cover is provided externally and depends on the scale of the risk in question and the availability of cover in the external market

Internal Audit
As the company has grown during 2006 the Board has discussed matters relating to internal control and the present need to establish an internal audit function Given the company's extensive internal reporting functions, extensive internal controls and significant executive director involvement in all aspects of the company's business affairs, during 2006 the Board did not consider it necessary for the company to have its own internal audit function No material breaches of internal controls were identified during 2006 Given the company's recent growth, at the commencement of 2007 senior management appointed a manager to be responsible for an internal audit function

Key Risks
Matters relating to key risks are discussed on page 6

By order of the Board,

Andrew M Kanter
Company Secretary

13 March 2007

The directors present their report on directors' remuneration for the year ended 31 December 2006

Compliance

The constitution and operation of the Remuneration Committee is in compliance with the principles of Section 1 of the Combined Code, with the sole compliance exception (B 2 1) relating to the composition of the committee, which during 2006 was composed of two independent non-executive directors rather than three

UNAUDITED REMUNERATION INFORMATION

Members of the Remuneration Committee

The members of the Remuneration Committee are Messrs Ariko, McMonigall and Perle The chairman of the committee is Mr Ariko

Governing Principles

The Remuneration Committee is responsible for reviewing and approving general compensation policies and setting compensation levels for executive officers The committee also administers incentive compensation plans Consistent with the policies of the Combined Code, the company's policy for directors' remuneration for 2006 and subsequent financial years is that packages are intended to attract, motivate and retain directors of the calibre needed to achieve the company's growth program but not detract from the goals of good corporate governance Remuneration elsewhere within the company is taken into account when determining executive compensation The company's highest paid employee earns a base salary approximately five times the base salary of the average employee

The main elements of executive pay packages historically and for the expected future are

- Base salary and benefits Each senior executive's basic salary is determined by the Committee, taking into account the performance of the individual and the company's strategies Employment related benefits (principally the provision of a company car) are also provided where appropriate Executive directors' base salaries are low relative to similarly situated companies, with performance-based incentive compensation forming the most important factor in overall compensation

- Bonuses In accordance with common practice amongst the company's peers, the company has performance related bonus plans for certain executive directors, discussed below Bonuses are paid based on achievement of pre-agreed targets

- Share options The Board believes that share ownership by directors and staff aligns their personal interests with those of shareholders Options form the core element of the company's performance program, and are granted in small amounts from time-to-time after achievement of stretching performance targets and significant continuing contribution to value creation These share option awards are then subject to vesting periods, with initial vesting generally after six or 12 months with the remainder vesting quarterly over a total of 2 5 to 3 5 years

  The requirement for individuals to perform prior to granting options has been very effective in motivating performance, achieving targets and most importantly minimizing reward unconnected to an individual's performance It enables the company to specifically tailor share option grants to an individual's role in an efficient manner, thus avoiding the risks faced by companies in a high growth sector of unjust reward associated with simple, broad targets attached only to option exercises For example, a programmer might be awarded a small grant for completion of a project ahead of schedule, or the a local operations manager might be awarded a small grant for effective integration of an acquired company This method also keeps individuals continuously incentivized as a grantee must remain employed to achieve full vesting of the options Finally, this method is also designed to ensure that individuals are not unjustly rewarded, which the Board believes is much more likely if large option grants are made with broad performance targets Under that method, an individual who was personally underperforming would undoubtedly be enriched if the company met its own broader performance targets, without making any material contribution

  The Board sets reasonable individual grant limits As a result, at 31 December 2006, the Board collectively held options over less than 0 4%, and options granted to the Board during 2006 totalled less than 0 1%, of the company's outstanding shares at 31 December 2006 The total number of options granted to Board members totalled less than 6% of all share options outstanding at 31 December 2006

  Share options are always issued at market value The maximum number of share options the company is permitted to grant is up to 10% of the outstanding shares There has been no departure from this policy during 2006

Advice

The committee has access to professional advice from outside advisors should it require assistance During 2006 the directors relied on information contained in generally available reports from Deloitte & Touche LLP but did not engage any firm Directors' remuneration is considered to be highly incentive-based given the executive directors' significant equity holdings in the company and the performance-based bonus plans The committee acted twice by unanimous written consent during 2006

Service Contracts
The company's policies prohibit long-fixed contracts and contractual termination payments The company requires mutual notice periods for directors, but never in excess of 12 months All executive directors have service contracts and all non-executive directors have appointment letters All agreements provide for notice of twelve months or less, although do not have a specified fixed term, and all permit garden leave up to the length of the notice period No other amounts are payable on termination All terms of appointment are subject to the provisions of the Companies Act 1985 and the requirement to retire by rotation on the third anniversary of the previous election

Details of directors' service contracts are available on the company's website No director is entitled to any automatic payment by virtue of early termination of their contract or a change in control of the company Directors' remuneration is not linked to share price performance Details of executive directors service contracts are as follows

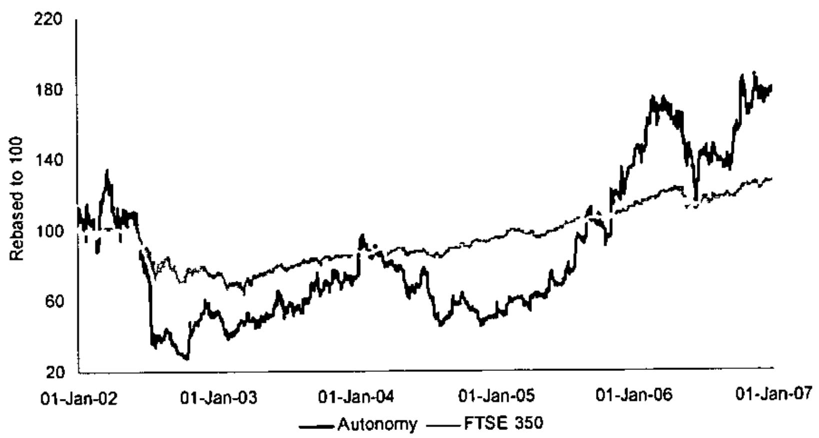
Executive Directors Contracts	Date	Annual Salary	Bonus	Mutual Notice Period
Dr Michael Lynch, Chief Executive Officer	9 July 1998	£250,000	50% of salary	6 months
Sushovan Hussain, Chief Financial Officer	27 June 2001	£225,000	50% of salary	12 months

Executive directors' bonus targets in 2006 were achieving (i) core revenue growth of at least 15%, (ii) core earnings per share growth of at least 50% and (iii) operating margin increase of at least 10% The targets were selected as objective, challenging growth targets designed to meet the growth objectives of the company In selecting the targets and levels of compensation the committee reviewed the plans of similarly situated technology companies Each target was achieved

Each executive director is entitled to current benefits generally made available to all employees and any fees or remuneration he is entitled to as a director of Autonomy Payment of salary in lieu of notice is permitted on termination For a fixed period following the termination of employment, each of Dr Lynch and Mr Hussain are prohibited from soliciting the company's clients, customers and employees and from competing with us in a similar geographic area

Messrs Ariko, McMonigall and Perle serve as directors under appointment letters dated 7 January 2000, 2 July 1998 and 23 February 2000, respectively Under these letters as updated, Messrs Ariko, McMonigall and Perle are each entitled to an annual fee of $50,000 Either party to each of these letters may terminate the appointment upon three months' notice or payment of salary in lieu of notice Mr Gaunt serves as a director under an appointment letter dated 9 July 1998 Under this letter, as updated, Mr Gaunt is entitled to an annual fee of £18,000 Either party may terminate the appointment upon six months' notice or payment of salary in lieu of notice

Performance Graph
The accompanying graph sets forth the total shareholder return for the last five years of a holding of the company's shares against the corresponding change in a hypothetical holding of shares in the FTSE350 Index This index represents a broad equity market index in which the company, and similar companies, are constituent members



AUDITED REMUNERATION INFORMATION

Directors' Remuneration
The total amounts for directors' remuneration were as follows

	2006	2005
	£	£
Emoluments	801,826	543,878
Gains on exercise of share options	69,480	—
Money purchase pension contributions	3,705	—
	875,011	543,878

The following table sets forth for the year ended 31 December 2006, the elements of each director's remuneration package Directors do not have pension, retirement or similar entitlements

	Salary	Benefits In Kind(1)	Bonuses	Total 2006	Total 2005
	£	£	£	£	£
Executive Directors					
Dr Michael R Lynch(2)	228,623	16,370	125,000	369,993	228,841
Sushovan Hussain	208,967	8,012	112,500	329,479	227,124
Non-executive Directors					
Richard G Gaunt	18,000	—	—	18,000	28,159
Barry M Ariko (3)	27,177	—	—	27,177	24,877
John P McMonigall	30,000	—	—	30,000	10,000
Richard N Perle(3)	27,177	—	—	27,177	24,877
	539,944	24,382	237,500	801,826	543,878

(1) Amounts shown reflect the taxable benefit of company cars
(2) Dr Lynch serves as an independent non-executive director of Isabel Healthcare Limited, in which the company has a minority investment. Dr Lynch did not receive any fees for his service to Isabel
(3) Messrs Ariko and Perle s remuneration was increased from $25,000 per annum to $50,000 per annum on 10 March 2005, and are payable in U S dollars Amounts have been translated into sterling

Non-executive directors are entitled to be reimbursed for their reasonable out-of-pocket expenses incurred in attending Board meetings and committees thereof No directors are entitled to reimbursement of non-business expenses, and all directors are subject to the company's global expense policies No director has a deferred bonus

Directors and their Interests
The directors who served during 2006, and their beneficial interests in company shares at the beginning and end of the year, were as follows

	Ordinary shares of 1/3p each as of 31 December 2006	2005
Executive		
Dr Michael R Lynch	21,844,846	21,843,298
Sushovan Hussain	2,945	—
Non-executive Directors		
Richard G Gaunt	2,775,101	2,775,101
Barry M Ariko	—	—
John P McMonigall	—	—
Richard N Perle	—	—

No director had any non-beneficial interests in the shares of the company at the end of the year On 7 February 2007 Dr Lynch sold 130,000 ordinary shares, representing 0 60% of his holdings, to cover personal tax payments arising in connection with Autonomy's 2005 rights issue Following this transaction, Dr Lynch's total beneficial holding in the Company is 21,714,846 Ordinary Shares On 13 February 2007 Mr Hussain exercised options to acquire 40,000 ordinary shares at an exercise price of £2 28 per share, and sold those shares at a price of £6 94 per share to cover personal tax payments Following these transactions, Mr Hussain's total beneficial holding in the Company remains unchanged

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors

Share Options

Details of share options granted to executive directors, all granted based on performance, are set out below No executive directors' share options were cancelled or lapsed, or changed, during the year Vesting and exercise of options is subject to continued employment The principals underlying option grants are set forth on page 14

Sushovan Hussain

At 1 Jan 2006	Granted	Exercised	At 31 Dec 2006	Exercise Price	Market Price at Exercise	Vesting Schedule[1]	First Exercise[2]	Expiry Date
50,000	—	(10,000)	40,000	£2 28	£4 63	4 year 1 year cliff	30/07/02	29/07/08
10,000	—	—	10,000	£2 50	—	4 year 1 year cliff	01/11/02	31/10/08
10,000	—	—	10,000	£3 60	—	4 year, 1 year cliff	15/03/03	14/05/09
25,000	—	—	25,000	£3 05	—	4 year 1 year cliff	02/05/03	01/05/09
5,000	—	—	5,000	£1 08	—	4 year, 1 year cliff	11/07/03	10/07/09
100,000	—	—	100,000	£1 20	—	4 year, 1 year cliff	19/07/03	18/07/09
70,000	—	—	70,000	£1 17	—	3 year, 6 mon cliff	06/08/04	05/02/10
75,000	—	—	75,000	£1 93	—	3 year, 6 mon cliff	21/05/04	20/11/10
25,000	—	—	25,000	£1 97	—	3 year, 6 mon cliff	10/11/05	09/05/11
100,000	—	—	100,000	£1 49	—	3 year, 6 mon cliff	17/06/05	16/12/11
10,000	—	(10,000)	—	£0 00	£4 61	6 month cliff	02/12/05	01/12/14
50,000	—	—	50,000	£2 29	—	3 year, 6 mon cliff	01/02/06	30/07/12
—	30,000	—	30,000	£4 25	—	3 year, 6 mon cliff	15/11/06	14/05/13
—	25,000	—	25,000	£3 835	—	3 year, 6 mon cliff	11/03/07	10/09/13
—	40,000	—	40,000	£4 94	—	3 year, 6 mon cliff	12/06/07	11/12/13
530,000	95,000	(20,000)	605,000					

Michael R Lynch

At 1 Jan 2006	Granted	Exercised	At 31 Dec 2006	Exercise Price	Market Price at Exercise	Vesting Schedule[1]	First Exercise[2]	Expiry Date
50,000	—	—	50,000	£3 05	—	3 year, 6 mon cliff	22/03/06	21/09/12
—	30,000	—	30,000	£4 25	—	3 year, 6 mon cliff	15/11/06	14/05/13
—	25,000	—	25,000	£3 835	—	3 year, 6 mon cliff	11/03/07	10/09/13
50,000	55,000	—	105,000					

(1) Vesting schedule is either over a period of three or four years, with the first instalment exercisable after a "cliff" of either six months or one year After the initial tranche vesting, additional tranches vest in equal quarterly instalments over the remainder of the vesting period

(2) "First exercise" represents the date of the vesting of the initial tranche when a small portion of the options become available for exercise

As of the date of this report, no non-executive directors held share options The Board does not intend to grant options to 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 the company's ordinary shares as quoted on the London Stock Exchange on 29 December 2006 (the last trading day of the year) was £5 115 per ordinary share, and the range during the year ended 31 December 2006 was from £3 34 to £5 435

Long-Term Incentive Plans

The group does not maintain any long term incentive plans

Pension entitlements

During 2006 the company established a matching pension scheme available to all U K employees with more than three years' service The scheme provides for the company to make a matching contribution to an individual employee's pension, up to 3% of the individual's base salary per annum Other than this generally available benefit, the directors do not have pension, retirement or similar entitlements Dr Lynch and Mr Hussain participated in the matching pension scheme during 2006 on the same terms available to all U K employees, and matching contributions of £1,950 and £1,755 respectively were paid by the company

Former Directors

No payments or awards were made to former directors during the year

By order of the Board,

Andrew M Kanter
Company Secretary

13 March 2007

The company endeavours to be honest and fair in its relationships with customers and suppliers and to be a good corporate citizen respecting the laws of the countries in which the company operates While the company is accountable to its shareholders, the company also endeavours to take into account the interests of all of the company's stakeholders, including its employees, customers and suppliers, and the local communities and environments in which the company operates In this context the company takes regular account of the significance of social, environmental and ethical matters to the business of the company

Sushovan Hussain, Chief Financial Officer and Board Director, has been appointed by the Board as the director responsible for all matters relating to corporate social, ethical, employment and environmental policies The Board has adopted an ethics policy which sets forth procedures for communication of staff issues

The Board is committed to monitoring the company's corporate social responsibility policies in key areas Through monitoring of day-to-day activities by management the company is able to assess risks in these areas and identify actions that may be taken to address these risks Whilst specific targets in these areas have not yet been set given the company's relatively small size and operations, as monitoring continues the Board will consider the setting of specific targets At present, the Board does not consider it appropriate to link the management of these risks to remuneration incentives, given the difficulties in objectively measuring the changes to those risks Given the company's relatively small size and low social and environmental impact, the company believes that there are few risks to its short and long term value arising from these matters, although it considers potential to enhance value by responding to these issues appropriately The Board believes the company has adequate information to assess these matters, and effective systems for managing any risks The company's website includes a section dedicated to corporate ethical, employment and environmental issues

Whilst the Board considers that material risks arising from social, ethical, employment and environmental issues are limited, given the nature of the company's business, policies have been adopted in key areas to ensure that such risks are limited Examples of policies and practices in these areas are given below

Employment Policies
Autonomy employs over 900 people and in order to continue to grow as a business, the company needs to continue to recruit and retain only the best talent Therefore it is the company's policy to pursue practices that are sensitive to the needs of its people The company strives for equal opportunities for all of its employees and does not tolerate harassment, of or discrimination against, its staff The company's priorities are

- Providing a safe workplace with equality of opportunity and diversity through our employment policies
- Encouraging our people to reach their full potential through career development and promotion from within where possible
- Communicating openly and transparently within the bounds of commercial confidentiality, whilst listening to our people and taking into account their feedback
- Recognizing and rewarding our people for their contribution and encouraging share ownership at all levels

The company respects the rule of law within all jurisdictions in which it operates and supports appropriate internationally accepted standards including those on human rights The company's equal opportunities policies prohibit discrimination on grounds such as race, gender, religion, sexual orientation or disability This policy includes, where practicable, the continued employment of those who may become disabled during their employment The company's policies strive to ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit

Environmental Policies
It is the company's policy to ensure, by encouraging environmental best practice in the business, that its operations have as little environmental impact as is consistent with its business needs The effect on the environment of the company's activities are monitored, where appropriate, with regard to the low overall environmental impact of its primary activities as a software publisher As a developer of software the company has no manufacturing facilities and its premises are composed exclusively of offices Staff make use of computers to generate intellectual property This involves neither hazardous substances nor complex waste emissions The vast majority of the company's sales comprise software that is normally delivered electronically to customers Outmoded office equipment and computers are resold or recycled to the extent practicable

The company recognises the increasing importance of environmental issues and these are discussed at Board level if appropriate A number of initiatives continued in 2006 An environmental action plan is implemented at group and departmental level through various initiatives These include monitoring resource consumption and waste creation so that when targets are set for improvement they are realistic and meaningful, ensuring existing controls continue to operate satisfactorily and working with suppliers to improve environmental management along the supply chain The company has recycling facilities in all of its primary offices, and waste paper is minimised by promoting paperless processes and downloadable software products Renewable energy sources are also being investigated The provision of cycle sheds, showers and changing facilities at the company's Cambridge, San Francisco, Sunnyvale and Dallas offices facilitate greener commuting, and the extensive provision of telephone and video conferencing equipment offer an alternative to international travel, where appropriate The company's environmental policy is published on its website

As noted above, the company monitors key consumption indicators, most effectively at its headquarters in Cambridge, UK where it has the largest number of employees The following chart sets forth comparative consumption for the past two years, measured versus the company's revenues during those periods

	Tons CO2 per $m Revenue	
	2006	2005
Gas	0 56	0 92
Landfill	5 42	20 25
Energy use	2 28	9 21
Supplied water (m3)	23 96	36 51

Charitable Policies
The company maintains a number of charitable giving policies The company's core philanthropic foundation under the corporate commitment program is education The company also annually budgets for specific charitable requests from individual staff members, in areas where the company has an opportunity to make a significant and measurable impact in the non-profit sector The company's matching gift programme matches employee donations to non-profit organizations meeting the company's requirements for charitable donations Finally, the company permits employees to volunteer a certain number of hours of paid time per year to the charity of their choice provided that the charitable organization meets the company's general requirements for charitable donations

The company actively encourages every employee to work together to meet the requirements of all of the above policies

By order of the Board,

Andrew M Kanter
Company Secretary

13 March 2007

Independent auditors' report to the members of Autonomy Corporation plc

We have audited the group and parent company financial statements (the "financial statements") of Autonomy Corporation plc for the year ended 31 December 2006, which comprise the Consolidated income Statement, the Group and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity, the consolidated related notes 1 to 26 and the parent company related notes 1 to 10 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Remuneration Report that is described as having been audited

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Financial Review and the financial results section of the letter from the CEO that is cross referred from the Enhanced Business Review section of the Directors' Report

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit 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 statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited

Opinion
In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Separate opinion in relation to IFRSs
As explained in Note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended

Deloitte & Touche LLP   Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge, England
13 March 2007

Consolidated Income Statement for the year ended 31 December 2006

	Note	2006 $'000	2005 $'000
Continuing operations			
Revenue	3,4	250,682	96,032
Cost of revenues (excl amortisation)		(23,628)	(5,914)
Amortization of purchased intangibles		(7,961)	(1,591)
Cost of revenues		(31,589)	(7,505)
Gross profit		219,093	88,527
Research and development		(51,680)	(21,923)
Sales and marketing		(86,417)	(40,326)
General and administrative		(24,707)	(11,146)
Other costs			
Post-acquisition restructuring costs	5	—	(5,764)
Loss on disposal of investment		—	(297)
Fair value adjustments of investments		(300)	(487)
(Loss) gain on foreign exchange		(449)	247
Total operating costs		(163,553)	(79,696)
Profit from operations	5	55,540	8,831
Share of loss of associate	14	(258)	—
Interest receivable	8	3,651	3,797
Interest payable		(2,614)	—
Profit before tax		56,319	12,628
Tax	9	(17,234)	(3,678)
Profit for the period		39,085	8,950
Earnings per share			
Basic	10	0 21	0 07
Diluted	10	0 21	0 07

Reconciliation of Non-IFRS Financial Measures

	2006 $'000	2005 $'000
Gross profit	219,093	88,527
Amortisation of purchased intangibles	7,961	1,591
Gross profit (adjusted)*	227,054	90,118
Profit before tax	56,319	12,628
Loss (gain) on foreign exchange	449	(247)
Amortization of purchased intangibles	7,961	1,591
Loss on disposal of investment	—	297
Fair value adjustments of investments	300	487
Share-based compensation	3,861	1,423
Post acquisition restructuring costs	—	5,764
Share of loss of associate	258	—
Profit before tax (adjusted)*	69,148	21,943
Provision for tax	(21,229)	(6,391)
Net profit (adjusted)*	47,919	15,552
Profit from operations	55,540	8,831
Amortization of purchased intangibles	7,961	1,591
Share-based compensation	3,861	1,423
Post-acquisition restructuring costs	—	5,764
Loss on disposal of investment	—	297
Fair value adjustment of investments	300	487
Loss (gain) on foreign exchange	449	(247)
Profit from operations (adjusted)*	68,111	18,146

* Non-IFRS financial measures are used to calculate "adjusted" results discussed on page 6

Consolidated Balance Sheet at 31 December 2006

	Note	2006 $'000	2005 $'000
Non-current assets			
Goodwill	11	415,758	398,770
Other intangible assets	12	44,832	64,423
Property, plant and equipment	13	6,226	8,610
Equity and other investments	14	3,810	1,727
Deferred tax asset	16	7,155	6,735
Total non-current assets		477,781	480,265
Current assets			
Trade and other receivables	15	85,706	64,710
Inventories		605	198
Cash and cash equivalents		121,059	68,565
Total current assets		207,370	133,473
Total assets		685,151	613,738
Current liabilities			
Trade and other payables	17	(21,604)	(33,299)
Bank loan	18	(16,283)	(16,283)
Tax liabilities		(2,400)	(3,311)
Deferred revenue		(52,452)	(51,853)
Provisions	19	(2,953)	(14,995)
		(95,692)	(119,741)
Net current assets		111,678	13,732
Non-current liabilities			
Bank loan	18	(16,283)	(32,567)
Other payables		(311)	(606)
Provisions	19	(1,243)	(1,456)
		(17,837)	(34,629)
Total liabilities		(113,529)	(154,370)
Net assets		571,622	459,368
Shareholders' equity			
Share capital	20	1,027	978
Share premium account		474,645	422,033
Capital redemption reserve		135	135
Own shares	21	(1,017)	(1,775)
Stock compensation reserve		5,688	2,052
Translation reserves		19,956	9,401
Retained earnings		71,188	26,544
Total equity		571,622	459,368

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2007 They were signed on its behalf by

Dr Michael R Lynch
Chief Executive Officer and Co-Founder

Consolidated Statement of Changes in Equity for the year ended 31 December 2006

	Share capital	Share capital	Share premium	Capital redemption reserve	Own shares	Sub-total
	(number)	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	108,110,108	557	117,778	131	(1,775)	116,691
Retained profit	—	—	—	—	—	—
Shares repurchased	(593,942)	(4)	—	4	—	—
Stock compensation charge	—	—	—	—	—	—
Shares options exercised	12,281,426	76	46,686	—	—	46,762
Rights issue	59,795,165	349	257,569	—	—	257,918
Translation of overseas ops	—	—	—	—	—	—
At 31 December 2005	179,592,757	978	422,033	135	(1,775)	421,371
Retained profit	—	—	—	—	—	—
Stock compensation charge	—	—	—	—	—	—
Share options exercised	8,243,447	49	52,612	—	—	52,661
EBT options exercised	—	—	—	—	758	758
Translation of overseas ops	—	—	—	—	—	—
At 31 December 2006	187,836,204	1,027	474,645	135	(1,017)	474,790

	Sub-total forwarded	Stock comp'n reserve	Translation reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	116,691	651	30,643	18,956	166,941
Retained profit	—	—	—	8,950	8,950
Shares repurchased	—	—	—	(3,611)	(3,611)
Stock compensation charge	—	—	—	2,249	2,249
Share options exercised	46,762	—	—	—	46,762
Deferred tax on share options	—	1,401	—	—	1,401
Rights issue	257,918	—	—	—	257,918
Translation of overseas operations	—	—	(21,242)	—	(21,242)
At 31 December 2005	421,371	2,052	9,401	26,544	459,368
Retained profit	—	—	—	39,085	39,085
Stock compensation charge	—	3,861	—	—	3,861
Share options exercised	52,661	—	—	—	52,661
EBT options exercised	758	(225)	—	—	533
Deferred tax on share options	—	—	—	5,559	5,559
Translation of overseas operations	—	—	10,555	—	10,555
At 31 December 2006	474,790	5,688	19,956	71,188	571,622

Consolidated Cash Flow Statement for the year ended 31 December 2006

	Note	2006 $'000	2005 $'000
Net cash from operating activities	22	39,475	16,940
Investing activities			
Interest received		3,651	3,797
Purchases of property, plant and equipment		(1,534)	(551)
Investment in joint venture and associates		(2,474)	(1,064)
Purchases of intangible assets		(170)	(1,466)
Expenditure on product development		(3,172)	—
Acquisition of subsidiaries (net of cash acquired)		(22,709)	(353,303)
Net cash used in investing activities		(26,408)	(352,587)
Financing activities			
Proceeds from issue of rights		—	257,927
Proceeds from issuance of shares		50,222	2,940
Purchase of own shares		—	(2,212)
Interest on bank loan		(2,614)	—
Repayment of bank loan		(16,284)	—
Drawdown of bank loan		—	48,850
Net cash from financing activities		31,324	307,505
Net increase (decrease) in cash and cash equivalents		44,391	(28,142)
Cash and cash equivalents at beginning of year		68,565	106,793
Effect of foreign exchange rate changes		8,103	(10,086)
Cash and cash equivalents at end of year		121,059	68,565

Included within cash and cash equivalents is $2 8 million (2005 $2 8 million) in relation to the joint venture which has been included on the consolidated balance sheet using proportionate consolidation

Costs included within acquisition of subsidiaries relate to costs paid during 2006 in respect of the Verity, Inc acquisition completed in December 2005

1 General information

Autonomy Corporation plc is a company incorporated in England and Wales under the Companies Act 1985 The registered office is at Autonomy House, Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ, UK The nature of the group's operations and its principal activities are set out on page 8

The company's functional currency is sterling as that is the currency of the primary economic environment in which the company operates The presentational currency is dollars as that is the currency of the primary economic environment in which the group operates Foreign operations are included in accordance with the policies set out in note 2

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective

IFRS 7	Financial instruments Disclosures, and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Right to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 7	Applying the restatement approach under IAS 29 'Financial reporting in hyperinflationary economies'
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 – Group and treasury share transactions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group or company, except for additional disclosures on capital and financial instruments when the relevant standards come into effect for the year ending 31 December 2007

2 Significant accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation

The financial statements have been prepared on the historical cost basis, except for the revaluation of trade investments and financial instruments The principal accounting policies adopted by the company are set out below

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to profit and loss in the period of acquisition The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group

All intra-group transactions, balances, income and expenses are eliminated on consolidation

c) Joint ventures

Joint ventures are accounted for using the method of proportionate consolidation The application of this method combines on a line-by-line basis the assets, liabilities, income and expense of joint ventures with those of the group If the group contributes or sells assets to a joint venture only that portion of the gain or loss attributable to the interests of the other venturers is recognized

2 Significant accounting policies (continued)

d) Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see below) Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments Losses of the associates in excess of the group's interest in those associates are not recognised Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill Any deficiency of the cost of acquisition below the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i e discount on acquisition) is credited in profit or loss in the period of acquisition Where a group company transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment

e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition Goodwill is recognised as an asset and reviewed for impairment at least annually Any impairment is recognised immediately in profit or loss and is not subsequently reversed On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit An impairment loss recognized for goodwill is not reversed in a subsequent period

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous US GAAP amounts subject to being tested for impairment at the date of transition to IFRS

f) Revenue recognition

The group generates revenues from licensing the rights to use its software products directly to end-users and indirectly through resale by resellers The group also generates revenues from sales of consulting, customer support and training services performed for customers that licence its products Revenues from software licence agreements are recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase order), 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 Revenue is recognized on contracts with credit terms of up to one year providing that the customer passes defined credit-worthiness checks 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

The group enters into reseller arrangements that typically provide for fees payable to the group based on agreed discounted license rates Sales are generally recognised as reported by the reseller in resale of the group's products to end-users Sales are recognised if all products subject to resale are delivered in the current period, no right of return policy exists, collection is probable and the fee is fixed and determinable The group also enters into OEM agreements that may provide for the payment of advance license royalties and ongoing license royalty obligations In certain circumstances, advance royalties are recognised upon the initial contract 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

Revenues from customer support services are recognised rateably 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 license 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 group's software products Revenues from consulting and training services are recognised as services are performed If a transaction includes both license 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 licenses 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

2 Significant accounting policies (continued)

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 invoiced to the customer prior to the performance of these services Deferred revenue is generally recognised over a period of one to three years

g) Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease

h) Foreign currencies

Transactions in currencies other than the functional currency of the entity concerned are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into US dollars at the rates prevailing on the balance sheet date Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are denominated as assets and liabilities of the foreign entity and translated at the closing rate

i) Profit from operations

Profit from operations is stated before investment income and finance costs

j) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the group intends to settle its current tax assets and liabilities on a net basis

2 Significant accounting policies (continued)

k) Property, plant and equipment

Leasehold improvements, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases

Leasehold improvements	Over shorter of economic useful life and lease term
Fixtures and equipment	Over 3–5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

l) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred

An internally-generated intangible asset arising from the group's product development is recognised only if all of the following conditions are met

- an asset is created that can be identified (such as software and new processes),
- it is probable that the asset created will generate future economic benefits,
- the development cost of the asset can be measured reliably, and
- the product from which the asset arises meets the group's criteria for technical feasibility

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, which is 3 years Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred

m) Other intangible assets excluding goodwill

Other intangible assets excluding goodwill are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, on the following bases

Patents and trademarks	3 years
Software licences	3 years
Purchased intangibles	3 – 12 years

n) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

o) Inventories

Inventories are stated at the lower of cost and net realisable value

2 Significant accounting policies (continued)

p) Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument

q) Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired

r) Financial liability and equity

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

s) Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

t) Trade payables

Trade payables are not interest bearing and are stated at their nominal value

u) Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs

v) Provisions

Provisions are recognized when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

w) Equity and other investments

Equity and other investments are measured at the lower of carrying amount and fair value less costs to sell These investments have been designated as fair value through the profit and loss account

x) Share-based payments

The group has applied the requirements of IFRS 2 Share-based Payments In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2004

The group issues equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest Fair value is measured by use of a Black Scholes model

3 Critical accounting judgements and key sources of estimation uncertainty

a) Critical judgements in applying the group's accounting policies

In the process of applying the group's accounting policies, which are described in note 2, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are discussed below)

Revenue recognition
There are no significant judgements which management consider have a material impact on the financial statements The accounting policy set out in note 2 has been followed with no significant judgements required to be made

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

b) Key sources of estimation uncertainty

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

Recoverability of internally generated intangible assets
During the year $3 2 million of internally generated intangible assets were capitalised as required in accordance with IAS 38 Management have assessed expected revenues to be generated from these assets and deemed that no adjustment is required to the carrying value of the assets

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value The carrying amount of goodwill at the balance sheet date was $415 8 million (2005 $398 8 million)

Trade receivables
The directors consider that the carrying amount of trade receivables approximates their fair value A provision has been made for estimated unrecoverable amounts based on information available to management Changes in collectability of trade receivables may impact the level of provision required

4 Segmental analysis

Whilst the group currently operates under a number of different divisions, the group's core technology, types of revenue and associated costs and returns are comparable Each of these divisions is founded on the group's unique Intelligent Data Operating Layer, the group's core infrastructure for automating the handling of all forms of unstructured information As a result, the group maintains only one reportable business segment, as is reflected in the reporting in this annual report

The group's operations are located primarily in the United Kingdom and the US The company also has a significant presence in a number of other European countries as well as China, Japan, Singapore, Australia and Canada The following table provides an analysis of the group's sales by geographical market, irrespective of the origin of the goods/services

	Revenue by geographical market	
	2006	2005
	$'000	$'000
Americas	164,130	55,516
Rest of world	86,552	40,516
	250,682	96,032

Rest of world includes UK/Europe which was shown separately in previous periods These segments have been combined as management believes the economic environments are similar and have enlarged the presentation accordingly

Segment information about these geographical segments is presented below

Result	2006			2005		
	Americas	ROW	Total	Americas	ROW	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment result	36,090	20,199	56,289	2,438	12,694	15,132
Unallocated corp expenses			—			—
Post-acq'n restr costs			—			(5,764)
Loss on disp of investm't			—			(297)
Fair value adj of investm't			(300)			(487)
(Loss) gain on foreign ex			(449)			247
Operating profit			55,540			8,831
Share of results of assoc			(258)			—
Interest receivable			3,651			3,797
Interest payable			(2,614)			—
Profit before tax			56,319			12,628
Tax			(17,234)			(3,678)
Profit for the period			39,085			8,950

4 Segmental analysis (continued)

Other Information	2006 Americas $'000	2006 ROW $'000	2006 Total $'000	2005 Americas $'000	2005 ROW $'000	2005 Total $'000
Prop , plant & equip add's	875	659	1,534	88	430	518
Purchased intangible add's	(13,352)	—	(13,352)	61,289	—	61,289
Other intangible asset add's	2,397	945	3,342	—	1,425	1,425
Depreciation	3,366	860	4,226	459	631	1,090
Amortisation	7,934	678	8,612	1,450	1,041	2,491
Balance Sheet						
Segment assets	138,046	129,187	267,233	124,673	90,295	214,968
Interests in associates			2,160			—
Goodwill			415,758			398,770
Consolidated total assets			685,151			613,738
Segment liabilities	(89,341)	(24,188)	(113,529)	(130,412)	(23,958)	(154,370)
Unallocated corp liabilities			—			—
Consolidated total liabilities			(113,529)			(154,370)

5 Profit from operations

Profit from operations has been arrived at after charging/(crediting)

	2006 $'000	2005 $'000
Net foreign exchange losses (gains)	449	(247)
Research and development costs		
Expensed in income statement	51,680	21,923
Depreciation of property, plant and equipment	4,226	1,090
Amortisation of intangibles	8,612	2,491
Staff costs (see note 7)	109,504	35,383
Restructuring costs (see below)	—	5,764
Auditors' remuneration for audit services (see note 6)	587	625

The restructuring costs relate to redundancy payments and related costs in relation to reductions in force following the acquisitions of etalk Corporation ($784,000) and Verity, Inc ($4,980,000) in 2005

6 Auditors' remuneration

A more detailed analysis of auditors' remuneration on a worldwide basis is as follows

	2006 $'000	2005 $'000
Fees payable to the company's auditors for the audit of the company's annual accounts	450	546
Fees payable to the company's auditors and their associates for other services to the group		
- the audit of the company's subsidiaries pursuant to legislation	137	79
Total audit fees	587	625
- other services pursuant to legislation	489	251
- tax services	—	38
- corporate finance services	—	1,236
Total non-audit fees	489	1,525

A description of the work of the audit committee is set out in the corporate governance statement beginning on page 11 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors

The corporate finance fees in 2005 related to due diligence work in connection with the etalk and Verity acquisitions

7 Staff costs

The average monthly number of employees (including executive directors) was

	2006 (number)	2005 (number)
Administration and management	120	41
Technical personnel	524	169
Sales and marketing	259	108
	903	318

	$'000	$'000
Aggregate remuneration comprised		
Wages and salaries	96,782	32,392
Social security costs	12,524	2,945
Pension costs	198	46
	109,504	35,383

8 Interest receivable

	2006 $'000	2005 $'000
Interest on bank deposits	3,651	3,797

9 Tax

	2006 $'000	2005 $'000
Current tax		
Current year	17,593	896
Prior year	(359)	2,682
	17,234	3,578
Deferred tax		
Current year	—	100
	17,234	3,678

UK Corporation tax is calculated at 30% (2005 30%) of the estimated assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions The charge for the year can be reconciled to the profit as set forth in the income statement as follows

	2006		2005	
	$'000	%	$'000	%
Profit before tax	56,319		12,628	
Tax at UK corporation tax rate of 30% (2005 30%)	16,896	30 0%	3,788	30 0%
Tax effect of exp not deductible in determining taxable profit	1,080	1 9%	405	3 2%
Research and Development tax credits	(554)	(1 0%)	(232)	(1 8%)
Current tax ben of utilisation of tax losses not prev recognized	(1,167)	(2 1%)	(392)	(3 1%)
Deferred tax benefit of losses not previously recognized	—	—	(505)	(4 0%)
Foreign exchange on opening balances	83	0 1%	403	3 2%
Effect of different tax rates of subs operating in other jurisdictions	1,255	2 3%	211	1 6%
Prior year adjustment	(359)	(0 6%)	—	—
Tax expense and effective tax rate for the year	17,234	30 6%	3,678	29 1%

10 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data

	2006	2005
	$'000	$'000
Earnings for the purposes of basic and diluted earnings per share being net profit	39,085	8,950
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	184,409	130,574
Effect of dilutive potential ordinary shares		
Share options	2,567	555
Weighted average number of ordinary shares for the purposes of diluted earnings per share	186,976	131,129

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the rights issue in December 2005 as required by IAS 33 Earnings per Share

Earnings per share (adjusted) is calculated by dividing the net profit (adjusted) amounts shown on page 22 by the share denominators shown above

11 Goodwill

	$'000
Cost	
At 1 January 2005	31,014
Acquisition of Verity, Inc	297,162
Acquisition of etalk Corporation	73,543
Acquisition of other subsidiaries	3,662
Exchange differences	(6,611)
At 1 January 2006	398,770
Movements in relation to Verity (see below)	12,724
Acquisition of other subsidiaries (see below)	2,844
Exchange differences	1,420
At 31 December 2006	415,758
Accumulated impairment losses	
At 1 January 2005	–
At 1 January 2006	–
At 31 December 2006	–
Carrying amount	
At 31 December 2006	415,758
At 31 December 2005	398,770

The increase during 2006 in relation to Verity, Inc is primarily a result of the finalisation of the purchase price allocation The reduction in purchased intangibles resulted in a corresponding increase in goodwill (less deferred tax) The goodwill arising in the Verity, etalk and Global Linxs acquisitions is attributable to anticipated future operating synergies from the combination

The acquisition of other subsidiaries relates to a deferred consideration payment of €2 million in relation to the Global Linxs acquisition completed in September 2005

The group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired The group has one reportable business segment and all goodwill is associated with that segment The recoverable amounts of the CGU is determined from value in use calculations The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period A discount rate of 6% has been used which is the interest rate paid on the group's borrowings Likewise, changes in selling prices and direct costs are based on recent history and expectations of future changes in the market

The group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates cashflows for the coming ten years based on estimated growth rates For the purposes of this calculation management have used a growth rate of 15% for year 1 and then 5% thereafter Having performed impairment testing, no impairment has been identified, and therefore no impairment loss has been recognised in either year

12 Other intangible assets

	Software licenses	Patents and other intangibles	Internally generated software	Purchased intangibles	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
At 1 January 2005	12,232	813	—	—	13,045
Exchange differences	(992)	(87)	—	—	(1,079)
Additions – acquired	469	956	—	—	1,425
Acquired on acquisition of Verity	—	—	—	50,000	50,000
Acquired on acquisition of etalk	—	—	—	11,289	11,289
At 31 December 2005	11,709	1,682	—	61,289	74,680
Exchange differences	990	233	197	—	1,420
Movements in relation to Verity	—	—	—	(13,390)	(13,390)
Movements in relation to etalk	—	—	—	(162)	(162)
Additions – internally generated	—	—	3,172	—	3,172
Additions – acquired	170	—	—	—	170
Disposals	—	(1,088)	—	—	(1,088)
At 31 December 2006	12,869	827	3,369	47,737	64,802
Amortisation					
At 1 January 2005	8,267	329	—	—	8,596
Exchange differences	(795)	(35)	—	—	(830)
Charge for the year	1,285	385	—	821	2,491
At 31 December 2005	8,757	679	—	821	10,257
Exchange differences	1,004	65	32	—	1,101
Charge for the year	1,280	(59)	400	6,991	8,612
At 31 December 2006	11,041	685	432	7,812	19,970
Carrying amount					
At 31 December 2006	1,828	142	2,937	39,925	44,832
At 31 December 2005	2,952	1,003	—	60,468	64,423

The prior year annual report included a preliminary estimate in relation to the purchase price allocation for the acquisition of Verity, Inc that was completed on 29 December 2005 The individual assets together with their estimated economic useful lives, following completion of the formal valuation by Duff & Phelps, are summarised in the tables below

	Final allocation	Estimated useful life
	$'000	Years
Purchased technology	22,600	3 to 7 years
Customer relationships	2,870	5 years
Trade names	11,140	3 to 10 years
	36,610	

The above values resulted in a reduction in the value of purchased intangibles acquired in the acquisition of Verity, Inc of $13 4 million The etalk final purchase accounting had a similar adjustment of $0 2m

13 Property, plant and equipment

	Motor vehicles	Leasehold improvements	Fixtures and fittings	Computer equipment	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
At 1 January 2005	9	1,914	1,572	6,315	9,810
Additions	—	34	22	462	518
Acquisition of subsidiary	1	960	459	4,480	5,900
Exchange differences	(1)	(291)	(505)	(414)	(1,211)
At 1 January 2006	9	2,617	1,548	10,843	15,017
Additions	—	176	130	1,228	1,534
Disposals	—	—	—	(1,949)	(1,949)
Exchange differences	—	114	294	632	1,040
At 31 December 2006	9	2,907	1,972	10,754	15,642
Accumulated depreciation and impairment					
At 1 January 2005	9	517	1,301	4,472	6,299
Charge for the year	—	124	97	869	1,090
Exchange differences	—	(158)	(489)	(335)	(982)
At 1 January 2006	9	483	909	5,006	6,407
Charge for the year	—	469	336	3,421	4,226
Disposals	—	—	—	(1,942)	(1,942)
Exchange differences	—	84	161	480	725
At 31 December 2006	9	1,036	1,406	6,965	9,416
Carrying amount					
At 31 December 2006	—	1,871	566	3,789	6,226
At 31 December 2005	—	2,134	639	5,837	8,610

At 31 December 2006, the group had no contractual commitments for the acquisition of property, plant and equipment (2005 $nil)

14 Equity and other investments

	2006	2005
	$'000	$'000
Associates	2,160	—
Other investments	1,650	1,727
	3,810	1,727

a) Investments in associates

	$'000
Additions	2,418
Share of loss of associate for year	(258)
At 31 December 2006	2,160

During October 2006 the company acquired a 40% share in a Chinese operation as part of its joint venture operations Further disclosures in relation to this entity are on page 42 of the financial statements The aggregated amounts relating to associates for the period from March 2006 (commencement of trading) to December 2006 are

	$'000
Total assets	4,440
Total liabilities	(852)
Loss for the period	(2,103)

14 Equity and other investments (continued)

b) Other investments

	$'000
At 1 January 2005	2,353
Fair value adjustment	(487)
Disposals	(297)
Exchange movements	158
At 31 December 2005	1,727
Fair value adjustment	(300)
Exchange movements	223
At 31 December 2006	1,650

The investments included above represent investments in privately owned companies The fair values of these investments are based on latest financial information available for each entity The carrying value is considered in light of the net asset value and other known factors which have an impact on the valuation of the respective entities

15 Other financial assets

a) Trade and other receivables

	2006 $'000	2005 $'000
Trade receivables, net	77,252	55,363
Other receivables	8,454	9,347
	85,706	64,710

The average credit period for trade receivables is 96 (2005 87) days The directors consider that the carrying amount of trade and other receivables approximates their fair value A provision of $5,742,000 (2005 $5,567,000) has been made for estimated irrecoverable amounts based on information available to management Bad debt provisioning is a key source of estimation uncertainty for the company

b) Bank balances and cash

Bank balances and cash comprise cash held by the group and short-term bank deposits with an original maturity of three months or less The carrying amount of these assets approximates their fair value

c) Credit risk

The group's principal financial assets are bank balances and cash, trade and other receivables

The group's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

Other than as noted in a) above, the group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

16 Deferred tax asset

	Tax losses	Amounts deductible when paid or utilized	Stock option losses	Total
	$'000	$'000	$'000	$'000
At 1 January 2005	6,710	—	438	7,148
Credited to equity	—	—	2,249	2,249
Transfers from current tax creditor	(2,808)	—	—	(2,808)
Charged to income	(2,817)	2,708	209	100
Foreign exchange movement	—	—	46	46
At 1 January 2006	1,085	2,708	2,942	6,735
Impact of acquisition of subsidiary	—	—	5,360	5,360
Transfers from current tax creditor	(1,085)	(2,708)	(5,950)	(9,743)
Prior year adjustment	—	—	(3,023)	(3,023)
Credited to equity	—	—	5,559	5,559
Share option benefits recognized in income statement	—	—	1,361	1,361
Foreign exchange movement	—	—	906	906
At 31 December 2006	—	—	7,155	7,155

At the balance sheet date, the group has unused tax losses of $98 0 million (2005 $61 9 million) available for offset against future profits against which no deferred tax asset has been recognised due to the unpredictability of future profit streams These losses expire at various dates from 2014 through 2025

Temporary differences arising in connection with interests in associates and joint ventures are immaterial

17 Other financial liabilities

	2006	2005
	$'000	$'000
Trade payables	7,008	10,729
Other payables	14,596	22,570
	21,604	33,299

The average credit period for trade purchases for the group is 37 (2005 45) days The directors consider that the carrying amount of trade and other payables approximates to their fair value

18 Bank loans

	2006	2005
	$'000	$'000
Bank loans	32,566	48,850
The borrowings are repayable as follows		
On demand or within one year	16,283	16,283
In the second year	16,283	16,283
In the third to fifth years inclusive	—	16,284
	32,566	48,850
Less Amount due for settlement within 12 months (shown under current liabilities)	(16,283)	(16,283)
Amount due for settlement after 12 months	16,283	32,567

The amounts shown in the table above relate wholly to a loan with Barclays Bank plc drawn down in December 2005 as partial consideration for the acquisition of Venty, Inc The loan is denominated in U S dollars and carries a floating interest rate of LIBOR plus 0 95%, thus exposing the group to potential cash flow interest rate risk The directors estimate the fair value of the loan to be the same as the amounts shown above

19 Provisions

	Restructuring provision $'000	Onerous lease provision $'000	Litigation provision $'000	Total $'000
At 1 January 2005	—	—	—	—
Acquired during year	3,689	3,252	4,745	11,686
Additional provision in the period	4,980	—	—	4,980
Utilized in period	(215)	—	—	(215)
At 1 January 2006	8,454	3,252	4,745	16,451
Exchange movements	—	175	—	175
Reallocations	(333)	989	(656)	—
Additional provision in the period	—	—	1,505	1,505
Utilized in period	(7,461)	(1,630)	(4,844)	(13,935)
At 31 December 2006	660	2,786	750	4,196
Included in current liabilities				2,953
Included in non-current liabilities				1,243
				4,196

The restructuring provision relates to costs in connection with a reduction in force programme within Verity, Inc Payments have been made during 2006 to the majority of employees affected There remain a small number of cases outside the United States, for which final settlement is yet to be reached These matters are expected to be concluded during 2007 and the provision fully utilized in that period

The onerous lease provision relates to a number of properties within the Verity group Prior to acquisition, Verity notified landlords of its intention to vacate a number of properties and the provision represents management's best estimate of the liability Tenants are still being sought on two of the properties and hence the onerous lease obligations remain This is expected to be fully utilized within one to two years

The litigation provision relates to legal matters involving Verity, Inc These cases are expected to reach a conclusion in the near future

20 Share capital

	2006 $'000	2005 $'000
Authorized		
600,000,000 ordinary shares of 1/3p each	3,300	3,300
Issued and fully paid		
187,836,204 ordinary shares of 1/3p each	1,027	978
(2005 – 179,592,757 ordinary shares of 1/3p each)		

The company has one class of ordinary shares which carry no right to fixed income

The movement in issued share capital during 2006 consists solely of the issuance of 8,243,447 shares in relation to employee stock option exercises

21 Own shares

	Own shares $'000
Balance at 1 January 2005 and 31 December 2005	1,775
Disposed of on exercise of options	(758)
Balance at 31 December 2006	1,017

The own shares reserve represents the cost of shares the company purchased in the market and are held by the Autonomy Corporation plc Employee Benefit Trust to satisfy options under the group's UK share options scheme (see note 24)

22 Notes to the cash flow statement

	2006	2005
	$'000	$'000
Profit from operations	55,540	8,831
Adjustments for		
Loss on disposal of investment	—	297
Fair value adjustment of investments	300	487
Depreciation of property, plant and equipment	4,226	1,191
Amortisation of intangible assets	8,612	2,441
Share based compensation	3,861	1,423
Foreign currency movements	449	(247)
Operating cash flows before movements in working capital	72,988	14,423
(Increase) decrease in inventories	(408)	193
Increase in receivables	(20,152)	(7,464)
(Decrease) increase in payables	(5,480)	10,569
Cash generated by operations	46,948	17,721
Income taxes paid	(7,473)	(781)
Net cash from operating activities	39,475	16,940

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

Cash flows from acquisitions are presented within investing activities as required under IAS 7 para 39, which states "[t]he aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities "

Interest receivable and payable are presented within investment income, as opposed to operating cash flows, in accordance with market practice and as required under IAS 7 para 33, which states "[i]nterest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investment "

Post-acquisition restructuring expenses are presented as non-operating activities as required under IAS 1 BC13, which states "[i]t would be inappropriate to exclude items clearly related to operations (such as inventory write downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount "

23 Operating lease arrangements

	2006	2005
	$'000	$'000
Minimum lease payments under operating leases recognised in the income statement for the year	8,302	3,733

At 31 December 2006 the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases falling due as follows

	2006	2005
	$'000	$'000
Within one year	7,918	7,170
In the second to fifth years, inclusive	19,002	21,890
After five years	8,041	11,896
	34,961	40,956

Operating lease payments represent rentals payable by the group for certain of its office properties Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years

24 Share based payments

a) Share based compensation

Share based compensation charges have been charged in the profit and loss account within the following functional areas

	2006	2005
	$'000	$'000
Research and development	1,266	425
Sales and marketing	1,914	782
General and administrative	681	216
	3,861	1,423

b) Equity-settled share option plans

The group has two unapproved option plans providing 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 over vesting periods as established by the Board of Directors (generally three to four years), and generally expire seven years from the date of grant Vested options are exercisable following termination of employment for periods ranging from zero to 90 days

The following tables summarize options outstanding as at 31 December 2006

	2006		2005	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at beginning of period	20,725,846	3 88	6,411,582	4 29
Granted during the period	3,021,000	4 91	786,250	2 53
Acquired upon acquisition of Verity	—	—	15,344,498	4 01
Exercised during the period	(8,243,145)	3 40	(1,103,382)	2 99
Expired during the period	(3,146,604)	3 62	(713,102)	3 42
Outstanding at the end of the period	12,357,097	3 92	20,725,846	3 88
Exercisable at the end of the period	7,307,762	4 23	10,087,131	4 67

The weighted average share price at the date of exercise for share options exercised during the period was £4 73 The options outstanding at 31 December 2006 had a weighted average exercise price of £3 92 and a weighted average remaining contractual life of 4 8 years

At the date of each grant, the fair market value of the options granted during the year were as follows

	Shares	Fair value of option
Date	Number	£
27 February 2006	424,500	1 31
15 May 2006	938,000	1 33
15 June 2006	15,000	1 10
30 June 2006	100,000	1 33
15 July 2006	10,000	1 24
15 August 2006	3,000	1 25
31 August 2006	47,500	1 21
11 September 2006	867,000	1 21
15 September 2006	27,000	1 27
29 September 2006	10,000	1 45
21 October 2006	10,000	1 50
12 December 2006	569,000	1 54

24 Share based payments (continued)

b) Equity-settled share option plans

The assumptions for the Black-Scholes model are as follows

	2006	2005
	£	£
Weighted average share price	4 24	2 53
Weighted average exercise price	4 24	2 53
Expected volatility	40%	45%
Expected life	3 years	4 years
Risk-free rate	3 5%	4 0%
Expected dividends	—	—

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous three years The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Share option exercise prices were automatically adjusted to reflect the changes in the company's share capital structure arising in connection with the company's December 2005 rights issue The effect of the adjustment was to ensure that employees were not unfairly discriminated against as company stakeholders following the dilution of the company's share price as a result of the rights issue No fair value adjustments arose as a result of this transaction

25 Related party transactions

Transactions between the company and its subsidiaries which are related parties have been eliminated on consolidation and are not disclosed in this note Transactions between the group and its joint venture associate are disclosed below There were no transactions between the group and its associate other than the initial investment in the share capital of the associate Transactions between the company and its subsidiaries and associates are disclosed in the company's separate financial statements

a) Trading transactions with joint venture

During 2005 the group entered into commercial transactions with blinkx China Holdings Corp which resulted in a net contribution of approximately $350,000 to group profit after tax The transactions were completed on an arm's length basis There have been no transactions during 2006 and there are no balances due to or from the joint venture at 31 December 2006 (2005 $nil)

b) Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures* Further information about the remuneration of individual directors is provided in the audited portion of the Directors' Remuneration Report on pages 16 and 17

	2006	2005
	$'000	$'000
Share-based payment	43	43

26 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is set forth on page 48

Company Only Financial Statements - Company Balance Sheet at 31 December 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Intangible assets	2	—	474
Investments in subsidiary undertakings	3	224,981	73,279
Investments in joint venture	4	2,117	2,091
Investments in associate	5	1,235	—
Equity and other investments	6	—	200
		228,333	76,044
Current assets			
Trade and other receivables	8	23,342	176,516
Cash and cash equivalents		37,880	19,957
		61,222	196,473
Total assets		289,555	272,517
Current liabilities			
Trade and other payables	9	(466)	(4,201)
Tax liabilities		—	(215)
		(466)	(4,416)
Net current assets		60,756	192,057
Total assets less current liabilities		289,089	268,101
Deferred tax liability	7	(111)	(431)
Net assets		288,978	267,670
Equity			
Share capital		627	599
Share premium account		274,328	244,884
Capital redemption reserve		70	70
Own shares		(646)	(1,126)
Retained earnings		14,599	23,243
Total equity		288,978	267,670

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2007 They were signed on its behalf by

Dr Michael R Lynch
Chief Executive Officer and Co-Founder
13 March 2007

Company Only Financial Statements - Company Statement of Changes in Equity for the year ended 31 December 2006

	Share capital	Share capital	Share premium	Capital redemption reserve	Sub-total
	(number)	£'000	£'000	£'000	£'000
At 1 January 2005	108,110,108	359	73,121	68	73,548
Retained profit	—	—	—	—	—
Shares repurchased	(593,942)	(2)	—	2	—
Shares issued	12,281,426	42	24,513	—	24,555
Rights issue	59,795,165	200	147,250	—	147,450
At 31 December 2005	179,592,757	599	244,884	70	245,553
Retained profit	—	—	—	—	—
EBT movement	—	—	980	—	980
Shares issued	8,243,447	28	28,464	—	28,492
At 31 December 2006	187,836,204	627	274,328	70	275,025

	Sub-total forwarded	ESOP reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000
At 1 January 2005	73,548	(1,126)	17,421	89,843
Retained profit	—	—	7,031	7,031
Deferred tax	—	—	(1,209)	(1,209)
Shares repurchased	24,555	—	—	24,555
Shares issued	147,450	—	—	147,450
At 31 December 2005	245,553	(1,126)	23,243	267,670
Retained loss	—	—	(8,644)	(8,644)
EBT movement	980	480	—	1,460
Shares issued	28,492	—	—	28,492
At 31 December 2006	275,025	(646)	14,599	288,978

Company Only Financial statements - Company Cash Flow Statement for the year ended 31 December 2006

	2006	2005
	£'000	£'000
Net cash from operating activities	(8,948)	(168)
Investing activities		
Interest received	1,296	1,496
Investment in associates and joint venture	(1,234)	(2,092)
Purchases of intangible assets	—	(555)
Investment in subsidiaries	(1,811)	(165,326)
Net cash used in investing activities	(1,749)	(166,477)
Financing activities		
Purchase of own shares	—	(1,209)
Proceeds from issuance of shares	28,620	150,471
Net cash from financing activities	28,620	149,262
Net increase (decrease) in cash and cash equivalents	17,923	(17,383)
Cash and cash equivalents at beginning of year	19,957	37,340
Cash and cash equivalents at end of year	37,880	19,957

Note to the Cash Flow Statement

	2006	2005
	£'000	£'000
(Loss) profit from operations	(9,875)	5,534
Adjustments for		
Amortisation of intangible assets	99	233
Operating cash flows before movements in working capital	(9,776)	5,767
Increase in intercompany balances	4,800	(6,792)
(Increase) decrease in receivables	(300)	225
(Decrease) increase in payables	(3,360)	632
Cash reduced by operations	(8,636)	(168)
Tax paid	(312)	—
Net cash from operating activities	(8,948)	(168)

1 Significant accounting policies

As permitted by section 230 of the Companies Act 1985, the income statement of the company only is not presented as part of this annual report As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards The company has no employees other than the three non-executive directors (2005 3) Their remuneration is shown in the group's remuneration report

The financial statements of the company have been prepared on the historical cost basis The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment

These company financial statements are presented in sterling as that is the currency of the primary economic environment in which the company operates

2 Intangible assets

	Software licenses	Patents	Total
	£'000	£'000	£'000
Cost			
At 1 January 2006	3,147	659	3,806
Disposals	—	(555)	(555)
At 31 December 2006	3,147	104	3,251
Amortisation			
At 1 January 2006	3,110	222	3,332
Charge for the year	37	62	99
Disposals	—	(180)	(180)
At 31 December 2006	3,147	104	3,251
Carrying amount			
At 31 December 2006	—	—	—
At 31 December 2005	37	437	474

3 Investments in subsidiary undertakings

The company has investments in the subsidiaries listed on page 48 which principally affected the profits or net assets of the group

	£'000
Cost	
At 1 January 2006	73,279
Transferred from amounts owed by subsidiary undertakings	148,395
Additions	3,307
At 31 December 2006	224,981

4 Investment in joint venture

The company has an investment in the joint venture listed on page 48 which affected the profits and net assets of the group and was acquired during 2005

5 Investment in associate

During the year the company invested £1,235,000 for a 40% as part of its Chinese joint venture operations

6 Equity and other investments

	2006 £'000	2005 £'000
Fair value	—	200

The investment included above represents an investment in a privately owned company This investment was transferred to a subsidiary undertaking during the year

7 Deferred tax liability

	2006 £'000
At 1 January 2006	431
Released in current tax	(320)
At 31 December 2006	111

The company did not have any tax losses in either year The deferred tax liability relates to accelerated capital allowances

8 Trade and other receivables

	2006 £'000	2005 £'000
Amounts owed by subsidiary undertakings	22,947	176,431
Other receivables	395	85
	23,342	176,516

The directors consider that the carrying amount of trade and other receivables approximates their fair value

9 Trade and other payables

	2006 £'000	2005 £'000
Trade payables	466	1,803
Other payables	—	2,398
	466	4,201

The directors consider that the carrying amount of trade and other payables approximates to their fair value

10 Related party transactions

During the year the company incurred license fee related expenditures of £8 6 million (2005 income of £5 8 million)

All transactions are conducted on an arm's length basis and the amount owed by subsidiary undertakings is disclosed in note 8

Principal Group Companies

Company	Country of operation	Function
Autonomy Corporation plc	England	Holding company
Autonomy Systems Ltd	England	Software development and distribution
Autonomy Belgium BVBA	Belgium	Marketing and sales support
Autonomy France Sarl	France	Marketing and sales support
Autonomy Netherlands BV	Netherlands	Marketing and sales support
Autonomy Systems Singapore Pte Ltd	Singapore	Marketing and sales support
Autonomy Germany GmBH	Germany	Marketing and sales support
Autonomy Italy Srl	Italy	Marketing and sales support
Autonomy Spain SL	Spain	Marketing and sales support
Autonomy Nordic AS	Norway	Sub licensing
Autonomy Sweden AB	Sweden	Marketing and sales support
Autonomy Services GmbH	Germany	Professional services
Autonomy, Inc	USA	Software development and distribution
Autonomy Systems (Beijing) Limited Company	China	Marketing and sales support
Autonomy Systems Australia Pty Ltd	Australia	Sales agent
Autonomy Systems Canada Ltd	Canada	R&D services and maintenance services
Autonomy Japan KK	Japan	Sales agent
Virage, Inc	USA	Software development and distribution
Etalk Corporation	USA	Software development and distribution
Verity, Inc	USA	Software development and distribution
Verity Benelux BV	Netherlands	Sublicensing
Verity Deutschland GmbH	Germany	Sales agent
Verity France SARL	France	Sales agent
Verity Italy Srl	Italy	Sales agent
Verity Mexico S De R L De C V	Mexico	Sales agent
Verity Luxembourg SARL	Luxembourg	Sales agent
Verity Hong Kong Ltd	Hong Kong	Sales agent

All of the above entities are 100% owned

Joint Ventures and Associates

Company	Country of operation	Function	Holding
OpenV China Holdings Company	Cayman Islands	Holding company	40%

Autonomy Shareholder Services
All administrative inquiries regarding shareholdings such as questions about lost share certificates should be directed to the company's registrars as follows

Computershare Investor Services PLC
PO Box 82, The Pavilions
Bridgwater Road
Bristol
BS99 7NH
UK
Tel +44 870 702 0000
email web queries@computershare co uk

Stock Exchanges
Autonomy's ordinary shares are listed on the London Stock Exchange under the symbol "AU" Autonomy does not maintain listings on any other stock exchanges

Shareholder Communications
Topics featured in this Annual Report can be found via the Autonomy home page on the Internet (http //www autonomy com) Financial results, news on Autonomy products, services and other activities can also be found via that address Autonomy's Investor Relations Department can be reached on +44 1223 448 000 or at investor_realtions@autonomy com

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